For Reference
Do Not Take
From the Library

Every person who maliciously cuts, defaces, breaks or injures any book, map, chart, picture, engraving, statue, coin, model, apparatus, or other work of literature, art, mechanics or object of curiosity, deposited in any public library, gallery, museum or collection is guilty of a misdemeanor.

**Penal Code of California
1915, Section 623**

Digitized by the Internet Archive
in 2014

https://archive.org/details/businessweek199406newy

DAQ NEED REFORM? **FINANCE** NEW BOSS **STRATEGIES** ▶ 3M

ESS WEEK
November

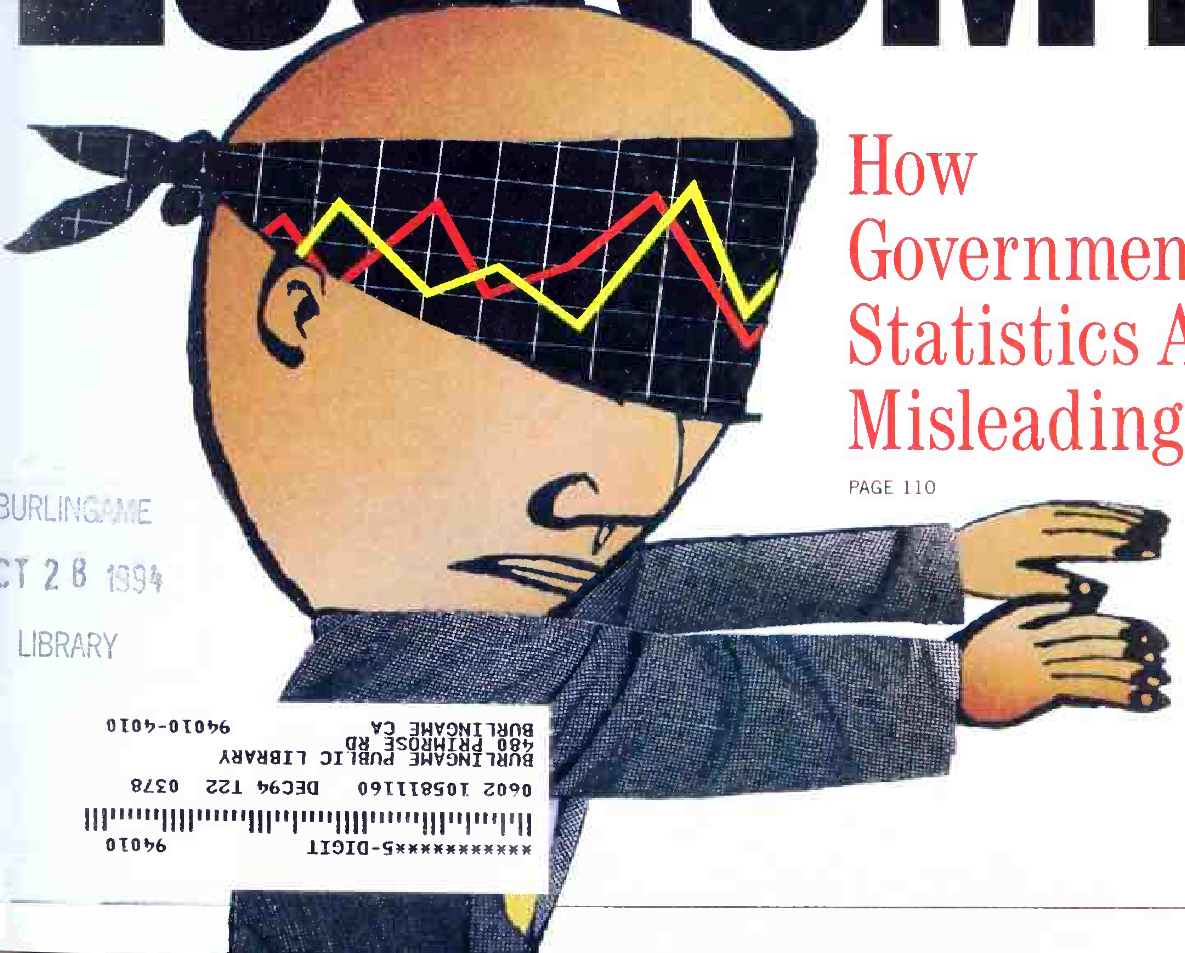
7

BusinessWeek

MBER 7, 1994 · A McGRAW-HILL PUBLICATION

BURLINGAME PUBLIC LIBRARY
3 9042 03747595 8

THE REAL TRUTH ABOUT THE ECONOMY

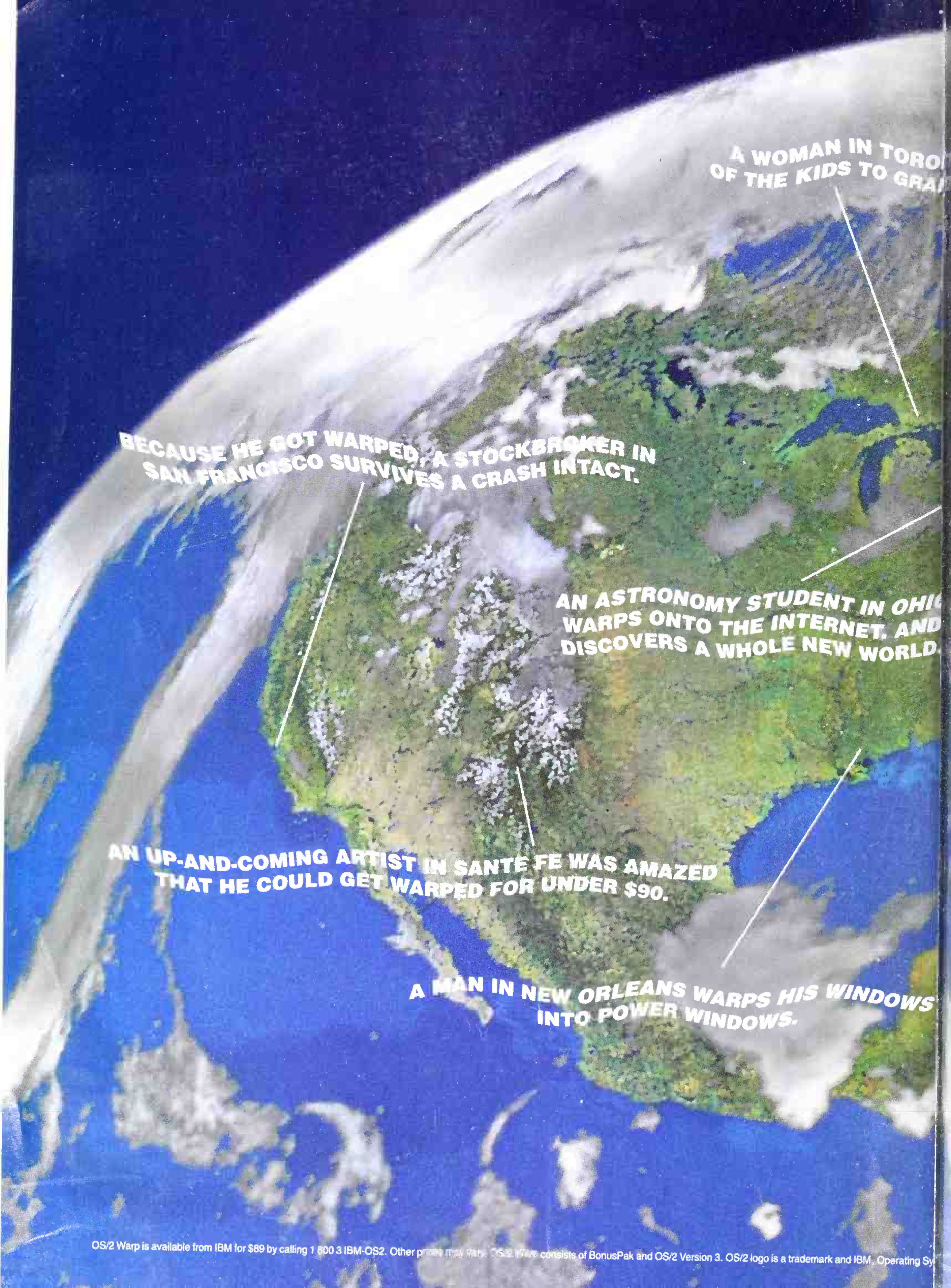


How Government Statistics Are Misleading Us

PAGE 110

BURLINGAME
CT 28 1994
LIBRARY

***********5-DIGIT 94010
0602 10581160 DEC94 T22 0378
BURLINGAME PUBLIC LIBRARY
480 PRIMROSE RD
BURLINGAME CA 94010-4010


A WOMAN IN TORO
OF THE KIDS TO GRA
BECAUSE HE GOT WARPED, A STOCKBROKER IN SAN FRANCISCO SURVIVES A CRASH INTACT.
AN ASTRONOMY STUDENT IN OHI
WARPS ONTO THE INTERNET, AND
DISCOVERS A WHOLE NEW WORLD.
AN UP-AND-COMING ARTIST IN SANTE FE WAS AMAZED THAT HE COULD GET WARPED FOR UNDER $90.
A MAN IN NEW ORLEANS WARPS HIS WINDOWS
INTO POWER WINDOWS.

OS/2 Warp is available from IBM for $89 by calling 1 800 3 IBM-OS2. Other prices may vary. OS/2 Warp consists of BonusPak and OS/2 Version 3. OS/2 logo is a trademark and IBM, Operating Sy

PS PHOTOS
TOCKHOLM.
A MAN IN NEW YORK WARPS HIS COMPUTER
SO HE CAN PRINT A REPORT, READ HIS E-MAIL AND
FAX AN ORDER FOR [illegible] SAME TIME.
RICHMOND, A MAN DISCOVERS WARPING
SO EASY, HE DOESN'T HAVE TO ASK HIS
11-YEAR-OLD SON TO HELP INSTALL IT.
OS/2® WARP

Introducing
OS/2 WARP

The new 32-bit,
multitasking,
multimedia,
Internet-accessed,
crash-protected,
Windows™-friendly,
easy-to-install,
totally cool way
to run your computer.

Available for
under $90.

OS/2 WARP
from IBM.

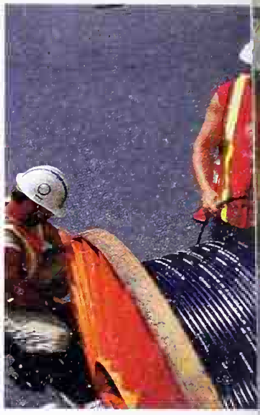
It's here.

See your local dealer
today. Or, call
1 800 3 IBM-OS2.

IBM®

gistered trademarks of the International Business Machines Corporation. Windows is a trademark of Microsoft Corporation. © 1994 IBM Corp.

BusinessWeek
NOVEMBER 7, 1994



COVER STOR

THE REAL TRUT

Government statis
on everything fron
drug-price inflatio
telecom investme
appear to be so m
pulp fiction. That'
bad news for busin
and the economy.
BUSINESS WEEK
separates myth fr
reality page 110

Cover Story

110 **OUT-OF-WHACK NUMBERS**
Figures like a 5.9% unemployment rate or a 3.1% inflation rate have a reassuring appearance of solidity. But the real economy is vastly different from the one described by statistics flowing out of Washington

116 **GOODS, SERVICES, AND INFORMATION**
The third sector: Creating a new taxonomy for economic data

118 **TRUTH IN STATISTICS**
Emerging free-market economies can't afford false figures

Top of the News

28 **LOSING FAITH IN GM?**
With renewed focus on how far the carmaker still has to go, Wall Street is bashing its stock

30 **WHAT MADE RUDY JUMP SHIP**
The New York mayor is redefining urban GOP politics

31 **COMMENTARY**
The President is trumpeting his deficit-reduction triumph too soon

32 **FALL TO EARTH AT CONTINENTAL**
Disappointing results at the Continental Lite low-frills unit led to CEO Robert Ferguson's ouster

33 **REINVENTING PRUDENTIAL**
Can new CEO Arthur Ryan turn around the Rock?

34 **THE TCI-SPRINT DEAL**
Malone's alliance won't spark the furor his Bell Atlantic deal did

36 **ARE DRUGMAKERS CRYING WOLF?**
They're posting record gains—maybe at the expense of consumers

36 **BEHIND *THE BELL CURVE***
Obscure Pioneer Fund funds even more racist-rousing studies

38 **BILL USERY, CLEANUP MAN?**
Baseball's new mediator has a history of resolving bitter disputes

40 **IACOCCA VS. IACOCCA**
Compared to the divorce battle Lee faces, running Chrysler was a cinch

42 **IN BUSINESS THIS WEEK**
Eli Lilly, Snapple suitors, flap at New Valley, dealmaking at USAir, Oracle, Elaine Garzarelli, Harvard B-school

International Business

48 **EUROPE**
Low wages and skilled workers ar
making Central Europe attractive

50 **CHINA**
How Morgan Stanley pulled off a
Starting an investment bank

55 **INTERNATIONAL OUTLOOK**
A capitalist opening in North Kor

Economic Analysis

20 **ECONOMIC VIEWPOINT**
Becker: The wealth of new nations

24 **ECONOMIC TRENDS**
The Fed's myopia, where the living
pricey, men's earnings in the '80s, China's export surge

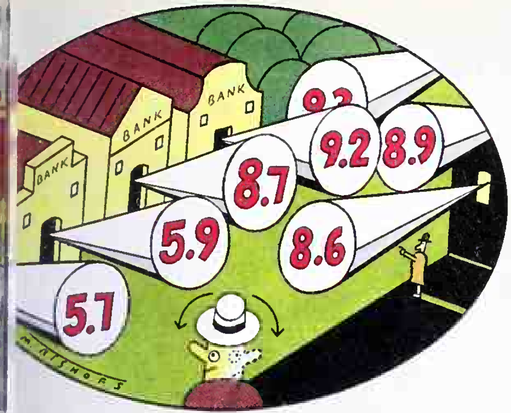
25 **BUSINESS OUTLOOK**
Logic won't deter the bond market

108 **A TALK WITH JACQUES PARIZEAU**
Quebec's man with a radical plan

Government

45 **WASHINGTON OUTLOOK**
The Democrats are running a scare-out-the-vote drive

COVER ILLUSTRATION BY SCOTT MENCHIN



.OUGH THE MORTGAGE MAZE

'I" rates, hybrids, buy-downs—the options are dizzying page 146

NEW QB

Can Sara Levinson connect with the next generation of NFL fans? page 143

THE PUSH EAST

More western companies are moving into Central Europe—and boosting growth page 48

DIMINISHING U-TURNS

Is the massive turnaround at GM stalling? page 28

COUNTER INTELLIGENCE

Justice is investigating charges of collusion at NASDAQ page 122

'eople

ING OF THE ENERGY SNACKS
.unner Brian Maxwell is in another
ind of race as he pushes PowerBars

.egal Affairs

ISSENT OVER CONSENT DECREES
'o decades-old decrees
obble Corporate America?

'cience & Technology

EVELOPMENTS TO WATCH
'eramics, drugs and computers, waves
rom data, plastic weapons
STEEL REVOLUTION?
'ivals Nucor and U.S. Steel just
nay reshape how metal is made

'inance

IEW SETBACK AT NASDAQ
Adding to its growing list of troubles:
'he Justice Dept. is probing charges of
ollusion
THIS IS ONE STUBBORN MARKET
Bottom lines are bulging. So why aren't
tocks budging?
128 PIPER: STEAL OR FALLING STAR?
Marvin Whitman's gamble
130 INSIDE WALL STREET
Suitor's choice: Choice Drug
Orbital isn't lost in space
A sweet pill at CIMA Labs
151 INVESTMENT FIGURES OF THE WEEK

Information Processing

15 TECHNOLOGY & YOU
134 A RED ALERT ON LINE
Prodigy, America Online, and
CompuServe brace for Microsoft *et al*

The Corporation

140 AT 3M, THE DROUGHT IS OVER
Hot new products are
pouring into the market again
141 3M'S ENVIRO-CONSCIOUSNESS
It pays off—and not just in PR
142 CAN ORYX CAP THIS GUSHER?
Despite cost-cutting, debt stays high

Sports Business

143 "I WANT MY NFL"?
Sara Levinson, late of MTV, takes over
at NFL Properties
144 RUMBLE ON THE SIDELINES
The elbowing over which NFL star
wears which company's duds

Personal Business

146 MORTGAGES: Beyond fixed rates
SMART MONEY: Beating the death tax

Features

6 UP FRONT
10 READERS REPORT
16 BOOKS
Herrnstein and Murray: *The Bell Curve*
149 BUSINESS WEEK INDEX
150 INDEX TO COMPANIES
152 EDITORIALS
The numbers crunching the economy
Government by Jekyll and Hyde
Why can't banks learn their lesson?

Business Week (ISSN 0007-7135) published weekly, except for one issue in January, by McGraw-Hill Inc. Executive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate $46.95/year; Canada CDN $69/year. Second-class postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484. Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, N.J. 08520.

Up Front

EDITED BY LARRY LIGHT & JULIE TILSNER

TALK SHOW “I am pro-choice. My opponent is multiple choice.”

–Senator Edward M. Kennedy (D-Mass.), attacking GOP opponent Mitt Romney's stance on abortion

POLITICS AS USUAL

DUMP QUAYLE? NEVER CROSSED HIS MIND

CALL IT THE STEALTH DENIAL. Former President George Bush has prepared a statement denying a new book's claim that he considered dumping Vice-President Dan Quayle from the 1992 Republican ticket. But the statement has gone unnoticed until now. Why? Because Bush's office decided not to distribute it to the media unless asked for comment. And so far, BUSINESS WEEK is the only news organization to ask.

According to GOP insiders, Quayle called Bush and hit him up to refute publicly the book's assertion. Excerpts from *Quest for the Presidency 1992*, by a team of *Newsweek* staffers, recently appeared in the magazine. A furious Quayle complained in a phone call to the ex-Prez that the book could undermine his 1996 Presidential hopes, say people close to both men. Bush never flatly denied to Quayle that he pondered dumping him, the intimates say. But Bush's statement declares: “I never gave any consideration to removing Dan Quayle from the 1992 ticket.”

Several Bush White House and campaign types say privately Bush's reluctance to publicize his denial is no surprise. Says a former adviser: “It was well-known we tried to push Dan. But he wouldn't jump.” *Owen Ullmann*

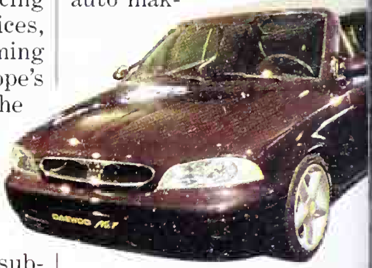
1,000%? *Ex-Prez, ex-Veep*

TRADE WARS

ASIAN CARMAKERS' EUROPEAN PLAN

KOREA'S BIGGEST CARMAKERS are about to hit Europe with a wave of inexpensive autos. With the strong yen forcing the Japanese to raise prices, these new rivals are aiming at the bottom tier of Europe's car market, edging in on the likes of Nissan as well as Fiat and Ford. An additional plus for the Koreans: Many of their cars, unlike imports from Japan and the U.S., aren't subject to 10% duties in Europe. And, unlike the Japanese, they don't face import quotas.

The Brussels-based European Automobile Manufacturers Assn. fears that 360,000 Korean autos could be imported into the European Uni by 2000—almost triple la year's level. Daewoo recent unveiled a series of hatchbac and sedans it plans to roll o across Europe next sprin The $38 billion giant wants be the most customer-focus auto maker in Britain, where it inten to set up company-owned ca superstores, complete wit cafeterias and nannies to min the kids. *Julia Flyn*



KOREAN RIDE: *New Daewoo*

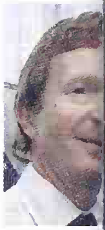
AFTERLIVES

GEORGE BALL'S COMEBACK—OR COMEDOWN?

GEORGE BALL IS BACK IN THE stockbroker game. Nothing as exalted as his former gig heading what's now Prudential Securities, mind you. Ball, who insists he has learned from his star-crossed tenures as president of since-merged-out-of-existence E. F. Hutton and CEO of Pru, will help run Investors Financial Group, an Atlanta-based broker-dealer, as a director and consultant.

Ball, 55, has been hired for his skills at firing up brokers—IFG has 500 of them (vs. 6,400 at Pru during his reign). He will scout small brokerage firms for IFG to buy and r cruit brokers to add to IFG stable. Ball is also a partn at Sanders Morris & Mundy, Houston-based venture-cap tal firm that has invested $1 million in IFG. For a time aft he resigned from Pru in 199 he worked as a senior veep at Smith Barney Shearson.

Ball's new boss, IFG Chairman John Keeble, says he has no qualms about Ball's troubled past. Pru-Bache under Ball (1982-91) racked up huge losse from limited partnershi that went sour amid charg of fraud. Before that at Hu ton, there was a massiv check-kiting scheme th bilked banks. “I don't kno of any malfeasance on h part at Pru, and none at Hu ton,” says Keeble. Says Bal “Hopefully, instead of ru ning away, I can use [m past] as an experiential pla form to advance the state the art.” *Leah Nathans Spi*



ATLANTA
Broker B

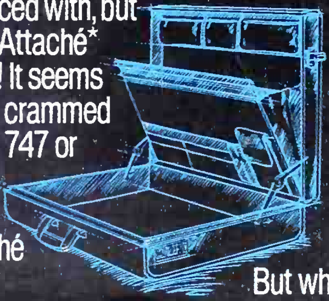
REALITY CHECK

FIGHTING AIR POLLUTION by sidelining old automobiles is a much-ballyhooed new environmental strategy among city and state governments. California, for example, has a program to give companies leeway on their factory emissions if they buy—and crunch—people's clunkers. On the surface, the reasoning seems sound. Since tailpipe standards have gotten tougher over the past decade, older cars spew out more ozone-creating chemicals and carbon monoxide than new autos.

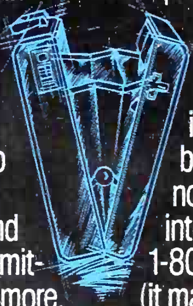
IN REALITY, this misses a lot of superdirty cars. Studies by California officials and others, using roadside sensors, show that many newer vehicles spew out pollution if they are out of tune or otherwise poorly maintained. And compared with the pollution output of these dirty cars, differences between well-maintained new and older vehicles are relatively small. In its buyback program, for instance, Unocal recently obtained two mid-1970s Toyotas with identical emissions equipment. One left a pollution trail 100 times thicker than today's new cars; the other was as clean as a new car. In fact, University of Denver researchers have calculated that fixing the dirtiest 20% of the California fleet can cut overall emissions as much as crunching the oldest 60%. *John Car-*

(CLOCKWISE FROM TOP LEFT) PHOTOGRAPHS BY GAMMA-LIAISON, MARTYN GODDARD, JOHN EVERETT/*HOUSTON CHRONICLE*. ILLUSTRATION BY ELLEN WEINSTEIN

THE WORLD'S SMARTEST BRIEFCASE.



ou never know what kind of business tuation you'll be faced with, but amsonite's Smart Attaché* oes. It's that smart! It seems know whether it's crammed etween seats on a 747 or rawled out on a acious desk top. nd the Smart Attaché ll not only identify ur problems — ll solve them, o. Thanks to a tented, gravity- ctivated "smart-hinge" that allows it to automatically function in a number of mind-boggling ways. When it's flat, it "knows" to open like a standard briefcase, revealing a sizeable main compartment for the bulk of your belongings. But when it's upright, it intuitively opens as a portfolio — from the top. So you can retrieve tickets, itinerary and files even when space is limited or time is tight. What's more, it just looks "smart." Elegant styling. Full-grain leather. Side-mount combination locks. It even has ingenious interior compartments** that are accessible from both briefcase and portfolio positions. And since it's a Samsonite® briefcase, it's got the brawn to back up its brains, and protect your contents like nobody's business. Call it applied artificial intelligence! Call it brilliant! Or call 1-800-262-8282 for more information (it may be the smartest thing you ever do).



S. Patent #4,714,286 and other patents pending
tent pending
he World's Smartest" and "Smart Attaché" are trademarks of Samsonite Corp. © 1993 Samsonite Corp.

Samsonite®

Our Strengths Are Legendary.®

Up Front

SPORTS BIZ

THE REDSKINS SET UP TO BLOCK A PC BLITZ

WITH THEIR FEEBLE 2-6 record, the Washington Redskins have little to brag about this year. But the worst team in the NFC East has an even tougher problem: Gaining ground is an aggressive campaign by seven Native American leaders who find the term "redskins" an ethnic slur.

The Indian leaders want to yank the team's trademark protection, which could allow counterfeiters of Redskins T-shirts, caps, and other memorabilia to run amok, killing a key source of team revenue. "It takes away the economic incentive for them to continue using the mark," says Stephen Baird, the Minneapolis lawyer for the challengers.

'SKINS GAME: *Logo war*

Their case centers on a provision in trademark law that bans ethnically disparaging names. Like terms would "never be tolerated" if applied to other ethnic groups, says Suzan Shown Harjo, president of the Morning Star Institute, a Washington advocacy group. Lawyers for the Redskins counter that the name honors American Indians, celebrating such qualities as bravery.

The case, first filed in 1992 with the U.S. Patent & Trademark Office, is headed for a full airing next year, perhaps before the next football season. But it already has had an impact. In 1992, the trademark office nixed the name "Redskins" for a sports magazine, citing the complaint on D.C.'s team. *Joseph Weber*

BIOTECH BLUES

MARTHA'S GUIDE TO GRACIOUS GENE-SPLICING

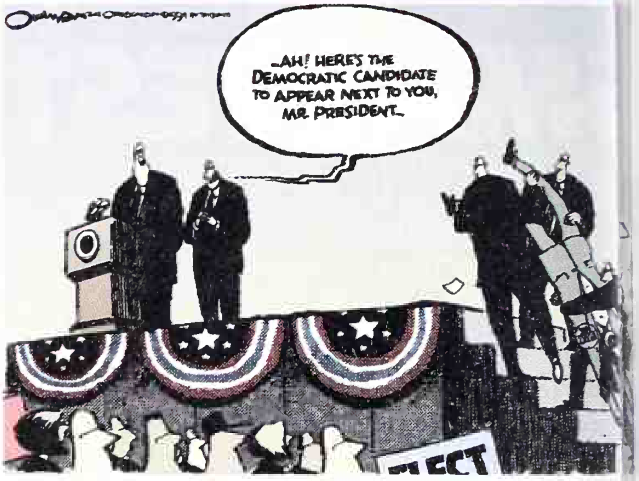
THE BIOTECH INDUSTRY, BESET by tanking stocks and empty coffers, needs some inspiration to lift its flagging spirits. So whom did the New York Biotechnology Assn. choose as its keynote speaker at its recent annual conference? Martha Stewart, the avatar of gracious living.

STEWART: *Tomato fan*

Stewart, whose publications adorn many a coffee table, flummoxed the biotechers at the Manhattan gathering with a rambling talk on her worries about genetically altered food. "I would love to have a fine tomato in the winter," she said, "but I'm not sure we should mess with Mother Nature." Audience members, more focused on new drugs than new grub, asked a mere two questions afterward. Moaned one biotech PR pro privately: "This industry deserves its stocks to be so low."

Why Stewart? The group wanted a noted consumer's viewpoint, says an association official. Besides, Stewart is a biotech investor—though she won't name the stocks, saying only: "They're all down." And that is not, as she is fond of saying, "a good thing."

DRAWN & QUARTERED


AH! HERE'S THE DEMOCRATIC CANDIDATE TO APPEAR NEXT TO YOU, MR. PRESIDENT.
LECT

PRODUCT PEEK

STILL NO FAT CITY FOR P&G'S OLESTRA

UPDATE

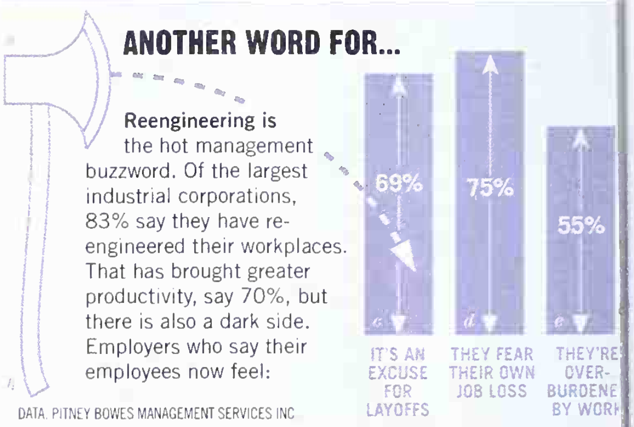
GUILT-FREE POTATO CHIPS ARE not coming to supermarket shelves soon. Olestra, the no-calorie fake fat being developed by Procter & Gamble, won't get regulatory approval for the fat substitute imminently, the company now admits. In mid-1993, Procter was expecting a 1994 O.K. for olestra. The consumer-products giant got its first patent for it 23 years ago and petitioned the Food & Drug Administration for approval in 1987.

But even though the necessary FDA tests are completed, P&G Chairman Edwin Artzt is downbeat about a near-term go-ahead: "I'm getting weary of saying that we're making progress, and
the light is at the end of h
tunnel." He's hoping for
proval by late 1995.

The problem, Artzt say
that the FDA lacks the sta
render a verdict on oles
which isn't a top-priority p
ect. An agency spokesper
won't comment on that, ot
than to say the FDA is be
extremely careful with o
tra. One snag every
agrees on: It's tough to
sess a new food addit
that, unlike others, mi
be consumed in vast qu
tities. Ultimately, oles
may show up in everyth
from chocolate cake to p
cessed meat. But for start
any FDA approval would
limited to salted snacks.

P&G does face a deadli
Congress granted it an ext
sion of a basic olestra pate
but it expires if P&G does
get an FDA O.K. by Janua
1996. *Zachary Schi*

THE BIG PICTURE



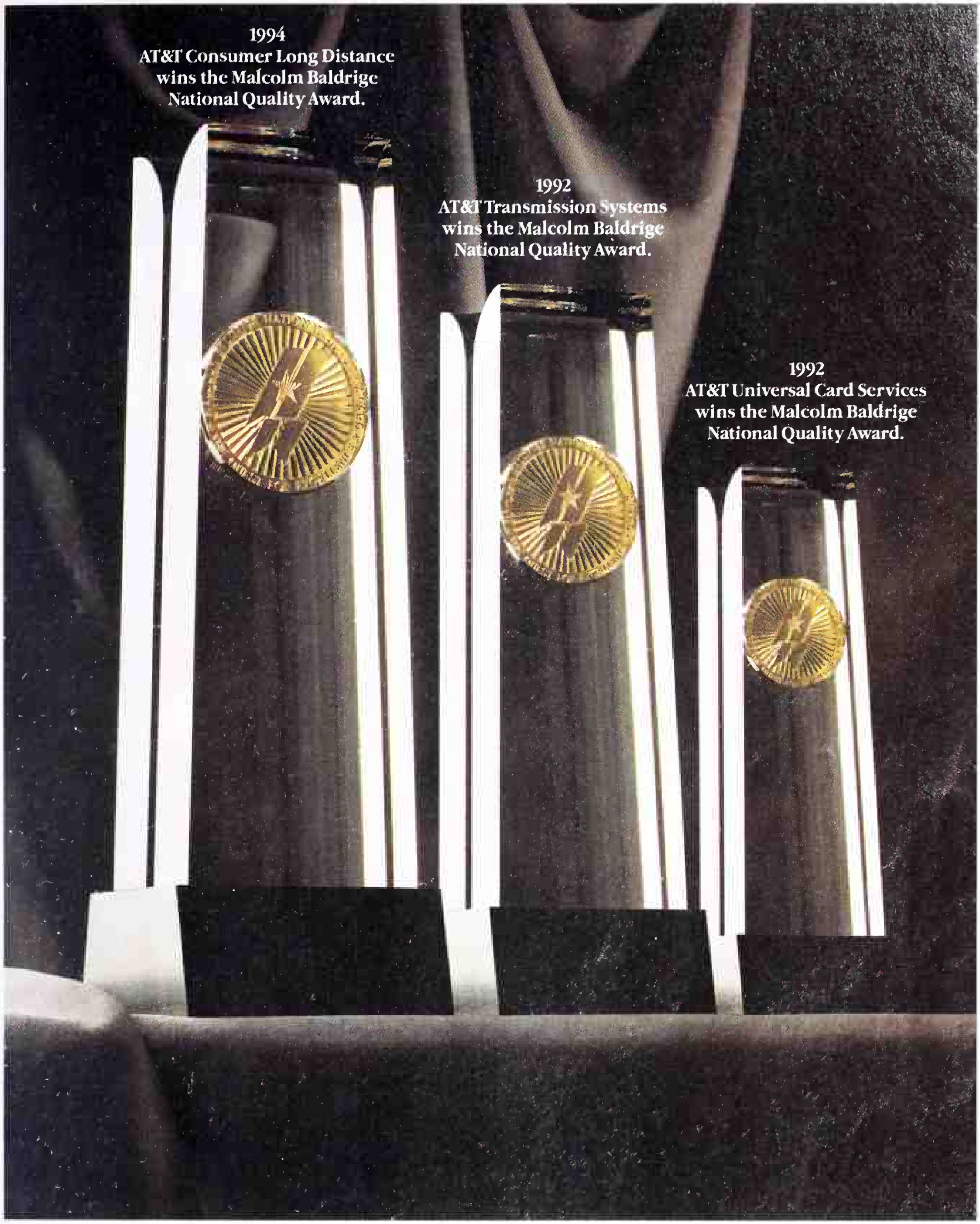
ANOTHER WORD FOR...

Reengineering is the hot management buzzword. Of the largest industrial corporations, 83% say they have reengineered their workplaces. That has brought greater productivity, say 70%, but there is also a dark side. Employers who say their employees now feel:

DATA: PITNEY BOWES MANAGEMENT SERVICES INC

FOOTNOTES Those in survey expressing fear that they won't have enough money in the future: In 1988: 57%. In 1994: 73%

(CLOCKWISE FROM TOP LEFT) PHOTOGRAPHS BY GAMMA-LIAISON, MARTYN GODDARD, JOHN EVERETT/*HOUSTON CHRONICLE*. ILLUSTRATION BY ELLEN WEINSTEIN
(CLOCKWISE FROM TOP LEFT) PHOTOGRAPH BY MIKE POWELL/ALLSPORT. CARTOON BY JACK OHMAN/*THE OREGONIAN*/TRIBUNE MEDIA SERVICES. GRAPHIC BY ALAN BASEDEN. PHOTOGRAPH BY E.J. CAMP/OUTLINE


1994
AT&T Consumer Long Distance
wins the Malcolm Baldrige
National Quality Award.
1992
AT&T Transmission Systems
wins the Malcolm Baldrige
National Quality Award.
1992
AT&T Universal Card Services
wins the Malcolm Baldrige
National Quality Award.

Quality has always been in fashion at AT&T.

In addition to AT&T Consumer Long Distance winning the 1994 Malcolm Baldrige National Quality Award, AT&T Power Systems, a division of AT&T Microelectronics, has won Japan's prestigious Deming Prize. They're the first American-based manufacturer to win this coveted quality award.

AT&T

.T&T Consumer Long Distance is the business of
.T&T Consumer Communications Services.

© 1994 AT&T

Go

you ca

How dare we advertise ourselves like that ?

ahead
ely on us

• "Go ahead". This is the opening line of AXA's international advertising campaign. A pretty strong message for a little known company to give the world. Few companies in our field of nsurance and investment would dare print such a statement. So how can we, AXA, do it ?

• We are the 4th largest insurance group in the world, based on funds under management (over $220 billion) and 12th by premium income. We are 50 000 strong with offices in 16 countries, across 3 continents.

• How did we reach such a position ? We followed a simple idea. In a competitive economy, it takes better service to get and keep clients. The service we provide is the service we promised. No hiding behind the small print. You get what you expected. This service is innovative and thorough, constantly being reshaped to fit an ever changing world. And it is mplemented by committed men and women.

• True, it took more than just better service and better people to grow like that. It took a well balanced strategy combining many elements. Consistent profitability. Rapid reaction to opportunities. And international expertise gained through different kinds of partnerships with long established, well respected local companies.

• AXA has just such partnerships with The Equitable in the USA and with AXA Equity & Law in the UK. We benefit from their experience and their image, they profit from ours. Cross fertilization is making all of us truly global players.

• It is the sum of all this experience that allows us to say today, not only to our clients but to whomever we deal with : "Go ahead. You can rely on us".

AXA

INSURANCE & INVESTMENT

BusinessWeek

EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
CHIEF ECONOMIST: William Wolman
ASSISTANT MANAGING EDITORS:
Sarah Bartlett, Robert J. Dowling, G. David Wallace
ART DIRECTOR: Malcolm Frouman
SENIOR EDITORS: Bob Arnold, Frank J. Comes, Deidre A. Depke, Judith H. Dobrzynski, Marc Frons, Geoff Lewis, Ciro Scotti, Mark N. Vamos, Lee Walczak (Washington), Chris Welles, Seymour Zucker
EDITORIAL PAGE EDITOR: Bruce Nussbaum
CHIEF OF CORRESPONDENTS: Keith G. Felcyn
INTERNATIONAL EDITION: William J. Holstein (Editor); John E. Pluenneke, Elizabeth Weiner (Sr. Editors)
SENIOR WRITERS: John A. Byrne, James E. Ellis, William Glasgall, Jeffrey M. Laderman, Gene G. Marcial, John Pearson, Karen Pennar, Otis Port
ASSOCIATE EDITORS: Duane E. Anderson, Catherine Arnst, Amy Dunkin, William D. Marbach, John Meehan, Michael Oneal, Thane Peterson, Gary Weiss
DIRECTOR, EDITORIAL OPERATIONS: Thomas J. Reed
PICTURE EDITOR: Lawrence Lippmann
SENIOR ART DIRECTOR: Laura Baer
ECONOMICS: James C. Cooper (Sr. Economist/Business Outlook editor), Kathleen Madigan (Assoc.) Christopher Farrell, Michael J. Mandel (Economics editors) Gene Koretz (Economic Trends editor)
DEPARTMENT EDITORS: Books: Denise Demong **Computers:** Ira Sager **Corporate Finance:** Phillip L. Zweig **Corporate Strategies:** Jane A. Sasseen **Information Management:** John W. Verity. **International Finance:** Joan Warner. **International News:** Christopher Power **International Outlook:** Stanley Reed. **Investment Banking:** Leah Nathans Spiro. **Legal Affairs:** Linda Himelstein **Media:** Mark Landler. **Money & Banking:** Kelley Holland **News:** Keith H. Hammonds **Personal Business:** Edward C. Baig **Science:** Emily T. Smith. **Scoreboards:** Frederick F. Jespersen **Social Issues:** Michele Galen **Software:** Amy Cortese **Technology:** Peter Coy, Neil Gross. **Up Front:** Larry Light. **The Workplace:** Aaron Bernstein
STAFF EDITORS: Pam Black, Veronica Byrd, Bruce Einhorn, Paul M. Eng, Elizabeth Lesly, Ron Stodghill II, Amey Stone, Suzanne Woolley, Laura Zinn
ASSISTANT EDITORS: Lori Bongiorno, Julie Tilsner
COPY EDITORS: Harry Maurer, Michael Mercurio (Deputy chiefs), Prudence Crowther, Marc Miller (Asst. chiefs), Tim Belknap, Aleta Kaufman, Jack Robbins, Jim Taibi (Sr. copy editors); Carl Desens, Hardy Green, Cynthia McClean, Joseph Mandel, David Pengilly, Malka Percal, Doug Royalty, Maria Chapin, Gail Fowler, Jeneen Hobby, Aida Rosario (Researchers)
PRODUCTION COPY EDITORS: Donald Halsband (Chief), Lawrence Dark (Deputy), Hallberg Hallmundsson, Celine Keating, Robert S. Norman, Robert J. Rosenberg, Eva Stettner
ART: Steven Taylor (Deputy director), Cynthia Friedman, Francesca Messina, Jay Petrow, Christine Silver (Assoc. directors), Alice Cheung (Asst. director) **Graphics:** Arthur Eves (Director), Joan Danaher (Deputy director), Rob Doyle (Sr. Illustrator), Lisa Knouse Braiman, Alberto Mena, Ray Vella (Illustrators), Jaime Beauchamp (Computer artist) **Production:** Stephen J. Romeo (Mgr.), Annette Kennedy (Asst. manager), Alan Bomzer (Coordinator)
PHOTOS: Scott Mlyn (Deputy Picture editor), Todd James (Senior Picture editor), Anne Murray, Ronnie Weil (Assoc. Picture editors), Bettina Baudoin (Paris), Kathleen Moore (Asst. Picture editors), M. Margarita Eiroa (Traffic manager) Lawrence Crowe (Librarian), Michael Hirsch (Researcher)
EDITORIAL OPERATIONS: Yvonne Rodriguez (Production chief) Richard Balestrino, A. Peter Clem (Production managers). Karen Butcher, Thomas R. Dowd, Fidel Lee, Jose L. Martin, Jane M. Perkinson, Craig Sturgis, Edgardo Torres, Karen Turok, Ilse V. Walton, Nicholas White (Makeup editors). Donald C. Pearson (Traffic manager), Bruce M. Arnold, Stephen R. Lebron (Assts.)
CORRESPONDENTS: Atlanta: David Greising (Mgr.), Maria Mallory **Boston:** Mark Maremont (Mgr.), Gary McWilliams, Geoffrey Smith **Chicago:** Richard A. Melcher (Mgr.), Greg Burns, Susan Chandler, Kevin Kelly **Cleveland:** Zachary Schiller (Mgr.) **Connecticut:** Tim Smart (Mgr.), Chris Roush **Dallas:** Wendy Zellner (Mgr.), Peter Burrows, Stephanie Anderson Forest **Detroit:** Kathleen Kerwin (Mgr.), James B. Treece (Sr. Correspondent), David Woodruff **Los Angeles:** Ronald Grover (Mgr.), Larry Armstrong (Sr. Correspondent), Eric Schine **Miami:** Gail DeGeorge (Mgr.) **Philadelphia:** Joseph Weber (Mgr.) **Pittsburgh:** Stephen Baker (Mgr.), Keith L. Alexander **San Francisco:** Russell Mitchell (Mgr.), Richard Brandt, Joan O'C. Hamilton, Robert Hof, Kathy Rebello **Seattle:** Dori Jones Yang (Mgr.) **Washington:** Stan Crock, Owen Ullmann (News Editors), Amy Barrett, Amy Borrus, John Carey (Sr. correspondent), Christina Del Valle, Richard S. Dunham, Dean Foust, Susan B. Garland, Howard Gleckman (Sr. correspondent), Douglas Harbrecht, Mark Lewyn, Paul Magnusson, Mike McNamee, Mary Beth Regan, Michael Schroeder, Stephen H. Wildstrom (Technology & You), Catherine Yang **Bonn:** John Templeman (Mgr.), Karen Lowry Miller **Hong Kong:** Joyce Barnathan (Mgr.), Pete Engardio **London:** Paula Dwyer (Mgr.), Julia Flynn **Mexico City:** Geri Smith (Mgr.) **Moscow:** Peter Galuszka (Mgr.) **Paris:** Stewart Toy (Mgr.), Gail Edmondson, Bill Javetski **Rome:** John Rossant (Mgr.) **Tokyo:** Robert Neff (Mgr.), Larry Holyoke **Toronto:** William C. Symonds (Mgr.)
EDITORIAL SERVICES: Broadcasting: Ray Hoffman **Business Manager:** Barbara Boynton **Information Services:** Jamie B. Russell (Director), Judi Crowe (Asst. editor), Heather Hartley, Fred Katzenberg, Maria Maronak, Karen Stevens **Office Manager:** Roselyn Kopit **Public Relations:** Christine Summerson, Josephine Coppola **Readers Report:** Yvette Hernandez. **Reprint Permission:** Janet Gonzalez **Systems:** Ina L. Kichen (Mgr.), Andrew Bernardo, Marie Brown-Bryant, Marta Skrelja

PRESIDENT: John W. Patten
PUBLISHER: David G. Ferm
SR. VP, OPERATIONS: Gary B. Hopkins
VP, CONSUMER MARKETING/CIRCULATION: Robert Montemayor
VP, INTERNATIONAL: Gerd Hinske
VP, STRATEGIC PLANNING & DEVELOPMENT: Cara Erickson
VP, MARKETING: Harold K. Somerdyk
VPs, SALES: Constance E. Bennett (Eastern Region), Dan Dunn (Midwestern Region), Louis R. Mohn (Western Region)
VP, STRATEGIC PROGRAMS: James H. McGraw IV
CONTROLLER: Gary M. Singer
DIRECTOR, ADVERTISING BUSINESS: Linda F. Carvalho
DIRECTOR, PRODUCTION: Mario J. Talluto

Readers Report

RETHINKING 'RETHINKING WORK'

"Rethinking Work" (Special Report, Oct. 17), prompted me to think of the consequences for the American worker: a demand for more (expensive) education, no promise for full-time work, no increase in on-the-job skills training, no health benefits, lack of proper compensation, glass ceilings for women and minorities, and only the reality of a continuous decline in standards of living for all but a few. Ten years of this latest work revolution have borne out the dismal truth: Information technology may make us more efficient and erudite—but not financially prosperous. Heralded as the "Second Coming" of sorts, the information revolution has not delivered what it promised: a better life for all American workers.

Yvette N. Tazeau
San Jose, Calif.

The continuous preoccupation of the media in equating what they consider to be low-level, moronic jobs with the ubiquitous buzzwords "burger flipper" insults the 130,000 Wendy's employees who each day help serve 3 million customers America's favorite and best hamburger. All of our employees perform their jobs with skill, pride, and dignity.

Wendy's and other quick-service restaurants provide the first work experience for millions of young people in America. They teach important "first-job" skills involving time management, working as a team player, customer relations, etc. We are proud to offer a positive work environment that contradicts the erroneous belief that flipping burgers is a mindless, mundane task.

S. Terry Murphy
Director
Management & Organizational
Development
Wendy's International Inc.
Dublin, Ohio

WAFFLER-IN-CHIEF OR FLEXIBLE LEADER?

In reading "All the President's zombies" (Top of the News, Oct. 10), I was disappointed to see my position on Pr
ident Clinton's leadership style to
represented 180 degrees apart from r
actual opinions.

The author of this article interview
me on a recent *New York Times* artic
I had written entitled "Haiti: Clinto
lessons in leadership." In my own ar
cle, published two days before my inte
view, I complimented Clinton on his fle
ible leadership style, allowing him
avoid being imprisoned by a rigid cha
of command. The relevant lesson, in th
case, was phrased as "Don't let the pa
ace guard block your view." I drew pa
allels to the wise use of ad hoc trust
advisers by corporate CEOs and
American Presidents. This, for exa
ple, was a key lesson for J. F. K. aft
the ill-fated Bay of Pigs invasion, in tin
to provide him with better perspectiv
during the Cuban missile crisis.

I maintain this position on Clinto
inspired leadership. It is unfortuna
that my position was unclear
BUSINESS WEEK's readers.

Jeffrey A. Sonnenfe
Direct
Center for Leadership
Career Studi
Emory Universit
Atlan

HOW TO SUCCEED IN JAPAN BY REALLY TRYING

Your story about the results of th
recent round of trade talks between th
U. S. and Japan, "Facing reality in Japa
Trade" (International Business, Oct. 10
was the most thorough, well-balance
analysis of the negotiations I have rea

The five recommendations you ou
lined for developing a new Japan stra
egy were on target—but missed on
crucial element. Although you state
the value of increasing access to info
mation and general knowledge about J
pan, your article did not deal with th
need for our business executives an
government officials to acquire the skill
necessary for working across cultures

Although regulations in Japan co
tinue to make competition difficul
there, many American companies hav
managed to succeed in that "closed

BUSINESS WEEK
NOVEMBER 7, 1994 3397
ISSN 0007-7135 * * *

Published weekly, except for one issue in January, by McGraw-Hill, Inc. Founder: James H. McGraw (1860-1948).

Executive, Editorial, Circulation, and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127039; Intl. 2360127039. U.S. subscription rate $46.95 per year; 2 years, $78.95; 3 years, $104.95. Single copies, $2.75; back issues, $5. Write for rates in other countries. Subscriber Services. 1-800-635-1200. TDD: 1-800-554-1579

Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 43
Hightstown, N.J. 08520. Second-class postage paid at New York, N.Y., a
at additional mailing offices. Postage paid at Montreal, P.Q. Canada Po
International Publications Mail Product Sales Agreement No. 2464
Registered for GST as McGraw-Hill, Inc GST #R123075673.
Copyright 19
by McGraw-Hill Inc. All rights reserved.
Title registered in U.S. Pate
Office. European Circulation Center, McGraw-Hill House, Maidenhea
Berks, England. Telephone: 0628-23431; Telex: 848640.
Officers of McGraw-Hill, Inc.: Joseph L. Dionne, Chairman and Chief E
ecutive Officer; Harold W. McGraw, III, President and Chief Operating O
ficer; Robert N. Landes, Executive Vice President, General Counsel, a
Secretary; Robert J. Bahash, Executive Vice President and Chief Fina
cial Officer; Frank D. Penglase, Senior Vice President, Treasury Operation

PHOTOCOPY PERMISSION: Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Ce
ter (CCC), 222 Rosewood Drive Danvers, MA 01923, to photocopy any article herein for the flat fee of $1.50 per copy of each article. Send payment t
the CCC. Copying for other than personal or internal reference use without express permission of McGraw-Hill is prohibited. Address requests for cu
tomized bulk reprints to Business Week Reprints, P.O. Box 457, Hightstown, N.J. 08520, or call 609-426-5494. ISSN 0007-7135/94/$2.75
PRINTED IN THE U.S.A.

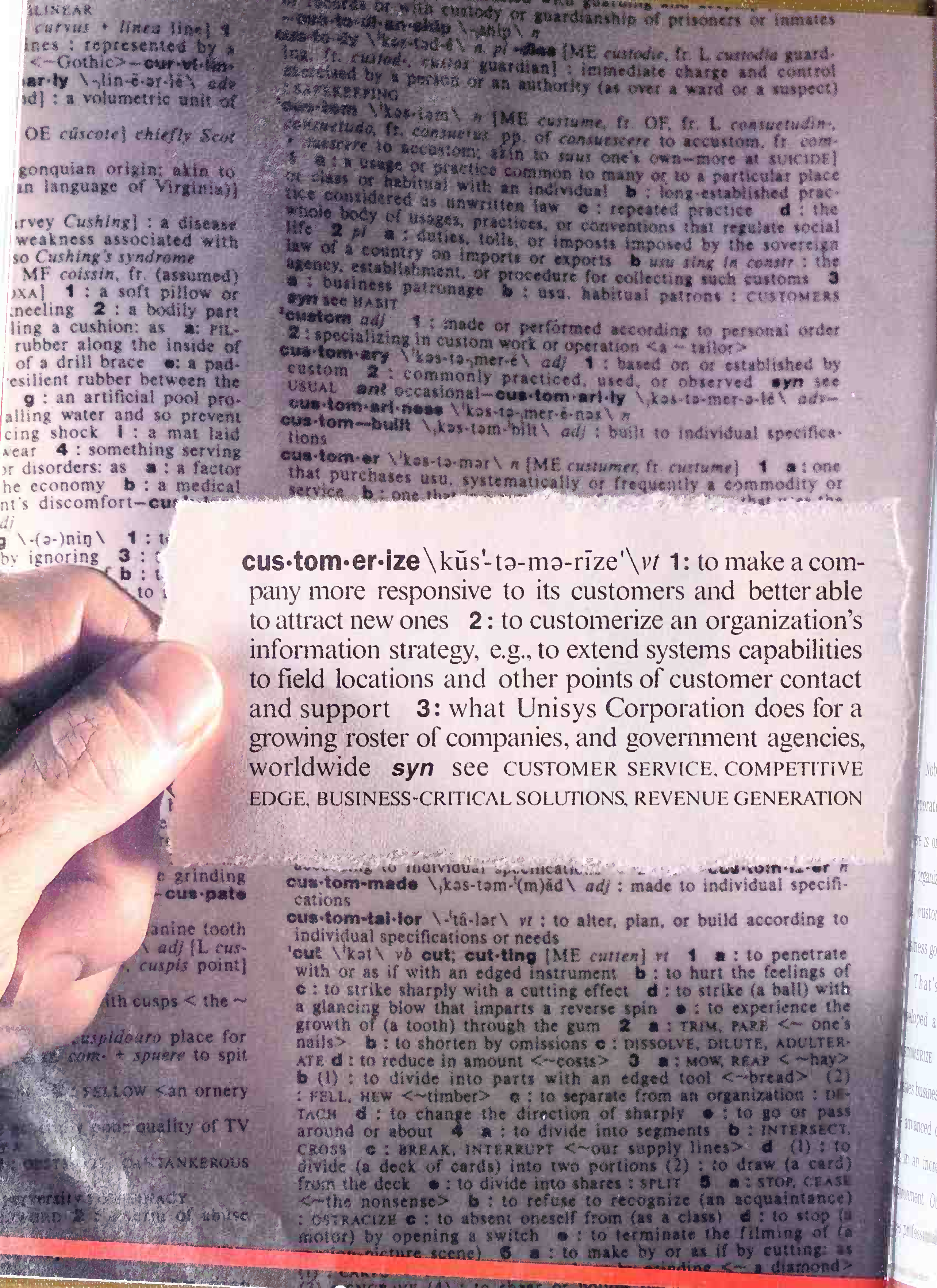
DEVOTES INCREDIBLE ATTENTION TO DETAIL

JUST LIKE A PARKER

PARKER
INSIGNIA

The PARKER INSIGNIA Laque Black shows our dedication to detail. The durable, deep gloss finish is highlighted by 14kt. Dimonite G trim, a gold-plating process we have patented. The refill in the Ball Pen is specially designed to be long-lasting and write cleanly and smoothly. Like all PARKER writing instruments it has a lifetime guarantee.

Ball Pen shown, $32.* PARKER INSIGNIA collection includes a wide range of other finishes. Ball Pens and Pencils available from $16 to $100.*
*Suggested retail price. For the store nearest you, call 1-800-BEST PEN. © 1994 Parker Pen USA Limited



LINEAR
curvus + linea line] 1
ines : represented by a
<~Gothic>—cur·vi·lin·
ar·ly \-lin-ē-ər-lē\ adv
d] : a volumetric unit of
OE cūscote] chiefly Scot
gonquian origin; akin to
an language of Virginia)]
rvey Cushing] : a disease
weakness associated with
so Cushing's syndrome
MF coissin, fr. (assumed)
OXA] 1 : a soft pillow or
neeling 2 : a bodily part
ling a cushion: as a: PIL-
rubber along the inside of
of a drill brace e: a pad-
esilient rubber between the
g : an artificial pool pro-
alling water and so prevent
cing shock i : a mat laid
wear 4 : something serving
r disorders: as a : a factor
he economy b : a medical
nt's discomfort—cu
g \-(ə-)niŋ\ 1 :
by ignoring 3 :
e grinding
—cus·pate
anine tooth
adj [L cus-
cuspis point]
ith cusps <the ~
place for
com- + spuere to spit
FELLOW <an ornery
quality of TV
CANTANKEROUS

custody or guardianship of prisoners or inmates —**cus·to·di·an·ship** \-,ship\ *n*

cus·to·dy \ˈkəs-təd-ē\ *n, pl* **-dies** [ME *custodie*, fr. L *custodia* guarding, fr. *custod-, custos* guardian] : immediate charge and control exercised by a person or an authority (as over a ward or a suspect) : SAFEKEEPING

¹**cus·tom** \ˈkəs-təm\ *n* [ME *custume*, fr. OF, fr. L *consuetudin-, consuetudo*, fr. *consuetus* pp. of *consuescere* to accustom, fr. *com-* + *suescere* to accustom; akin to *suus* one's own—more at SUICIDE] **1 a :** a usage or practice common to many or to a particular place or class or habitual with an individual **b :** long-established practice considered as unwritten law **c :** repeated practice **d :** the whole body of usages, practices, or conventions that regulate social life **2** *pl* **a :** duties, tolls, or imposts imposed by the sovereign law of a country on imports or exports **b** *usu sing in constr* : the agency, establishment, or procedure for collecting such customs **3 a :** business patronage **b :** usu. habitual patrons : CUSTOMERS **syn** see HABIT

²**custom** *adj* **1 :** made or performed according to personal order **2 :** specializing in custom work or operation <a ~ tailor>

cus·tom·ary \ˈkəs-tə-,mer-ē\ *adj* **1 :** based on or established by custom **2 :** commonly practiced, used, or observed **syn** see USUAL **ant** occasional—**cus·tom·ari·ly** \,kəs-tə-ˈmer-ə-lē\ *adv*—**cus·tom·ari·ness** \ˈkəs-tə-,mer-ē-nəs\ *n*

cus·tom–built \,kəs-təm-ˈbilt\ *adj* : built to individual specifications

cus·tom·er \ˈkəs-tə-mər\ *n* [ME *custumer*, fr. *custume*] **1 a :** one that purchases usu. systematically or frequently a commodity or service **b :** one that

cus·tom·er·ize \kŭsˈ-tə-mə-rīzeˈ\ *vt* **1:** to make a company more responsive to its customers and better able to attract new ones **2:** to customerize an organization's information strategy, e.g., to extend systems capabilities to field locations and other points of customer contact and support **3:** what Unisys Corporation does for a growing roster of companies, and government agencies, worldwide ***syn*** see CUSTOMER SERVICE, COMPETITIVE EDGE, BUSINESS-CRITICAL SOLUTIONS, REVENUE GENERATION

according to individual specification —**cus·tom·iz·er** *n*

cus·tom–made \,kəs-təm-ˈ(m)ād\ *adj* : made to individual specifications

cus·tom–tai·lor \-ˈtā-lər\ *vt* : to alter, plan, or build according to individual specifications or needs

¹**cut** \ˈkət\ *vb* **cut; cut·ting** [ME *cutten*] *vt* **1 a :** to penetrate with or as if with an edged instrument **b :** to hurt the feelings of **c :** to strike sharply with a cutting effect **d :** to strike (a ball) with a glancing blow that imparts a reverse spin **e :** to experience the growth of (a tooth) through the gum **2 a :** TRIM, PARE <~ one's nails> **b :** to shorten by omissions **c :** DISSOLVE, DILUTE, ADULTERATE **d :** to reduce in amount <~ costs> **3 a :** MOW, REAP <~ hay> **b** (1) : to divide into parts with an edged tool <~ bread> (2) : FELL, HEW <~ timber> **c :** to separate from an organization : DETACH **d :** to change the direction of sharply **e :** to go or pass around or about **4 a :** to divide into segments **b :** INTERSECT, CROSS **c :** BREAK, INTERRUPT <~ our supply lines> **d** (1) : to divide (a deck of cards) into two portions (2) : to draw (a card) from the deck **e :** to divide into shares : SPLIT **5 a :** STOP, CEASE <~ the nonsense> **b :** to refuse to recognize (an acquaintance) : OSTRACIZE **c :** to absent oneself from (as a class) **d :** to stop (a motor) by opening a switch **e :** to terminate the filming of (a motion-picture scene) **6 a :** to make by or as if by cutting: as grinding <~ a diamond>

Unisys has added new meaning to the language of business.

Customerize.

Nobody can accurately predict porate America's future. But e is one thing we all know: For organization to achieve its poten- customer service must be a iness goal.

That's why Unisys has eloped a powerful initiative–TOMERIZE. This new approach les businesses to offer customers advanced customer service cru- in an increasingly competitive ronment. Our experienced ser- s professionals work with you to design an information strategy that extends your full capabilities all the way to the points of customer contact–where revenue is generated.

And with a CUSTOMERIZED information flow, you'll be more responsive to customers and better able to meet their needs. You'll also be more strategically positioned to nurture customer loyalty, generate new business and achieve major gains within your own organization in productivity and control. All of which facilitates reduced costs and increased revenues.

With decades of experience dedicated to helping our customers serve their customers, Unisys is uniquely qualified to CUSTOMERIZE your business.

Call us at 1-800-874-8647, ext. 10, for your complimentary CUSTOMERIZE Information Kit. And ask how we can help put you on the same page as your customer.

UNISYS

We make it happen.

Unisys Corporation

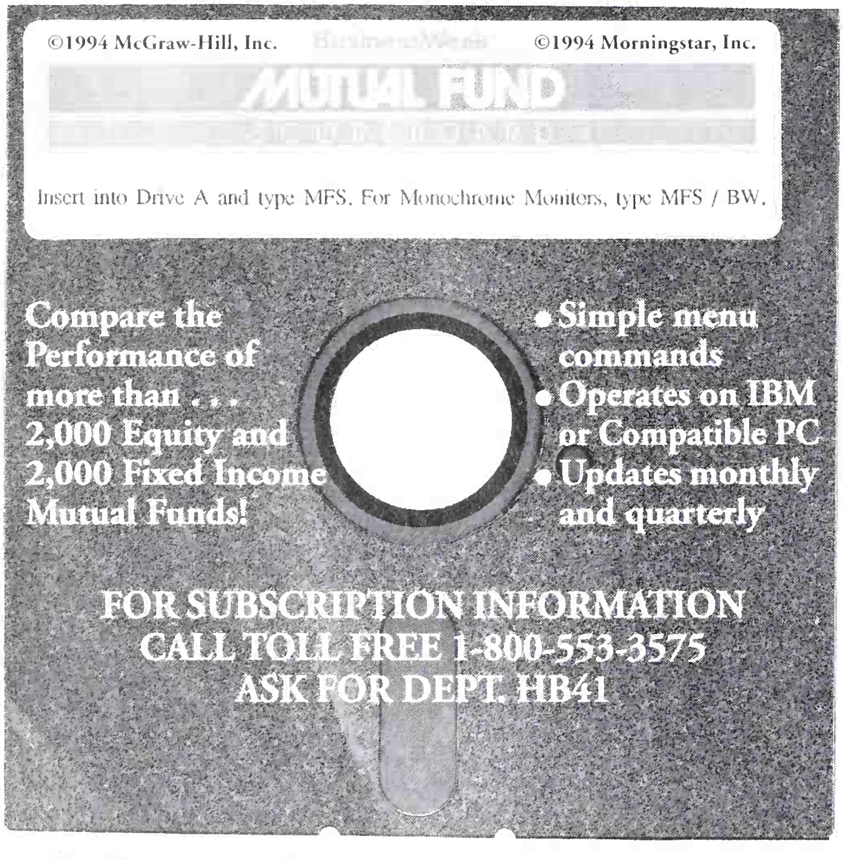
CUSTOMERIZE services are a service mark of Unisys Corporation

How to buy something different for everyone.

American Express Gift Cheque
The American Express Gift Cheque

Simple. Buy the American Express® Gift Cheque. It's different things to different people because it allows them to buy practically anything, virtually everywhere. Packaged elegantly, it is a truly distinctive and memorable gift. Available at participating American Express® Travel Service Offices, banks, credit unions and AAA Clubs. For a location near you, call 1-800-472-2804. For more information on corporate orders (over 20 Cheques) call 1-800-700-7621.

American Express Gift Cheques


©1994 McGraw-Hill, Inc. BusinessWeek ©1994 Morningstar, Inc.
MUTUAL FUND
Insert into Drive A and type MFS. For Monochrome Monitors, type MFS / BW.

Compare the Performance of more than . . . 2,000 Equity and 2,000 Fixed Income Mutual Funds!

- Simple menu commands
- Operates on IBM or Compatible PC
- Updates monthly and quarterly

FOR SUBSCRIPTION INFORMATION
CALL TOLL FREE 1-800-553-3575
ASK FOR DEPT. HB41

market. How do they do it? Intercultural knowhow and business strategies that take into account the local market

Laurie Mack
Clarke Consulting Group
Redwood City, Calif

SOUNDS LIKE A JOB FOR THE CIA

Here's something the CIA could d that would serve the public interest in changed world ("The new CIA: I spy—fo business," Washington Outlook, Oct. 17

The CIA used to track the Soviet gulag camps for goods being made for export. Now an even greater threat has arisen. The Chinese *laoqai* forced labor factories to use 20 million workers to produce all sorts of goods for export. Even though it's against the law to import such goods into the U. S., the Customs Service is hampered by the Chinese secrecy and refusal to allow these factories, which number in the hundreds, to be inspected. The CIA could do double duty by using its spy network to stop the modern-day slave-made-goods trade.

Carl Olson
Northridge, Calif.

A MODEST PROPOSAL FOR THE U.S. AND LATIN AMERICA

I enjoyed reading Professor Rudi Dornbusch's "What's missing at the Latin Summit: Free trade and a free Cuba" (Economic Viewpoint, Oct. 17).

The U. S. and the Latin American countries can achieve what they want with a little cooperative arrangement. The U. S. wants Castro out, and Latin America wants open markets and free trade. Let's make a deal: We open the markets (in steps, based on results in Cuba), and the Latin American heads of government sign up to put a full-court press on Castro to move out. A win-win scenario for all, especially for Cuba.

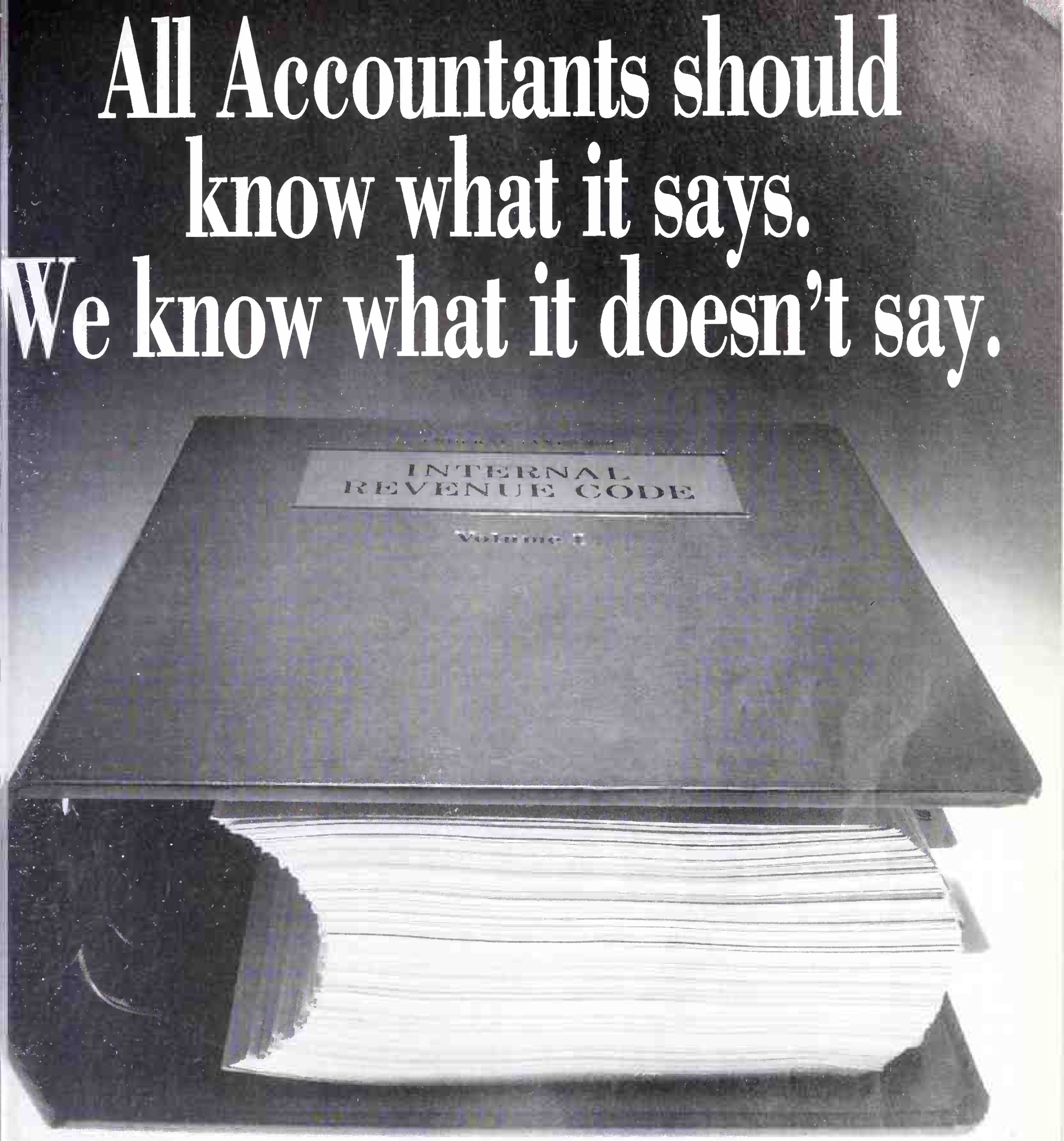
Amaury Piedra
Boulder, Colo.

HOW TO REACH BUSINESS WEEK

LETTERS FOR READERS REPORT
All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space.
Mail: Business Week, 1221 Avenue of the Americas, 39th floor, New York, NY 10020
Fax: (212) 512-4721
Internet: bwreader@mgh.com

SUBSCRIBER SERVICES
For individual subscriptions, corporate subscriptions, renewals, changes or problems, and single copies.
Phone: (800) 635-1200 or (609) 426-7500

COPYRIGHT PERMISSIONS
Before quoting or reproducing editorial material.
Phone: (212) 512-3396
Fax: (212) 512-4938

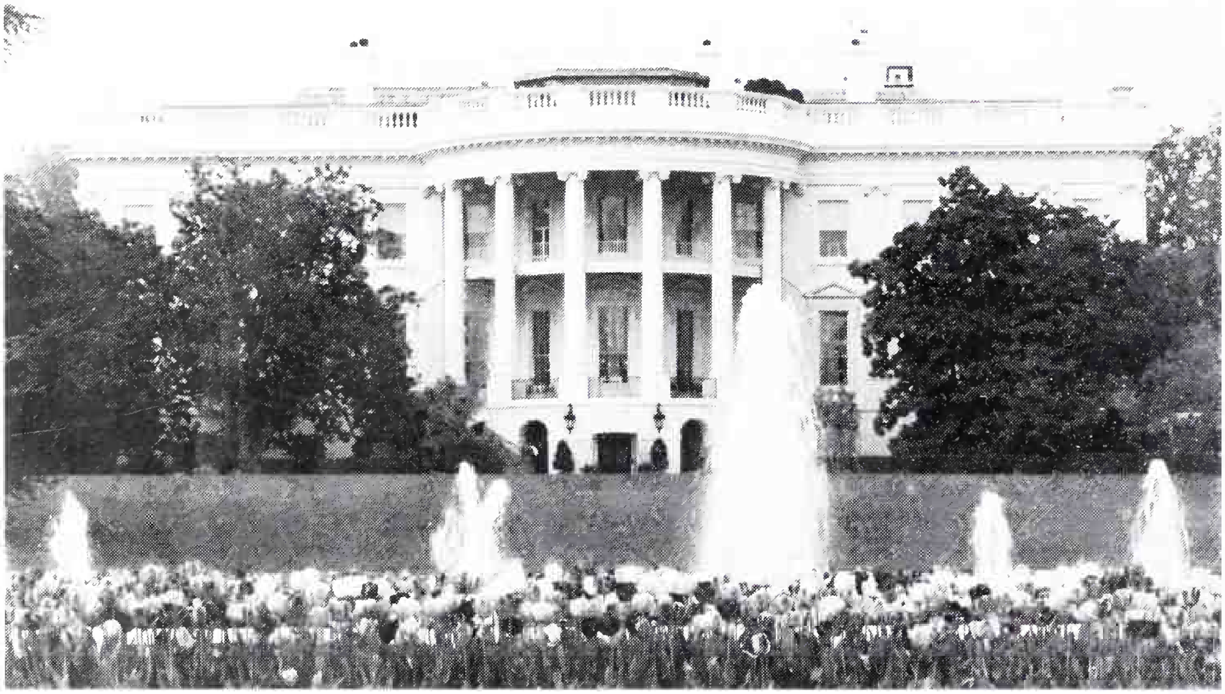

All Accountants should know what it says.
We know what it doesn't say.
INTERNAL REVENUE CODE
Volume I

Beck, Marder & Beck, an accountancy firm that can make a difference.

The only sure thing in life is death and taxes but we at Beck, Marder and Beck don't believe companies or people for the matter should die by taxation. That's why we not only know this book (and hundreds of others) inside out but most importantly we know what's *not* in it. In fact, in the field of taxation we've set more precedents for our clients than any other accountants on the west coast. So if we sound like just the firm you or your company has been searching for, call 415.441.6300 today. It's never too late to make a difference.

Beck, Marder & Beck
1255 Post St., Ste.1000
San Francisco, California 94109
415.441.6300 fax 415.775.7314

Take a year ...
to make a difference.



If you're interested in an opportunity to work in the White House and deal one-on-one with America's leaders, take a close look at the White House Fellowships.

White House Fellows are a select group of men and women who take a year off early in their careers to serve as paid assistants to the President, Vice-President, or cabinet-level officials.

They are people of exceptional abilities, strong motivation and a desire to serve their country.

White House Fellows have gone on to become leaders in many fields ... business, politics, science and the arts. And they a agree on one thing: Their year as a Fello changed their lives.

If it often seems as though you have t choose between helping others, and helping yourself—here's a chance to do both. As a White House Fellow, you can serve America while learning skills you w use your entire life.

And instead of just reading about wor events, you can help shape them.

Call (202) 395-4522 for a brochure, application and the opportunity of a lifetime.

THE WHITE HOUSE FELLOWSHIPS

A Brilliant Deduction℠

Waiting for a great corporate giving program to fall from the sky? How does this hit you: Product giving through Gifts In Kind America.™ Our free donation management services make it easy for companies to turn inventories of everything from photocopiers to shampoo, jeans to laptops into tax deductions of up to twice cost…helping worthy charities nationwide and around the world. Find out how we can develop a program so effective for your company… it becomes the apple of your eye.

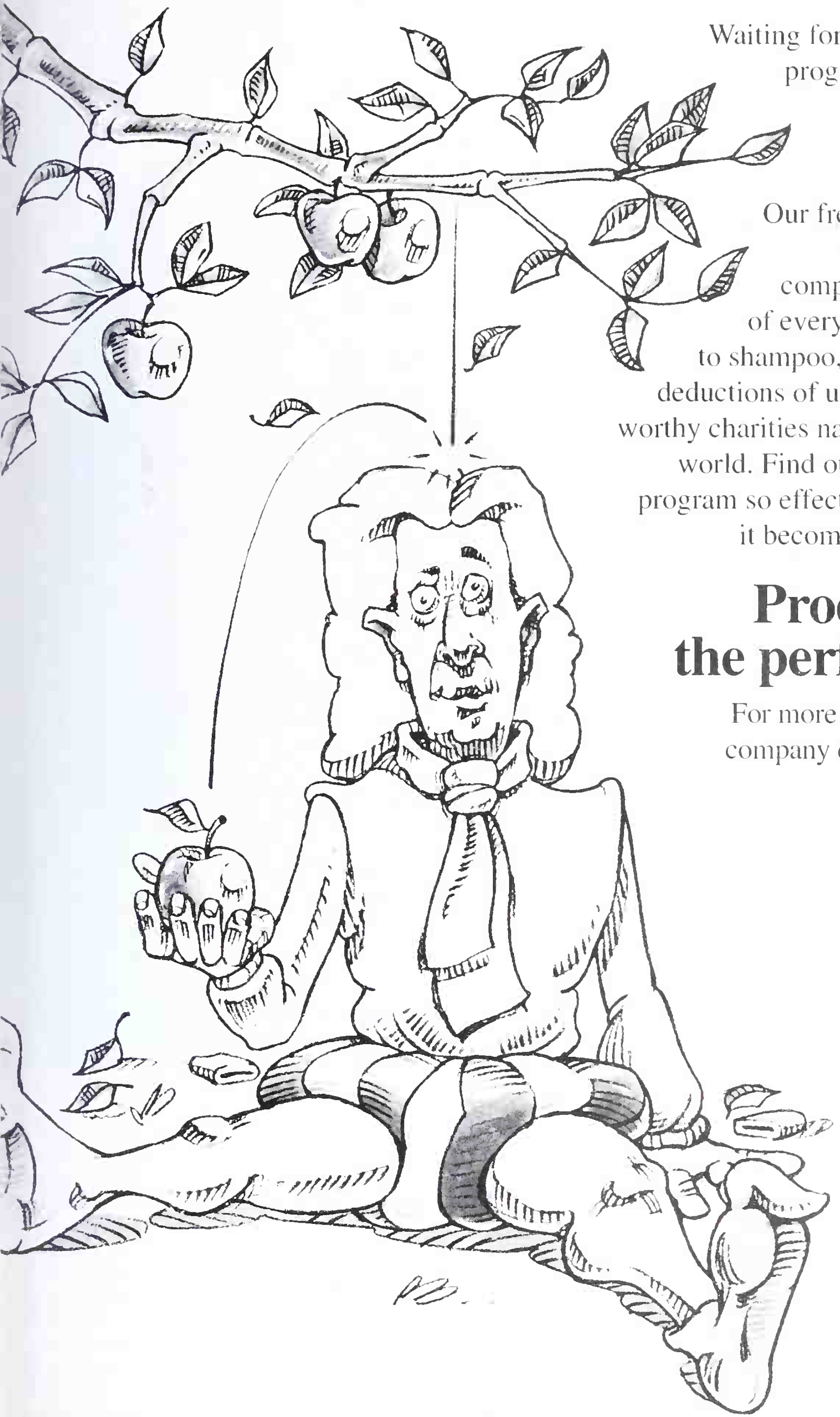
Product giving – the perfect solution!

For more information on how your company can get involved, contact:

GIFTS IN KIND™
AMERICA

700 N. Fairfax Street
Suite 300
Alexandria, VA
22314

703-836-2121



Sir Isaac Newton, Mathematician and Physicist, 1642-1727

©1994 Gifts In Kind America

Gifts In Kind America…for more than a decade, helping hundreds of leading companies contribute half a billion dollars in products to tens of thousands of charities.

malaysia AIRLINES

WE FLY THE WORLD

To over 90 destinations worldwide, Malaysia Airlines is the premier choice.

Spanning the skies over 6 continents, in some of today's most advanced aircraft.

Including the latest 747-400s and the largest fleet of 737-400s outside the USA.

You'll experience service rated among the world's ten best for long haul.

And the finest first class in a survey of 31 international airlines.

Small surprise, we fly more people than any other airline from Southeast Asia.

In making travel a pleasure for you, the sky's the limit for Malaysia Airlines.

Across 6 continents, graced with service from the heart which says, you mean the world to us.

Malaysia Airlines is a member of Continental One Pass For reservations and information, call your favorite travel agent or Malaysia Airlines toll free : 800-421 8641

ITED BY STEPHEN H. WILDSTROM

HE FAX GETS FACE-LIFT

The idea is so obvious, you can only wonder why it took so long. ien sending, a fax machine iverts a printed page into ligital image, just like a nner does. When receiving, hanges a digital image into age, like a printer. If you p the transmission in the ldle—an unadvertised op- n with most faxes—you get uplicate page, like a copi- Why not com- ne the func- ns into a simple kage?

Now that's opening. By roducing a nbination fax- nter-copier for s than $1,000, wlett-Packard Co. y turn what has n a specialized field more expensive ma- nes from Ricoh, Canon, i Okidata into a mass rket. The HP OfficeJet, nbining an inkjet printer h a full-featured fax ma- ne, lists for $959 and uld be available for around 0 at discount office and nputer stores.

ARP AND CLEAR. The Of- Jet's output, not surpris- ly, is identical to that of 's DeskJet printers. If i're used to curly, quick-to- e thermal faxes, you will preciate the crisp, plain-pa- printing.

must confess, I initially nd myself disappointed by OfficeJet. You can't scan image into your computer h it, nor can you transmit le directly from your word cessor, the way you can h a fax modem and such tware as Delrina's WinFax.

I'm an experienced computer user, however, and I can see why HP is aiming the DeskJet at the rapidly growing home-office market, where simplicity is a much more important selling point than powerful features. Steven J. Gomo, general manager of HP's San Diego division, says market research showed that while users were interested in advanced features, such as scanning, the wish list gave a higher priority to ease of use, reliability, and price. Virtually anyone who runs even the smallest office these days knows how to use a fax machine and a printer, but PC-based faxing is still trickier than it ought to be.

Of course, for around $450, you can get an inkjet printer, a fax modem, and software that lets you use your PC as a fax. But you will only be able to send out computer files, not printed materials. Besides, your machine will slow down badly while sending or receiving a fax. Most users will be happier with a separate fax or combo fax/printer than with a fax modem.

More powerful multifunction machines are coming to market to meet the more complex needs of business users, including faster and better printing along with cost and space savings. For example, Okidata's Doc-It line, with list prices from $1,999 to $2,799, is a single-user machine designed to work with Microsoft Corp.'s Windows. It offers laser-quality printing, high-resolution scanning and copying, and can send faxes either by scanning printed copies or by taking the output directly from your word processor or other application.

ALL-IN-ONE. At the top of the line are high-speed machines that can plug in to a local-area network and handle printing, faxing, and scanning for a group of users while doubling as conventional copiers. Ricoh Co.'s IFS66, due out early next year, will be the first multipurpose unit to incorporate Microsoft's At Work software. In addition to normal office chores, the IFS66 will exchange data files with other At Work-equipped machines. Today, a manager might fax a draft contract to a vendor and receive a hand-annotated version by return fax. The new technology would allow the actual word-processor file to be sent, edited, and returned without any E-mail link being set up in advance—and with encryption keeping the contents safe from prying eyes along the way.

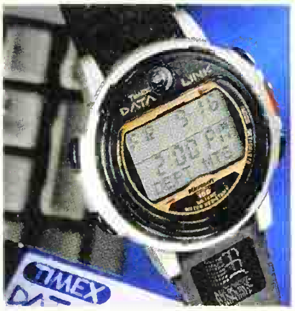
In a few years, the fax has matured from an exotic communications tool to a workhorse that no business, no matter how small, can afford to be without. In the next leap, the multifunction fax will be both more powerful and easier to use—a tough combination to beat. *S.W.*

BULLETIN BOARD

ODDITIES

TIMEPIECE WITH A DEADLINE

Need a gift for the technophile who has everything? The Data Link watch from Timex Corp. (800 367-8463) may well be the oddest product of the year. The $130 plastic digital watch isn't much to look at. But it can copy a phone list and calendar from Microsoft's Schedule+ software by reading a pattern of flashing lines from the monitor of your Windows computer. Buttons on the watch let you read back the data through a little liquid-crystal display below the time. Although scrolling through the data eight characters at a time can get tedious, the Data Link can hold up to 70 items.



SOFTWARE

APPLE AND ORANGES

I get a lot of E-mail and fax inquiries from readers, and perhaps the question that comes up most often is whether a piece of business software I have written about is available for Macintosh. Usually the answer is "no" for the sort of programs that prepare personnel evaluations, expense reports, or legal documents (BW—Aug. 22, Sept. 12, Sept. 19). Publishers say they're not biased in favor of Windows, but that outside of education and graphic arts, the Mac business market is too small to make Apple Computer Inc. versions profitable.

QUESTIONS? COMMENTS? techandu@mgh.com on Internet or fax (202) 383-2125

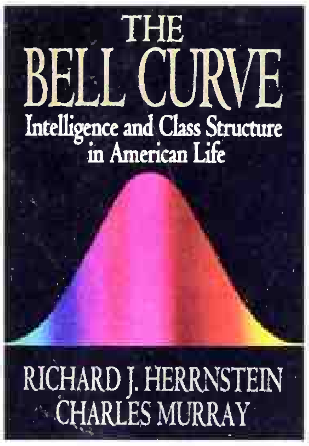
ILLUSTRATION BY JAMES WILLIAM GARY

THE BELL CURVE
Intelligence and Class Structure in American Life
By Richard J. Herrnstein and Charles Murray
Free Press • 845pp • $30

CLEVER ARGUMENTS, ATROCIOUS SCIENCE

At the core of the American psyche is the belief that hard work, education, and perseverance can overcome any disadvantage of wealth, background, or class. It may even be true. The history of the U. S. is filled with individuals rising from rural poverty or immigrant ghettos to gain affluence, political power, or Nobel prizes.

These successes are even more striking given the public prejudices arrayed against many of these people. After the great wave of immigration from eastern and southern Europe in the early 1900s, for instance, a *Denver Post* columnist warned that New York City had become "a cesspool" of "immigrant trash." Social scientists "proved" that the new Americans, many of them Jewish, would drag down the nation's average intelligence, since they scored lower on IQ tests.



But a funny thing happened on the way to the future. Within decades, the "trash" was not only rising through society but also was showing remarkable gains in the supposedly fixed measure of IQ. In fact, Jews now score some 10 points higher than the white average.

Consider another group of "new" Americans, the newly freed blacks of the late 1800s. Historians say they shared the immigrants' belief in education as the path to advancement. By World War I, Northern blacks were outscoring Southern whites on Army IQ tests. Haverford College's Roger Lane has found that black literacy rates in Philadelphia quadrupled in the 1890s. Rising achievement led to blacks' first major political demand—that the city award jobs based on written exams.

But even though blacks performed better than white rivals on the tests, achievement didn't open doors. Philadelphia refused to hire accordingly, leaving "trained black doctors working as bell-hops," says Lane. "As a result, the hunger for education got beaten out."

These facts are only hinted at in *The Bell Curve*, the controversial new book by conservative American Enterprise Institute Fellow Charles Murray and late Harvard psychologist Richard J. Herrnstein. The authors admit "immigrants have sometimes shown large increases" in IQ, and that a lack of education can cause poor test performance. But their thesis is exactly the opposite: IQ scores, they say, are largely immutable and represent innate intelligence.

The ranks of the cognitively inferior, they assert, are disproportionately filled with blacks, Latinos, and today's immigrants. And that's a serious disadvantage, because low IQ—not education or opportunity—is the key factor underlying problems ranging from poverty and criminal behavior to out-of-wedlock births and being a bad parent. "Success and failure . . . are increasingly a matter of the genes that people inherit," the authors warn. That people can get ahead by plain hard work is "no longer true."

Worse, they add, growth of the dumb population may already be dragging America down. All of this is "uncomfortable" truth that the authors purport to be bravely revealing. To deny it, they say, is to cave in to political correctness.

There are grains of truth—and much cleverness—in this argument. People differ in a wide range of talents and abilities, and being smart is unquestionably an advantage. Moreover, the author deserve credit for venturing provocativ statements about social problems. The argue persuasively that many scho fail to challenge students, that affirma tive action has undermined the per ceived legitimacy of college degree f minorities, and that America is increas ingly split between haves and have-n

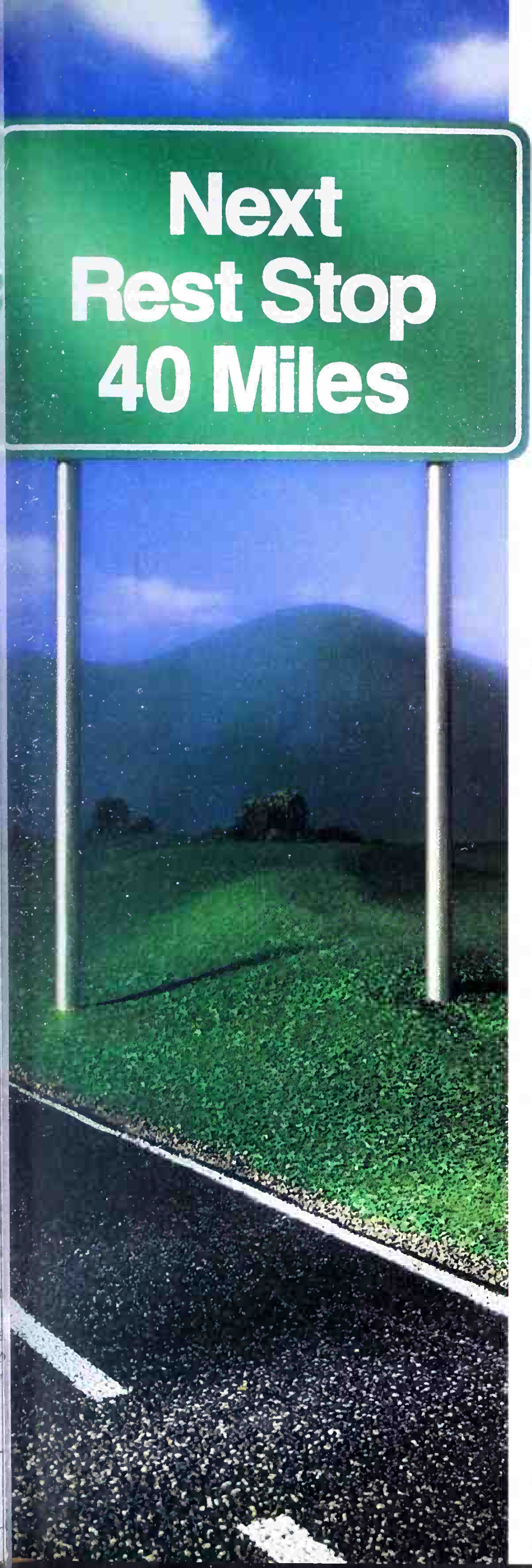
But *The Bell Curve*'s message—tha IQ is destiny—is not just politically in correct, it's a breathtakingly wronghe ed interpretation of the underlying sc ence. In fact, there's a grim sport f sharp-eyed readers in spotting the wea links, misrepresentations, and logic in consistencies that riddle the suppose ly objective analysis of the data.

Consider the book's assertion that scores reflect fundamental cogni ability and can be equated with "m ity . . . and personal competence." Tha a huge reach. A number of social scien tists, brusquely dismissed by the a thors, say intelligence is many-facete and that IQ represents but one compo nent. Yale's Robert J. Sternberg, for ex ample, has constructed tests to meas ure "practical intelligence"—how we people deal with real-life situations Scores on these tests predict job per formance better than IQ tests—an scores don't differ among ethnic groups What does IQ really represent? As th authors themselves point out, it seem to measure thinking speed.

Murray and Herrnstein forget to not other uncomfortable truths. Most of thei key data come from a long-term study o some 12,000 people who once too Armed Forces aptitude exam. But Pen tagon scientists who administer it sa the test isn't even an IQ test. Scores ris with the amount of schooling test-tak ers have, notes Bernard M. Baruch Col lege's June O'Neill, who uses the test t study such issues as workplace discrim ination. So it's no surprise that score predict school performance.

Those who probe the statistics wi find that many of the book's claims the predictive power of IQ are du at best. If the average IQ of the drops just three points, the authors a poverty will jump 11%, crime 13% single motherhood 8%. But that assu that all these measures change with ry point difference in IQ. In fact, negative outcomes rise only with in es in the number of people with ver

THE BELL CURVE IS A HOUSE OF CARDS BUILT TO PROMOTE A POLITICAL AGENDA



"I HAD A TOUGH TIME GOING THE DISTANCE."

Every time I traveled someplace, I was worried about finding a bathroom so I could urinate. It was frustrating.

I saw my doctor, and he told me I was having the symptoms of a prostate condition called BPH. He prescribed **HYTRIN**® And guess what?

HYTRIN® HELPED

HYTRIN is a medication that can improve the symptoms of BPH (benign prostatic hyperplasia), which is an enlargement of the prostate gland. HYTRIN can help in as little as *2 to 4 weeks*. And it only has to be taken once a day.

Are *you* a man over 50 with urinary discomforts? Do you urinate often during the day or night? Is your urine stream difficult to start? Is it weak or interrupted? Does your bladder feel as if it isn't emptying completely?

If so, see your doctor. Your doctor can determine whether you have symptomatic BPH (or other conditions such as prostate cancer). Your doctor can also explain the different treatment options for symptomatic BPH: surgery; "watchful waiting," which consists of having regular checkups over time; and oral medications such as HYTRIN.

HYTRIN can cause a sudden drop in blood pressure at the beginning of treatment (or if you miss doses and then start taking the medication again). You may feel dizzy, faint, or "light-headed," particularly after getting up from a chair or bed.

Talk with your doctor today and call to receive your FREE informative booklet on symptomatic BPH and HYTRIN.

1-800-477-7778

ASK YOUR DOCTOR TODAY ABOUT

HYTRIN®

(terazosin HCl)

IT CAN HELP IN A MATTER OF WEEKS

© 1994, Abbott Laboratories

409-501-3757C

Please see patient information on adjacent page.

HYTRIN®
(terazosin HCl)

PATIENT INFORMATION ABOUT HYTRIN® (HI-TRIN)

Generic Name:
terazosin (ter-A-zo-sin)
hydrochloride

When used to treat
BENIGN PROSTATIC
HYPERPLASIA (BPH)

Please read this leaflet before you start taking HYTRIN. Also, read it each time you get a new prescription. This information should NOT take the place of a full discussion with your doctor. You and your doctor should discuss HYTRIN and your condition before you start taking it and at your regular check-ups.

HYTRIN is used to treat benign prostatic hyperplasia or BPH. HYTRIN is also used to treat high blood pressure (hypertension). This leaflet describes HYTRIN only as a treatment for BPH.

What is BPH?

The prostate is a gland located below the bladder. It surrounds the urethra (you-REETH-rah), which is a tube that drains urine from the bladder. BPH is an enlargement of the prostate gland. The symptoms of BPH, however, can be caused by an increase in the tightness of muscles in the prostate. If the muscles inside the prostate tighten, they can squeeze the urethra and slow the flow of urine. This can lead to symptoms such as:

- a weak or interrupted stream when urinating
- a feeling that you cannot empty your bladder completely
- a feeling of delay when you start to urinate
- a need to urinate often, especially at night, or
- a feeling that you must urinate right away.

Treatment options for BPH

There are three main treatment options for BPH:

- Program of monitoring or "Watchful Waiting". Some men have an enlarged prostate gland, but no symptoms, or symptoms that are not bothersome. If this applies, you and your doctor may decide on a program of monitoring including regular check-ups, instead of medication or surgery.
- Medication. There are different kinds of medication used to treat BPH. Your doctor has prescribed HYTRIN for you. See "What HYTRIN does" below.
- Surgery. Some patients may need surgery. Your doctor can describe several different surgical procedures to treat BPH. Which procedure is best depends on your symptoms and medical condition.

What HYTRIN does

HYTRIN relaxes the tightness of a certain type of muscle in the prostate and at the opening of the bladder. This may increase the rate of urine flow and/or decrease the symptoms you are having.

- HYTRIN helps relieve the symptoms of BPH. It does NOT change the size of the prostate, which may continue to grow. However, a larger prostate does not necessarily cause more or worse symptoms.
- If HYTRIN is helping you, you should notice an effect on your particular symptoms in 2 to 4 weeks of starting to take the medication.
- Even though you take HYTRIN and it may help you, HYTRIN may not prevent the need for surgery in the future.

What you should know while taking HYTRIN for BPH

WARNINGS

HYTRIN Can Cause A Sudden Drop in Blood Pressure After the VERY FIRST DOSE. You may feel dizzy, faint, or "light-headed" particularly after you get up from bed or from a chair. This is more likely to occur after you've taken the first few doses, but can occur at any time while you are taking the drug. It can also occur if you stop taking the drug and then re-start treatment.

Because of this effect, your doctor may have told you to take HYTRIN at bedtime. If you take HYTRIN at bedtime but need to get up from bed to go to the bathroom, get up slowly and cautiously until you are sure how the medicine affects you. It is also important to get up slowly from a chair or bed at any time until you learn how you react to HYTRIN. You should not drive or do any hazardous tasks until you are used to the effects of the medication. If you begin to feel dizzy, sit or lie down until you feel better.

- You will start with a 1 mg dose of HYTRIN. Then the dose will be increased as your body gets used to the effect of the medication.
- Other side effects you could have while taking HYTRIN include drowsiness, blurred or hazy vision, nausea, or "puffiness" of the feet or hands. Discuss any unexpected effects you notice with your doctor.

Other important facts

- You should see an effect on your symptoms in 2 to 4 weeks. So, you will need to continue seeing your doctor to check your progress regarding your BPH and to monitor your blood pressure in addition to your other regular check-ups.
- Your doctor has prescribed HYTRIN for your BPH and not for prostate cancer. However, a man can have BPH and prostate cancer at the same time. Doctors usually recommend that men be checked for prostate cancer once a year when they turn 50 (or 40 if a family member has had prostate cancer). These checks should continue even if you are taking HYTRIN. HYTRIN is not a treatment for prostate cancer.
- About Prostate Specific Antigen (PSA). Your doctor may have done a blood test called PSA. Your doctor is aware that HYTRIN does not affect PSA levels. You may want to ask your doctor more about this if you have had a PSA test done.

How to take HYTRIN

Follow your doctor's instructions about how to take HYTRIN. You must take it every day at the dose prescribed. Talk with your doctor if you don't take it for a few days, you may have to restart it at a 1 mg dose and be cautious about possible dizziness. Do not share HYTRIN with anyone else; it was prescribed only for you.

Keep HYTRIN and all medicines out of the reach of children.

FOR MORE INFORMATION ABOUT HYTRIN AND BPH, TALK WITH YOUR DOCTOR, NURSE, PHARMACIST OR OTHER HEALTH CARE PROVIDER.

Ref. 03-4458-R1-Revised Sept., 1993

Abbott Laboratories
North Chicago, IL 60064

PRINTED IN U.S.A.

Books

scores—borderline retarded and b
Even then, they rise only modestly.
the vast majority, big differences
lead to virtually no difference in
key measures as income. After all
average IQ difference between any pa
siblings is 13 points, about the san
the black/white spread.

Even if we suspend reason and
cept the book's belief in IQ, *The*
Curve founders on contradictions
cial scientists agree that IQ scores
groups have risen some 15 points i
last 40 years—and the gap betw
whites and blacks has narrowed. So
can Murray and Herrnstein argue
growing social ills are partly cause
an increase in dumb folks? They a
that disadvantaged children ado
into more affluent and stable fam
can show big increases in IQ. So wh
they insist IQs can rarely be chan
How can they say coaching doesn't
scores over the long term, then dis
a big long-term increase in a Mil
kee program as merely a produ
coaching? And how can they denig
the college degrees earned by bl
who matriculate despite lower
scores without saying that whites
the same SAT scores—the disad
taged, perhaps, or children of alum
are equally undeserving?

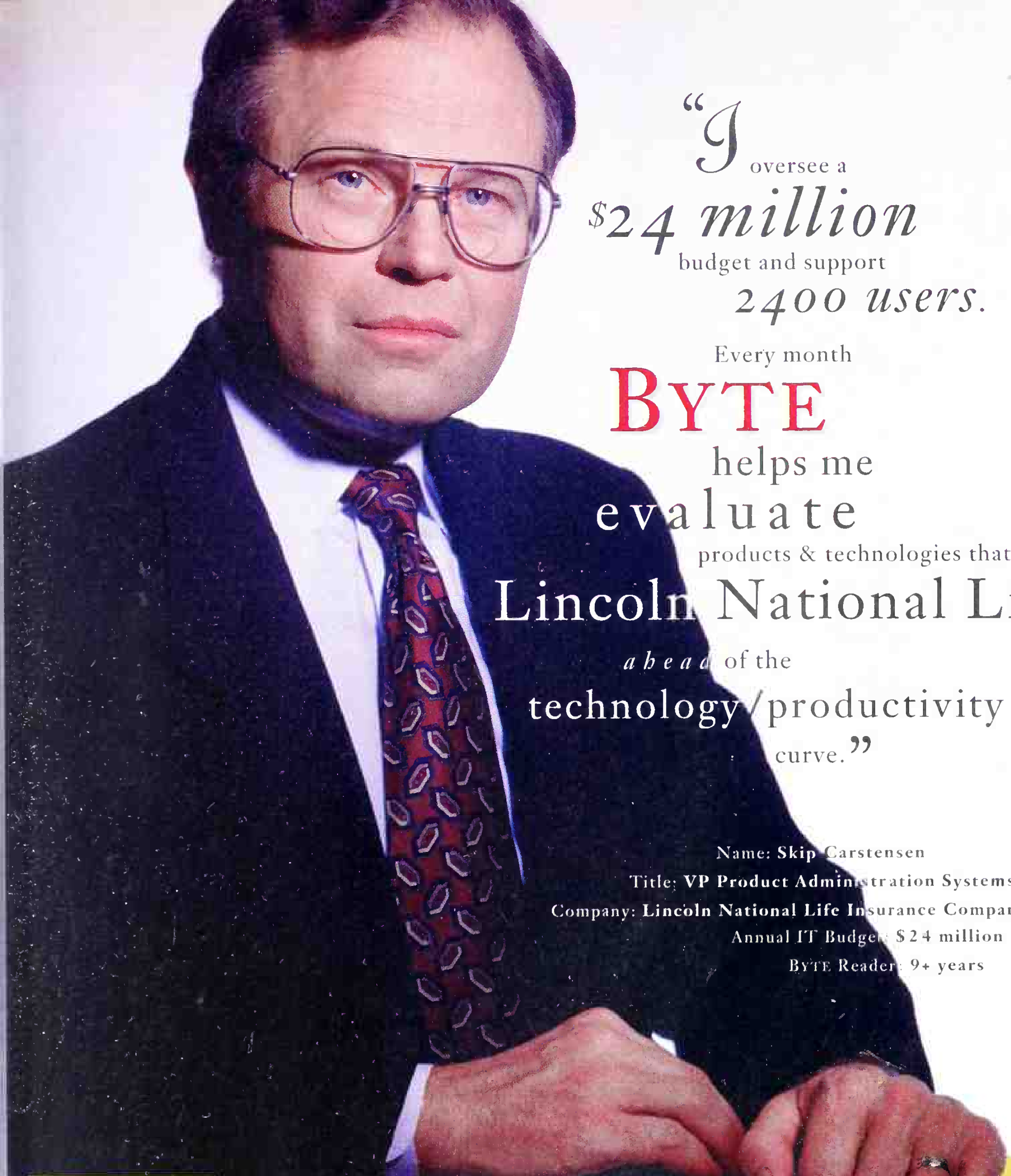
What's more, when it comes to
facts such as the high rate of black
welfare, the authors have to adm
isn't the explanation. They concede
example, that data suggest "that b
differ from whites or Latinos in
likelihood of being on welfare for re
that transcend both poverty and IQ

There are two inescapable co
sions. One is that IQ scores are not
tiny, especially for the vast majori
us—of whatever color—who are n
tarded. The other is that *The Bell C*
is a house of cards constructed to
a political agenda—an attack on
mative action, the welfare system
schools that fail the gifted. Those
deserve airing. As Herrnstein and
ray argue, a forthright discussi
these issues might even lead to b
social policy.

But to couch their opinions as sci
ic truth is downright dangerous. *The*
Curve could trigger insidious discri
tion. A century ago, doors closed on
ple striving for a better life just be
of the color of their skin. Now, the
ming will be justified on the groun
lower intelligence. That's not the ki
America we want to create.

BY JOHN C

Carey covered the last great flap
IQ in the early 1980s.



"I oversee a $24 million budget and support 2400 users. Every month BYTE helps me evaluate products & technologies that keep Lincoln National Life *ahead* of the technology/productivity curve."

Name: **Skip Carstensen**
Title: **VP Product Administration Systems**
Company: **Lincoln National Life Insurance Company**
Annual IT Budget: **$24 million**
BYTE Reader: **9+ years**

57 HIGH POWERED SYSTEMS REVIEWED
BYTE
First PowerPCs
Apple's Power Macintosh and IBM's Power Personal Systems
EXCLUSIVE
IBM's PowerPC product plans, plus Power Mac vs. Pentium benchmark results
CPU Wars: Should you move from CISC to RISC?
PLUS
Intel pushes the 80x86 envelope

BYTE readers set the agenda for corporate Information Technology purchases. Their recommendations can take your products to the top – or leave them at the door. Why? Because BYTE readers are the *technology experts.* They define the short list. They specify brands. They tell the buyers what to buy.

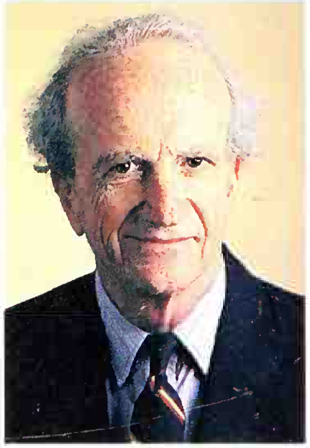
Want to get your product in front of Skip? Advertise in BYTE. And reach more than a half-million technology experts who drive the IT buy.

BYTE Because the *Experts* Decide.

See for Yourself: To find out more about the buying power of BYTE readers, call 603-924-2618 and ask to see our *Information Technology Buying Process* video.
BYTE, One Phoenix Mill Lane, Peterborough, NH 03458.

BY GARY S. BECKER

WHY SO MANY MICE ARE ROARING



MICHAEL L. ABRAMSON

SMALL nations are proliferating because economies can now prosper by producing niche goods and services for world markets

Gary S. Becker, the 1992 Nobel laureate, teaches at the University of Chicago and is a Fellow of the Hoover Institution

The number of nations has almost doubled in the past 50 years, to 191 independent states. The usual explanations for this multiplication, which invoke nationalism and ethnic conflicts, overlook a major reason: The economic cost of independence has been sharply lowered by the rapid growth in post-World War II international trade.

Since 1950, world imports and exports have grown at the remarkable rate of about 10% a year. Even during the economic slowdown of the 1980s, international trade continued to expand at 5% a year. The result has been that prosperity no longer depends on a large domestic economy—even tiny nations can hawk their wares in the world market.

In fact, small nations now have advantages in the competition for international markets. Economic efficiency requires them to concentrate on only a few products and services, so they often specialize in niches that are too small for large nations to fill. Because small economies are more homogeneous, they tend to suffer less from internal clashes among special interests. Their goods and services tend to be less exposed to trade quotas and other restrictions, since they don't amount to enough to affect producers in large countries. Similarly, economic alliances such as the European Union are usually willing to accept a smaller nation as a member since its production would not pose much of a competitive threat.

There are many examples showing that smallness is no handicap. Mauritius, a 720-square-mile island nation in the Indian Ocean, has prospered by concentrating on clothing exports and tourism. Hong Kong and Singapore began their striking economic development by specializing in importing goods from all over the world and distributing them to other parts of Asia. The volume of imports and exports in both still greatly exceeds their gross domestic product because so many of their combined 7.3 million inhabitants are active in trading goods and financial instruments.

The tiny principality of Monaco has 5,000 citizens and about 30,000 residents squeezed into 368 acres. It has carved out several specialized niches of international trade, becoming a gambling center and tax haven for tennis stars, businesspeople, and others with high incomes who move there to escape income and estate taxes. Outsiders have bid up land values to more than six times comparable property on French soil only a few yards away.

Hong Kong, Singapore, Monaco, and Mauritius are not just isolated examples of the advantages of being small. Since 1950, real per capita GDP has risen somewhat faster in smaller nations than it has in bigger ones. I believe that the economic success of many small economic entities has contributed to bringing into the open some of the festering ethnic conflicts that already existed around the world—between Kurds, Serbs, and Croats, as well as English- and French-speaking Canadians. Many of these groups concluded that they can do better economically by becoming separate nations and concentrating on producing specialized goods and services for the world economy.

SUCCESS STORY. Less than two years ago, the former state of Czechoslovakia split into the Czech Republic and Slovakia. Both have had problems adjusting to independence—they had been closely linked by a common currency, trade, and interrelated production networks. But the Czech Republic is already booming: It has low unemployment, rapid growth, and a reorientation of exports toward Western nations. Many Czechs opposed the breakup, but their economy became stronger when it was separated from a poorer Slovakia. That new nation will also thrive after privatization forces its entrepreneurs to learn how to compete in world markets.

The Czech experience can be duplicated in many other nations with ethnic and cultural differences. For example, it is commonly believed that French-speaking Quebec will decline economically if it separates from the rest of Canada. That view ignores the role international trade plays in economic success. After perhaps a severe adjustment period, Quebec could find a prosperous place in the world economy by trading with Canada, the U.S. and Mexico as well as the rest of Latin America. That separation could also help the economies of English-speaking Canada because it would reduce cultural battles and eliminate the confrontations with Quebec over the allocation of tax revenues and government expenditures.

Smallness can be an asset in the division of labor in the modern world, where economies are linked through international transactions. Nationalism is merely riding the crest of world trade to forge new nations.

Double time.

HP LaserJet 4V
Documents in half the time.

If your printer keeps you waiting too often, you're ready for the new HP LaserJet 4V printer. The one that can give you 16 pages per minute instead of the usual eight.

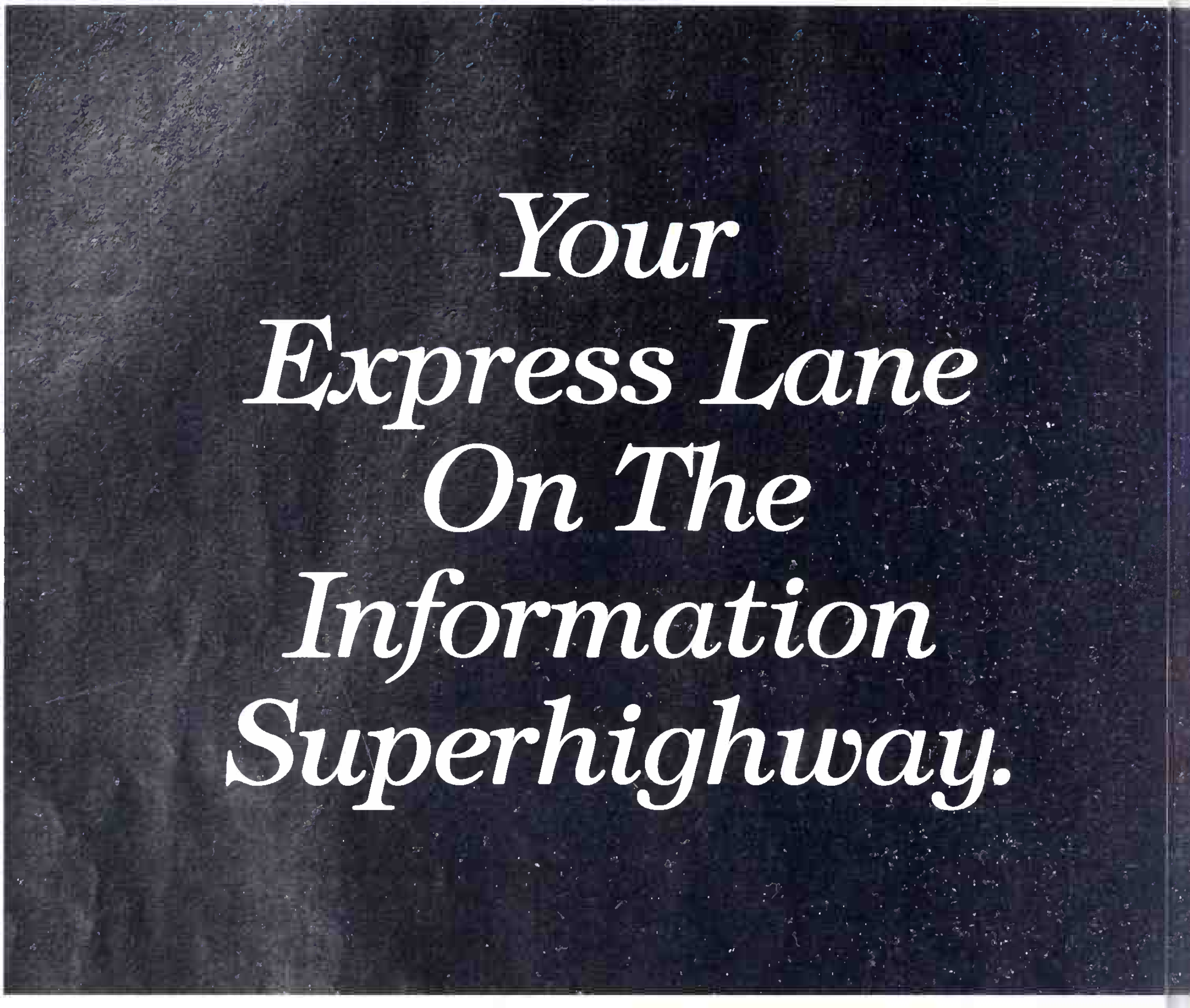
The LaserJet 4V handles a variety of paper sizes, including 11" x 17". It's got more memory. And it fits on a desktop. When you hit print, you get HP's true 600-dot-per-inch resolution. It's sharper. Crisper. Blacker. And only $2,449 U.S. list.

If you need to turn up the speed on your network, choose the LaserJet 4MV. Get your work in half the time it ordinarily takes. Just look in the Yellow Pages for the HP dealer nearest you.

You do your job. We'll do ours.
HP LaserJet Printers

HEWLETT® PACKARD

re information, call 1-800-LASERJET, Ext. 8572. In Canada call 1-800-387-3867, Ext. 8572. ©1994 Hewlett-Packard Company PE12460



Turn right at R/3. Today. And SAP will help you accelerate the interconnectivity of your enterpri on a global basis. SAP is ranked number one worldwide in client/server applications. Powered b the superior performance of R/3 — the first fully integrated client/server software. From sale manufacturing, finance to human resources, R/3 already helps manage and streamline*

S O F T W A R E T H A T R U N

MICHAEL L. ABRAMS

* Based on total worldwide client/server applications software and maintenance revenues as reported by International Data Corporation, April 1994. ©1994 SAP America, Inc.

usiness operations for over 1800 major corporations around the world. In fact, 9 of the top 10 rtune 500 companies count on SAP to put more people in the driver's seat with greater access to e information they need, enterprise-wide. So to find out just how our integrated client/server lutions can help you speed past your competition, call SAP ASAP at ***1-800-USA-1SAP, ext. 500.***

SAP

REAT ENTERPRISES™

BY GENE KORETZ

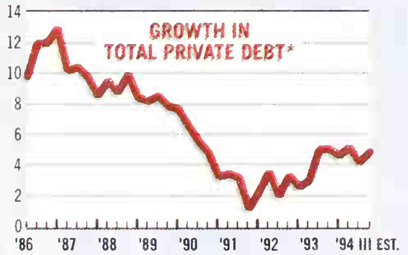
IS THE FED'S VISION MYOPIC?

It's ignoring sluggish debt growth

As it seeks to slow U. S. economic growth, the Federal Reserve is experiencing an acute example of what psychologists call "cognitive dissonance." On the one hand, the latest business data—from housing to exports to inventories—point to a robust economy. On the other, the money supply refuses to grow. Indeed, M2, the most closely watched monetary aggregate, fell in both August and September.

So what's a befuddled Fed to do? For the moment, it is trying to rein in the one area of financial activity that is taking off: bank lending. After declining for more than three years, banks' commercial and industrial loans have surged this year. And bank consumer loans, including installment credit, have also been expanding briskly.

U.S. DEBT SEEMS UNDER CONTROL



▲PERCENT INCREASE, SEASONALLY ADJUSTED ANNUAL RATE

*INCLUDES TOTAL CONSUMER DEBT AND BUSINESS (NONFINANCIAL) DEBT

DATA: FEDERAL RESERVE

Testifying before Congress recently, Fed Chairman Alan Greenspan pointedly noted that banks are relaxing their business-lending standards. And at the annual American Bankers Assn. meeting in October, he echoed the same theme.

The problem, warns economist Carol Stone of Nomura Securities International Inc., is that businesses and consumers are actually taking on less debt than the bank-lending data suggest. "While C&I lending has exploded recently," she notes, "commercial paper has been flat since June, and corporate bond issuance is also down this year." Thus, total business-debt growth is still relatively subdued.

Similarly, Stone notes that surging household installment credit has been offset by waning mortgage growth and other types of household borrowing. And economist Edward S. Hyman of ISI Group Inc. theorizes that much of the rise reflects two mitigating trends: growing convenience use of credit cards for small purchases, such as groceries and movie tickets, and heightened use of cards instead of checks to pay for big-ticket items in order to obtain frequent-flier miles and other discounts offered by card issuers.

In sum, observes Stone, it's hard to reconcile the modest pace of overall debt growth with fears of an overheating economy. "If the Fed decides to tighten further," she says, "the impact on economic activity could prove far more restrictive than it expects."

ERIC HOFFMANN/BW

WHERE THE LIVING IS PRICEY

Tokyo still heads the list

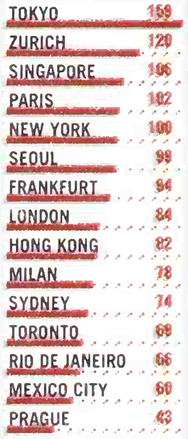
In light of the high-flying yen, it's hardly surprising that Tokyo continues to be one of the most expensive cities in the world. According to Union Bank of Switzerland's latest survey of 53 cities around the globe, the cost of living in dollars in Tokyo is about 59% higher than in New York and Paris, and 88% higher than in London, Amsterdam, Hong Kong, and Los Angeles.

The survey also indicates that a basket of 111 goods and services is currently cheapest in Caracas, Prague, Nairobi, and Bombay, where it can be purchased for less than half the tab in New York.

If your income is in line with local norms, on the other hand, Los Angeles, Zurich, Chicago, and Toronto are among the cheapest places to live. Not counting rent, typical after-tax earnings in those cities pack about 11% more purchasing power than in New York and 65% more than in London, Paris, and Stockholm. The least fortunate are residents of Manila, Nairobi, Caracas, and Lagos, whose net earnings buy only 3% to 15% of the items Los Angeles' working natives can afford.

LIVING COSTS AROUND THE GLOBE

COSTS OF A BASKET OF 111 GOODS AND SERVICES*



INDEX: NEW YORK=100, BASED ON 2ND QUARTER 1994 EXCHANGE RATES

*FOR A TYPICAL EUROPEAN FAMILY OF THREE (EXCLUDES RENT)

DATA: UNION BANK OF SWITZERLAND

BONFIRE OF THE PAYCHECK

Why the '80s were tough on men

There was little difference in h growth rates of gross natio product and employment in the 19 and the 1980s. But as a new study the National Commission for Emp ment Policy indicates, individual w ers, whose earnings typically ris they acquire more skills and exp ence, fared far less successfully in later decade.

Tracing the actual wage growth p ed by workers aged 22 to 46 at the s of each decade, the study found 24% of men suffered real earnings clines over the 1970s. In the 19 however, the losing share surge 36%—including 39% of those with s college and one-fifth of men with f year degrees. Further, whereas 9% of men in their early twentie the start of the 1970s experienced e ings declines during that decade, percent of young losers tripled to during the 1980s.

Women workers did better during 1980s—partly because their wage r improved, but mainly because t worked about 50% more hours a y Still, even with all that added ef some 30% of individual women wor wound up with lower annual earn at the end of the decade than they joyed when it began.

CHINA JOINS AN ELITE CLUB

It's doing $100 billion in exports

Last year, only nine nations—a them with advanced industrial ec omies—cranked out at least $100 bi worth of exports. But this year, economist Joseph P. Quinlan of Witter Reynolds Inc., a developing tion will join the club for the first t Helped by soaring foreign investm and by a surplus of cheap labor, Chi projected to boost its exports to ar $115 billion, up from $47.5 billion a cently as 1988.

That's not all. If one counts Taiw and Hong Kong's domestically prod exports, "Chinese" exports should about $232 billion this year, says lan—making "Greater China" the wo fourth-largest trading entity, after U. S., Japan, and Germany.

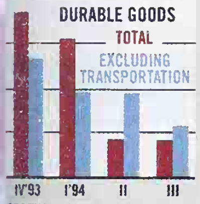
JAMES C. COOPER & KATHLEEN MADIGAN

OGIC WON'T DETER THE BOND IARKET'S SELF-FULFILLING PROPHECY

U.S. ECONOMY Last year, the Clinton Administration made a deal with the d market. It offered $500 billion in deficit cuts through 7 in exchange for lower long-term interest rates and tter economy. Now comes the powerful lesson: What bond market giveth, the bond market taketh away. espite mounting evidence that the economy is slowing n and inflation is under control, the bond market has hed the yield on the benchmark 30-year Treasury d to slightly more than 8% for the first time since , 1992. The yield has risen from the record low of %, which hit about this time last year, and it's well ve where it was before the Clinton economic team be- its budget-cutting efforts.

Back then, the White House argued that each tenth-of-a-point decline in the yield was like adding $10 billion in stimulus to the economy. Now, it's the bond market's revenge. The rate rise has drained away all of the stimulus last year's rate drop had added—and then some. And the economy will feel the negative effects in 1995.

SLOWER GROWTH
N FACTORY ORDERS



ERCENT CHANGE FROM
REVIOUS QUARTER

DATA: COMMERCE DEPT., BW

The trouble is, bond players don't believe that long-term rates have risen high gh to slow the economy and kill off the inflationary ssures they believe are now building. Until that hap- s, long rates will continue to rise.

ANWHILE, THE DATA should be allaying the bond ket's worst fears. But with its blinders firmly in place, market chose to ignore recent evidence on modest ory orders, falling consumer confidence, and slowing loyment costs (charts).

nstead, it focused on a 4.4% rise in September housing ts as a sign that the economy was overheating. It a knee-jerk reaction to that number that pushed the d yield above 8%. True, the increase was larger than ected, but there is less strength than first meets the Housing starts in the key single-family sector, up % in September, are below their March level and well w their December peak, as higher mortgage rates ttle away affordability.

uch of this year's housing activity has been in apart- t buildings. But that's more the result of the Admin- ation's restoration of tax breaks for low-income housing rather than a reflection of booming private-sector demand for co-ops and condos.

Builders surveys are increasingly downbeat about future demand, and new mortgage applications to buy a home in mid-October were below their September level, which was lower than in August. Sales of existing single-family homes managed a 1% gain in September, to an annual rate of 3.97 million, but that's still down from earlier this year. Overall activity should look weaker in coming months.

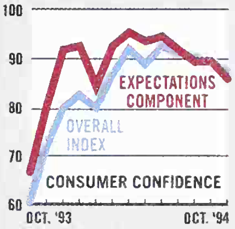
In addition, factory activity, while still on the rise, is losing steam compared with its pace earlier this year. Orders for durable goods were essentially unchanged in September, posting a scant 0.1% gain. That followed a 6.4% surge in August, fueled by a rise in auto-industry bookings.

But even excluding the volatile transportation sector, third-quarter bookings grew at the slowest rate in more than a year. Slower order growth is hardly a sign that industry is barreling down the road toward capacity limits. That road, according to the bond market's map, ends at higher inflation.

THE BOND MARKET'S worries about an overly robust economy don't jibe with the views of many consumers. On the contrary, consumer confidence fell in October for the fourth consecutive month. The Conference Board's index slipped two points, to 87.6. Although households' assessments of prevailing conditions have held up in recent months, their expectations for the future economic climate have been falling off for the past six months.

Uncertain employment conditions remain foremost on consumers' minds. An increasing number of households reported that jobs were "hard to get" in October, and the number of consumers who fear fewer jobs in coming months has been trending higher since June.

HOUSEHOLDS: LESS FAITH IN THE FUTURE



▲INDEX: 1985=100

DATA: CONFERENCE BOARD

Those fears, combined with higher interest rates, may already be curtailing some spending. The Conference Board also reported that buying plans were down sharply in October. Plans to buy a new home fell for the second consecutive month, as did intentions to purchase major appliances. Plans to buy a new automobile dropped for the third straight month. Indeed, the *Johnson Redbook* survey of department and chain store

ERIC HOFFMANN/BW

sales through mid-October shows receipts running about even with September.

If one number should have allayed the bond market's inflation worries, it was the Labor Dept.'s report on labor costs in the third quarter. Its employment cost index of wages and benefits for civilian workers rose a modest 0.7% last quarter, and the increase from a year ago was a tame 3.2%, matching the annual pace in the two previous quarters. Those rates are the smallest since Labor began collecting the data back in 1981.

The numbers show that, despite the more than 2 million jobs created this year, labor costs have not accelerated. Businesses' determination to wring more output from existing labor and plant capacity has kept labor costs down. And without faster rising wages and benefits, the wage-price spiral cannot get in gear.

Wages and salaries in private industry, about three-fourths of overall compensation, were up 2.9% from a year ago, little changed from their annual pace of the past two years. And benefits, up 4% from last year, remain in a declining trend.

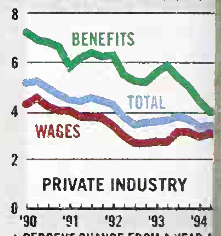
THE SLOWDOWN in benefits costs has been especially sharp among blue-collar workers in the goods-producing industries. That makes sense. Employment there, particularly in manufacturing, has barely grown this year, and many factories are continuing to employ part-time workers, to whom they are not required to pay benef

And despite this year's increased activity by organi labor, pressure from unions is almost nonexistent. Thi quarter labor contracts called for pay gains averag 0.9% in the first year and 1.9% per year for the life of contract. Those increases are below inflation and also l than the first-year hike of 2.6% and the full contra 2.8% increase agreed to the last time the same part bargained. The new contracts cover 348,000 worke

Right now, though, the bond market is not interested in this kind of low-inflation logic. It's also not interested in the Administration's recent crowing about the decline in the budget deficit from $254.7 billion in fiscal 1993 to $203 billion in 1994, and to a White House-projected $167 billion in 1995. That's old news to bond players.

What the bond market wants is a solid reason to change its bearish mindset. But u it is convinced, the market will keep pushing rates hi er to satisfy its urge for a slower, noninflationary eco my. So once again, Clinton—and the economy—find th selves at the mercy of the bond market. And this time, market is not in the mood to deal.

NO UPWARD PRESSU
ON LABOR COSTS



▲PERCENT CHANGE FROM A YEAR A

DATA: LABOR DEPT., BUSINESS WE

NORTH AMERICA

A NEW STABILITY IN MEXICO'S ECONOMY

After a small recession and the political turmoil of the past year, Mexico is ready to launch a solid recovery. The opening of its financial markets will bring in much needed funds. And the new government, under President-elect Ernesto Zedillo Ponce de Léon, assures continued moves in the direction of stabilizing the economy.

Mexico's fundamentals are improving: Productivity is rising, government finances remain near balance, and inflation is the lowest in 21 years. After showing almost no growth in 1993, the country's gross domestic product rose at a 2.2% annual rate in the first half of 1994, with better growth expected into 1995. That will create sorely needed jobs.

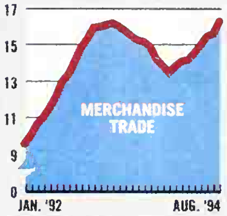
To help the economy, the government is systematically devaluing the peso against the dollar. This "crawling peg" depreciation has reined in inflation and boosted exports, especially to the U. S. Mexican goods exports have soared 17% in the first eight months of this year. Exports to the U. S. are up 24.1%.

Imports, however, are rising even faster, with imported goods up 20% so far this year. As a result, the merchandise trade deficit, $1.73 billion in August, is widening sharply (chart). Mexico's current account deficit stands at a hefty 6½% of GDP. Moreover, the deficit may worsen as exports sof ten in response to the U. S. slowdown.

Increased domestic output and investment would offset fewer ex ports. To that end, Mexico's high real interest rates must come down. Despite this year's 5% infla tion, the rate on 28-day Treasury bills is 13.33%. The Banco de Méx co has enough foreign reserves t hold short-term rates steady. An the entry of foreign banks into Mexico will cut the cost of long-term borrowing.

Equally important is the fact that Zedillo's upcoming inauguration on Dec. 1 has not caused a ru on reserves or a capital flight. It has been nearly 20 years since a Mexican president took power in such a stable economic environment.

MEXICO'S WORSENING
TRADE GAP



▲BILLIONS OF U.S. DOLLARS, 12-MONTH MOVING SUM

DATA: DRI/McGRAW-HILL, BUSINESS WEEK

ERIC HOFFMANN/BW

What makes you fall in love with the 1995 Galant? Meaningful luxury.

Those significant engineering advances and thoughtful details which become your favorite things about this automobile.

Big things. Like the smooth ride and polished handling of its sophisticated four-wheel multi-link suspension. The smooth, confident power of its 141-horsepower engine. The intelligent shifting of its Fuzzy Logic transmission.

Little things. Like ingenious storage areas in the doors and under the armrest. A rear seat that folds down completely,[*] providing carrying room, so a trip to the local lumber yard doesn't mean borrowing a truck.

Vital things, like standard dual air bags.[†] Highly protective things, like impact-absorbing crumple zones front and rear. And beautiful things. Like the very shape of the Galant. With a durable, lustrous DIAMOND COAT™[††] finish to help protect that beautiful shape.

The 1995 Mitsubishi Galant. Its starting price of $14,349[**] will be one more of your favorite things. Call 1-800-55MITSU for the Mitsubishi Motors Dealer nearest you.

MITSUBISHI
The New Thinking in Automobiles™

---

[*] Standard on ES and LS models. Not available on S model. [†] Air bags designed to supplement safety belts. [††] DIAMOND COAT is a trademark of PPG Industries, Inc. [**] **MSRP for Galant S** (Galant LS shown, MSRP of $20,269). Excluding taxes, title, license, registration fee, freight, dealer options, and charges. Prices may vary, actual price set by dealers.

Presenting the 1995 Mitsubishi Galant. Filled with your favorite things.

VAPOR LOCK AT GM

With the easy fixes made, is its turnaround stalling out?

The U. S. auto market is burning rubber. Fueled by red-hot domestic sales, Ford Motor Co. on Oct. 26 announced record third-quarter profits of $1.1 billion on revenues of $30.6 billion. Just two weeks before, Chrysler Corp. had posted record quarterly earnings, too, of $651 million on $11.7 billion in revenues. Little wonder, then, that Wall Street is still fuming over General Motors Corp.'s results. The world's biggest auto company, which reported on Oct. 20, earned just $552 million on sales of $34.5 billion—mainly because its core North American auto operations lost $328 million. In two disastrous days, GM's stock skidded 12%, to a new 12-month low near 41—and appeared likely to stay there for a while.

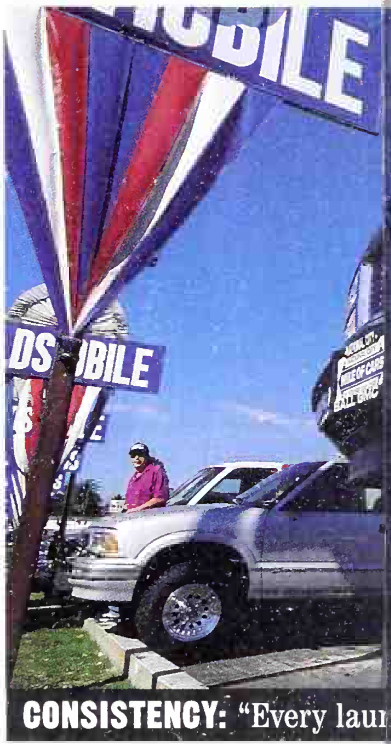
Triggering the sell-off: growing fears that GM's massive turnaround effort is stalling. After more than two years of strenuous cost-cutting, the company has slashed its blue-collar ranks by 20%, to 244,000 workers. Parts suppliers have coughed up some $4 billion in savings. But it's nowhere near enough. Managers now realize that the next round of improvements must come "within our own four walls," as Chief Financial Officer J. Michael Losh puts it—and that's where GM seems to be having trouble. "The low-hanging fruit has been picked," says analyst David Bradley of J. P. Morgan Securities Inc. "Now you've got to get the ladder out. And by the way, the wind is blowing."

A few of GM's rungs may be rickety, too. Most worrisome: The auto giant's rush to boost its lagging productivity is slackening. GM significantly cut the number of workers it needs to build a vehicle (chart). The average number of hours it spends per vehicle fell 12% in each of the past two years—reaching 31 hours last year, vs. domestic industry leader Ford's 24. But this year, Losh admits, GM's pace of improvement has fallen off.

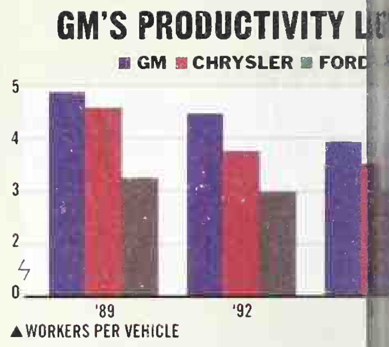
To be sure, the third quarter is typically Detroit's weakest. Assembly-line shutdowns for summer vacations and the switch to new models always take a toll on output. In addition, GM was hit by two strikes that pared the quarter's net earnings by $150 million. But it could have been much worse. Only an unexpected $200 million tax credit helped keep the company from spilling more red ink in North America. Even its international auto operations, a profits stronghold in the past, slid 40% from a year ago, although analysts expect the improving European economy to help solve that problem.

QUICK CHANGES. Now, with Losh hinting that the company's cost problems will continue to hit earnings in the fourth quarter, analysts are scrambling to slash their GM earnings estimates. Salomon Brothers' John V. Kirnan knocked $1.1 billion off his fourth-quarter forecast—lowering his projection to a profit of $1.1 billion on sales of $39 billion. He cut his 1995 estimate by 19%, to profits of $6.7 billion on revenues of $153 billion, and trimmed 1996's outlook by 14%, to profits of $9.4 billion on revenues of $161 billion. That would hardly be a disaster. But spiraling problems related to GM's productivity woes likely will keep it from matching Ford and Chrysler's performance.

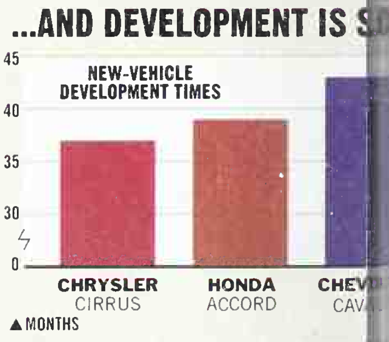
GM's problem is no longer old bugaboos such as quality and styling. New models such as the Oldsmobile Aurora and Chevrolet Blazer hold up well on those fronts. But when it has new models to sell, GM has botched its manufacturing startups. The latest is the slow launch of the new Chevrolet Cavalier. Last year it was the Aurora, the Chevy Cam and the Chevy Lumina. "There has b one consistent thing at General Mot says Furman Selz Inc. analyst Mary N. Keller. "Every launch is a disas Admits G. Richard Wagoner Jr., pr dent of GM's North American unit: "W lost some unit [sales] in crank-u



CONSISTENCY: "Every laun



GM'S PRODUCTIVITY L

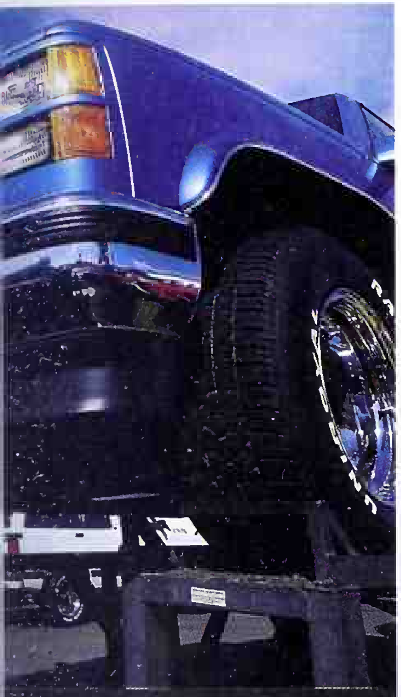


...AND DEVELOPMENT IS S

*EXCLUDES A ONE-YEAR DELAY CAUSED BY GM'S CAPITAL SHORTAG

DATA: HARBOUR & ASSOCIATES INC., COMPANY REPO

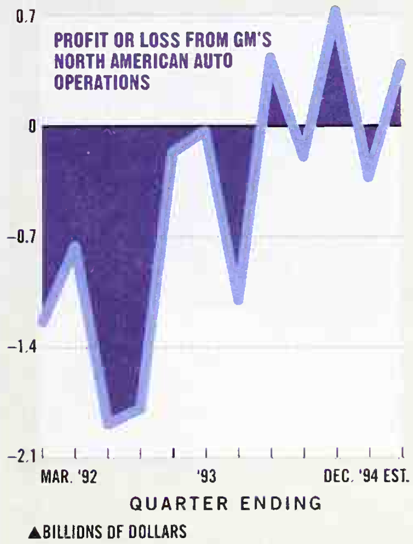
[illegible] BY ROBERT BURROUGHS, PETER YATES [illegible]



r," says one analyst

THE BOTTOM LINE

GM IS STRUGGLING TO STAY IN THE BLACK



DATA: COMPANY REPORTS, J.P. MORGAN SECURITIES INC.

E LINE IN FLINT: Labor unrest continues to dog GM

ndeed, the glitches cost GM dearly. ause of scheduled downtime alone— ations and model changeovers—it an aggregate 91 weeks of production ing the first nine months of 1994. goner won't say how much more was by factories that failed to meet edules. GM extended changeover times to install new, more flexible equipment, "so we can make faster changeovers in future," he says. He also says GM is restarting its factories slowly to ensure top quality.

Another problem is steep engineering costs. In addition to scrambling to meet new safety and environmental regulations, GM still spends too much on future products, Losh says. While Chrysler and Japanese carmakers develop new vehicles in about three years, it still takes GM nearly four. All told, for instance, GM spent 43 months getting the Cavalier out—not counting an additional one-year lag because it was short of cash in the late 1980s. "We need to shorten our product-development time and improve our efficiency," Wagoner says. The company has hired consultants A. T. Kearney to study the problem, and is promising analysts a report next spring on new streamlining plans.

HIGH HOPES. In some ways, even GM's labor unrest is tied to its productivity lag. Take the four-day strike in late September at its huge Flint (Mich.) facility. If GM could build cars faster, it wouldn't be demanding the heavy overtime that pushed exhausted Flint workers onto the picket line. Solving the strike cost GM plenty, too. It agreed to hire nearly 800 new workers there, and similar concessions will probably avert strikes at other overworked factories that were threatening walkouts. But while new jobs and profit-sharing for blue-collar workers have brought labor peace to Ford and Chrysler, GM's rocky turnaround could mean more strikes in the next few years.

GM's stock fell so far in part because Wall Street's expectations were high. After Chief Executive John F. Smith Jr. took charge in April, 1992, he and his crew of young turks began cutting costs at breakneck speed. Savings from plant closings, early retirements, and supplier price cuts often shot straight to the bottom line, generating profit improvements of roughly $1 billion per quarter for eight straight quarters, notes analyst Bradley. GM also is tackling tougher self-improvements, such as reducing the complexity of upcoming models to cut assembly time and designing future models to share more common parts, which could pay off eventually. But faith in GM's ability to do all that is running short.

Wagoner insists GM is continuing to learn from its latest mistakes. For instance, he says that poorly fitting metal parts delayed the Lumina launch. In the future, GM will try to iron out such problems by building prototypes sooner and involving suppliers earlier, he says.

But even Smith reckons GM is only about halfway turned around. Many analysts figure it still has three to five years to go, and they worry it will lose momentum. Wall Street's rebuke could help. "It got our attention," says Wagoner. But solving GM's problems may be harder than its brass ever expected.

By Kathleen Kerwin in Detroit

MARIO'S MAN: *Giuliani could get a c to call in if the governor is reelected*

NEW YORK

WHAT MADE GIULIANI JUMP SHIP

The New York mayor is redefining urban GOP politics

It was a bombshell fit for a snappy tabloid headline: "Rudy to GOP: Drop Dead." On Oct. 24, New York City's Republican Mayor Rudolph W. Giuliani stunned Gotham with an unpardonable act among party stalwarts: He endorsed a Democrat for governor over Republican George Pataki. Not just any Democrat, mind you, but the nemesis of conservatives everywhere: unrepentant liberal Mario M. Cuomo, who is locked in a tough struggle for a fourth term.

Is Hizzoner a hero, an ambitious political climber, or just plain nuts? Tongues were wagging. "This was one of the stupidest political maneuvers of my lifetime," fumes GOP strategist Anthony Fabrizio. "Giuliani could become the loneliest Republican in New York State."

CLEAR WARNING. Behind the scenes, political pros see far-reaching consequences in Giuliani's bold gambit. "For Republicans, this was a betrayal of the first degree. It's huge," says New York GOP consultant Jay Severin III. But he adds with a twinkle, "I don't see any downside. The upside? He's trying out a new political doctrine." True, Giuliani is making enemies of state Republican pols. But there's a clear warning for the GOP in his Cuomo endorsement: Unless Republicans propose solutions to end partisan gridlock, any gains from a 1994 backlash against President Clinton and Congress will be short-lived. "Giuliani is defining a new national role for a big-city Republican," says GOP pollster Frank I. Luntz. "He's endorsing policies, not people."

Witness the impromptu press conference called by Giuliani—a former prosecutor, the darling of Republicans, and a popular drawing card on the GOP circuit ever since he ousted incumbent Democrat David N. Dinkins a year ago. Giuliani mixed advocacy for his urban constituents—mostly Democrats at heart—with vitriol for Pataki's 10-year record in the state legislature of nonsupport for aid to the city. Giuliani blasted Pataki proposals designed to please suburban voters, such as a 25% cut in state income taxes over four years. The mayor argued that such cuts would lead to even less aid for his city.

ELECTION '94

The political fallout from Giuliani's announcement spread quickly. On Oct. 25, a Connecticut GOP lawmaker disin ed him from a local fund-raiser. A New York Republican partisans gea up for internecine warfare. Giulia visceral dislike of Republican New Y Senator Alfonse M. D'Amato, who ha picked the bland Pataki for the no nation, is well known in GOP circles, the feeling is mutual. "D'Amato's a v dictive S. O. B.," snickers L. Brent zell III, executive director of the C servative Victory Committee. "It'll interesting to see who calls for an vestigation of whom first."

In New York, Giuliani's popularit on the rise again (chart) because h seen as having the guts to tackle city's fiscal woes. There are plenty tackle, too. Debt-service costs are pected to climb from $2.5 billion year to $3.8 billion in 1998, as princ comes due on bonds sold during 1980s to pay for repair of the city's l neglected infrastructure. And spen keeps soaring: New York City has a lossal social-services caseload and a dition of providing expensive servi And now, with Wall Street hurting, city's economy threatens to trail the of the nation's even more than befo

LOW RISK. Giuliani, however, shows signs of swerving from his "tough l budget-slashing. Last May, to clos $2.3 billion deficit in the city's budget cut 15,000 jobs. That wasn't enough on Oct. 25, he announced an additi $1.1 billion in savings through spen cuts and by axing 7,600 more city through buyouts and attrition. Munic workers' unions have gone along, pre ring the plan to layoffs. And the De cratic-run City Council signaled it work with Giuliani on a comprom

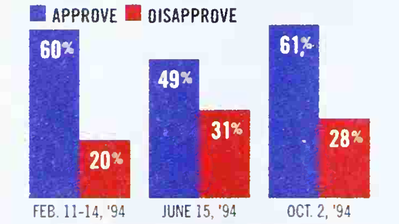
As savvy pols see it, Giuliani r little in dissing the GOP, even if Pa wins: Backing the party candid wouldn't stop the mayor and Pa from tangling. And if the endorsen helps Cuomo squeak through? It's a to call in from a grateful governor.

Of course, Giuliani may be helping own career, too. If he wants to run governor as a Republican, he'll ha better shot if Pataki is defeated. he's letting D'Amato know that he m choose instead to take on the senat 1998. But for now, his only camp theme is, "I love New York." And Yorkers are returning the sentim

By Douglas Harbrecht and L Light, with Richard S. Dunha Washington

RUDY ON A ROLL

With a "tough love" message for a troubled city, Giuliani's approval ratings are on the rise



DATA: *NEWSDAY*/GALLUP (FEB.) POLL OF 1,242 NEW YORK VOTERS, *NEW YORK TIMES*/CBS NEWS POLL OF 495 NEW YORK VOTERS

PHOTOGRAPH BY CHRISTOPHER BROWN/SABA. CHART BY ALBERTO MENA/BW

COMMENTARY

By Paul Magnusson

BILL THE GIANT DEFICIT-KILLER? NOT YET

It was supposed to be the day for proclaiming the Clinton economic mira-ele. On Oct. 24, the Presi-lent addressed the City Club of Cleveland, while hree of his top economic idvisers fanned out to nake their pitch. The big iews: New calculations show that last year's budget deficit dropped to $203 billion.

TAKING ALL THE CREDIT: *Clinton in Cleveland*

AP/WIDE WORLD

Voters might be forgiven if they're a little under-whelmed. Clinton was de-claring the deficit cut as he first step in "a compre-hensive economic strategy lesigned to empower American workers to com-pete and win in the 21st century." Yet the deficit-trimming amounted to only $52 billion from the previous year. The deficit for fiscal 1995 is pro-ected to fall again—to $167 billion—but that is still far too high for the ifth year of an economic recovery. If o much red ink can gush in good times, what will happen when imes get hard?

ELECTION '94

Failure has had nearly as big a hand in Clinton's deficit trimming as did his 1993 budget package. The deficit might not be falling if the President had been able to pass his ill-timed $16 billion emergency eco-nomic-stimulus package in early 1993 r his extravagant health-care pack-ge in 1994. "We need some reform f the health system, but Clinton's was the wrong policy and promised more than it could deliver" in cutting verall health costs, says Susan Ta-aka of the Committee for a Respon-ible Federal Budget.

BREAKING POINT. Clinton's own poli-y successes did matter in cutting he deficit, of course. The Adminis-ration's five-year, $433 billion defi-it-reduction plan passed in 1993 is Clinton's single biggest accomplish-ment so far, dwarfing all the fiscal-olicy work done during the Bush Administration. And although the ackage was flawed by too many tax ikes and too few spending cuts, it was about as big a program as Con-ress could swallow. After all, it assed with only a one-vote margin in both the Senate and House. And it was about as radical a surgery as the economy seemed able to tolerate at the time. "If Clinton had tried to push through a plan to get a surplus by now, we'd be in a depression and have no chance of a surplus any time soon," says Perry D. Quick, a top economist at Ernst & Young.

But that doesn't mean the job is done. The deficit will begin heading up in 1996, to $190 billion, and the cost of financing this accumulating debt is growing relentlessly. Interest on the debt already exceeds the total of all federal spending for education, science, law enforcement, transportation, housing, food stamps, and welfare. And because of the failure of any health-care reform, nothing has been done about runaway entitlement spending. Half of the expected increase in federal outlays over the next five years will come from higher federal spending on health-care costs.

And yet the urgency of the problem is matched only by Washington's reluctance to take the next step. That much became clear when Republicans got a copy of an internal memorandum, entitled "Big Choices," from Office of Management & Budget Director Alice M. Rivlin, that outlines the possible solutions. Republicans were "shocked, shocked!" to discover that the White House believes that further deficit slashing could require cutting into entitlements and raising taxes.

From here on, it gets tricky: More cuts mean Clinton must attack entitlements

STRONG ANALYSIS. Unfortunately, the Democrats panicked. The President backpedaled furiously. Clinton even claimed to a Cleveland radio station that the Rivlin memo simply cataloged changes that might be forced on a reluctant White House by irresponsible Republicans in Congress. Rivlin, a lifelong deficit hawk, had to disown her work as a mere what-if exercise. Senate Budget Chairman Jim Sasser (D-Tenn.), locked in a close race for reelection, wrote in to oppose cuts to Social Security, Medicaid, and home-mortgage-interest deductions "in the strongest possible terms."

In reality, Rivlin had merely done her job, producing a smart analysis of the problems ahead. In contrast to the phony math of the Republican Contract for America—for tax cuts and balanced budgets—Rivlin advised the Administration to "continue our established policy of explicit and paid-for proposals."

And that means cutting the budget where it is growing fastest—entitlements such as Social Security, Medicare, and farming subsidies. As White House Chief of Staff Leon E. Panetta noted on the same day as Clinton's Cleveland speech, "the deficit is not just a statistic. It is the most regressive tax in the country—a tax passed on to our children." If Clinton wants to return to Cleveland next year—and make some real news on the deficit—then he'll have to study Rivlin's Big Choices. Nothing else will work.

Magnusson covers economic policy from Washington.

BIG CLEANUP: *Continental is adjus*
schedules and cutting promotions

AIRLINES

WHY CONTINENTAL'S CEO FELL TO EARTH

Low-frills Continental Lite isn't exactly soaring

No coincidence. Late in the afternoon of Oct. 25, Continental Airlines Inc. reported disappointing quarterly earnings, acknowledging that its new low-fare Continental Lite operation was still losing money. Minutes later came another announcement: Chief Executive Robert R. Ferguson III would resign.

Ferguson, blunt and often prickly, was the main architect of Continental's dramatic attempt to mimic Southwest Airlines Co. with its own Continental Lite. The offshoot has been seen both inside and outside the company as perhaps the best chance to turn around troubled Continental. But remaking the airline, which has twice made its way through bankruptcy, is proving tougher than even the steely Ferguson might admit.

A SHORTFALL. Indeed, sources close to the carrier say that Chairman David Bonderman, whose investor group is the controlling shareholder, had become disappointed at the pace of financial improvement. Lately, they say, Bonderman signaled his growing lack of confidence in Ferguson, a former banker, by giving more responsibilities to President Gordon Bethune. Bonderman and Ferguson wouldn't comment, but director Jack T. Trotter says his "understanding" is that the chairman ultimately asked Ferguson to resign. For now, Bethune will assume most of the CEO's duties; Ferguson will remain a director.

Problems at Continental Lite appear to be at the heart of Bonderman's impatience. Top executives had expected the no-frills operation, which now makes up about 35% of the airline's domestic capacity, to break even in July and August—but concede that it fell short. "It's not a disaster by any means," says analyst Paul P. Karos of CS First Boston, but "it's not a home run." And overall earnings for the third quarter, $7.2 million excluding a favorable adjustment, disappointed investors, who had expected profits closer to $15 million.

Continental insists that its rebound is on track. Excluding adjustments, the third-quarter results represented a $46 million swing over the year-ago period. "It's pretty hard to say this is not a dramatic improvement," says Chief Financial Officer Daniel P. Garton.

CONFIDENCE IN FERGUSON WAS WANING

But Garton, like Trotter and other company officials, admits Continental Lite is not working as well as the airline once predicted. The problem, in short: "Their costs are still too high and their revenues are still too low," says a source close to the company.

For starters, some of Continental Lite's routes simply aren't traveled heavily enough to support frequ
Southwest-style flights. And Contin
tal Lite relies more heavily on one-s
and connecting flights than Southw
forcing more late flights and other o
ating problems, says analyst Philip I
galey at Standard & Poor's Securi
Inc. Dogged by such snags, the u
operating costs remain well above
level targeted by management.

LACK OF IDENTITY. In addition, ri
such as USAir Inc. and Delta Air L
Inc. have responded more aggressi
to Lite fares than Continental expec
Given a choice, consumers are less
ly to choose Continental, which h
higher rate of customer complaints
has been a bigger dogfight than
might have planned for," agrees Gar
Southwest, in contrast, is known
dominating markets and driving
competition, allowing it to build up
quent flights and push down unit c

Some observers also criticize C
nental's marketing efforts. When
no-frills service was first launch
year ago, it lacked a distinct nam
identity, missing its chance to ma
splash. Now, Continental is tryin
sell three "brands" at once—Lite, a
mium international service, and its
traditional long-haul domestic fli
The effect: confusion. "You cannot b
things to all people," says one riva

Garton says only 20% of Contin
Lite's routes are losing money. T
dress those problems, the airline wi
just schedules on Oct. 30—redu
flights on such marg
routes as Dayton-Gree
ro, N. C., and pulling o
other markets altoge
Except in markets wh
competes directly
Southwest, it has
dumped its "Add-a-p
add-a-pal" gimmick, v
allowed two passenge
fly for the price of one

Garton says such ef
should make Contin
Lite profitable by the
quarter of next year.
lysts are skeptical but
that after virtually dismantling it
profitable Denver hub, the carrier
redeploy its aircraft somewhere. "I
think they have much choice b
press ahead," says Baggaley. No
up to Bethune—or some permane
placement—to prove that a new le
can make the old game plan w

By Wendy Zellner in D

(TOP TO BOTTOM) PHOTOGRAPHS BY STEVE GOLDSTEIN; PAM FRANC

AN ARTHUR RYAN EINVENT THE ROCK?

ubled insurer Prudential is pinning its hopes on a new CEO

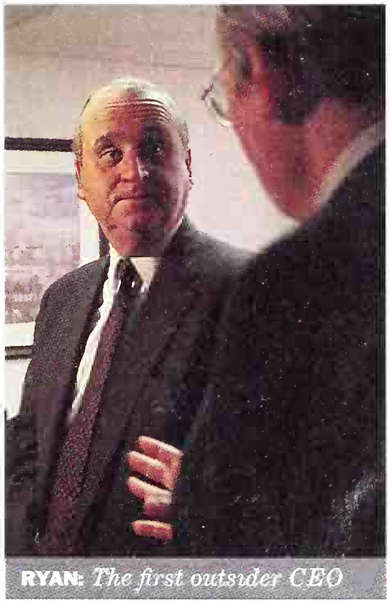
he Rock may be heading for a shake-
up. On Oct. 13, Prudential Insurance
Co. of America recruited an outsid-
hief executive for the first time in its
year history, tapping Chase Man-
an Bank President Arthur F. Ryan
eplace Robert C. Winters. "He is go-
to be a terrific addition here, in
s of a different perspective," says
tha Clark Goss, a senior vice-presi-
at Prudential.

e also may presage a reshaping of
ation's largest insurer. Analysts and
ultants who have worked with the
pany expect Ryan to restructure,
osts, and, perhaps, pull the plug on
rofitable businesses. Layoffs and
agement shuffling could follow.
rudential could use new blood. In
ast decade, it has taken brutal hits
catastrophe-insurance claims. And
year, it could pay out close to $1.1
n to settle claims stemming from
oper sales of limited partnerships
ts brokerage subsidiary. Through
h of the turmoil, Winters, 62, who
d the company in 1953 and spent
ntire professional life there, has
a low profile.

t sources close to the company say
this spring, the board, whose mem-
include former Federal Reserve
rman Paul A. Volcker and former
k & Co. CEO P. Roy Vagelos, finally
restive—and began to push for new
ership. Donald E. Procknow, who
led the board's search committee,
Winters was in no way pressured
ave. In an internal memo, Winters
employees he had long intended to
e before age 65.

HWORK. Ryan, 52, says he got a call
t the job roughly a month ago and
led to accept it on Oct. 12. "What at-
ted me was the size, the market
e, the name," Ryan says. Certainly,
well qualified. At Chase, he over-
the marketing of mutual funds and
ance, both important businesses
he Pru. His technology expertise
d a large sales operation at Control
Corp. before joining Chase's data-
essing unit in 1972) will help if Prudential expands its asset-management business. And he oversaw numerous asset sales and staff reductions of nearly 8,000, preparing him for the trimming Prudential may need.

Where Chase is on the rebound, though, Prudential is slipping. It has grown into a sprawling empire with $373 billion in assets under management and businesses ranging from securities structuring to individual policy sales. Its complex structure resembles a patchwork quilt: The asset-management group alone includes 20 legal entities.



RYAN: *The first outsider CEO*

Prudential has begun taking steps to boost efficiency, bringing in Coopers & Lybrand, McKinsey, Deloitte & Touche, and other consultants. Last spring, it hired E. Gerald Corrigan, ex-president of the Federal Reserve Bank of New York and now chairman of international advisers at Goldman, Sachs & Co., to help revamp the asset-management group.

Still, Ryan will have plenty to do. First, he must determine which businesses to focus on. Retirement-plan management should be high on the list, says Burton Greenwald, managing director of consulting firm B. J. Greenwald Associates: "Even though they have a huge presence in the pension market, they've completely missed the boat on 401(k)" plan management.

Ryan also may have to shed or shut down businesses. Prudential has been trying for over a year to sell its reinsurance business, hit hard by claims from natural disasters. And its property and casualty units required a $1 billion cash infusion after Hurricane Andrew. "The track record of the company doesn't necessarily justify keeping the property/casualty operation," says David Havens, an analyst at Standard & Poor's. Then there is Prudential Securities, the locus of Pru's limited-partnership scandal. Industry observers say the unit's asset-management business fits with the parent's goals; other operations, though, have less synergy.

Ryan may face opposition from old-guard execs and agents resentful of the imported boss. But he's adept, colleagues say, at developing talent. "When you get technical skills and people skills, that's about as good as it gets," says Corrigan. Adds Chase CEO Thomas G. Labrecque, who promoted three executive vice-presidents to share Ryan's responsibilities on top of their existing jobs: "Art is a hell of a talent. On the other hand, we now have a lot of talented people," thanks partly to Ryan's staff development.

Even with new leadership, though, a company that insures one in five Americans won't turn around overnight. "You have a supertanker trying to change directions," says Greenwald. That still beats a rock mired in the mud.

By Kelley Holland and Suzanne Woolley in New York

TO-DO AT THE PRU

The challenges facing new Chief Executive Arthur Ryan:

SELL ASSETS Ryan must consider getting rid of or restructuring subsidiaries such as Prudential Reinsurance and scandal-ridden Prudential Securities.

REBUILD MORALE Thousands of agents have been dispirited by Prudential's well-publicized ills. Ryan has to soothe them—and the disgruntled executives passed over for the top spot. Look for a possible management shakeup.

REFOCUS Prudential may build its fast-growing 401(k) fund management and mutual-fund businesses to balance cyclical insurance swings. It needs new capital to fund a vibrant managed-care operation.

yan should be prepared for the slimming-down the Pru
ay require—he oversaw nearly 8,000 job cuts at Chase

BOB SACHA

TELECOMMUNICATIONS

A WEDDING OF 'THE CAPITALLY INFIRM WITH THE FINANCIALLY WEAK'?

The TCI-Sprint alliance has no shortage of skeptics

Just over a year ago, John C. Malone took the stage at a New York hotel to announce the largest communications deal in American history: the $21.4 billion sale of cable giant Tele-Communications Inc. to Bell Atlantic Corp. On Oct. 25, the president of TCI, having left Bell Atlantic at the altar, was back in New York with another deal: TCI and two other cable companies are teaming up with Sprint Corp. to offer local and long-distance phone service, cable TV, and wireless communications—all in a single package.

But if last year's deal was the corporate equivalent of *Jurassic Park*, Malone's latest offering is more like a Merchant-Ivory production: a smooth, well-crafted alliance that should ruffle few feathers in Washington. "We're coming in as a new competitor in a monopoly industry," says Malone, referring to the $78 billion local phone industry. "This is the side of angels."

Judging by Wall Street's response to the Sprint alliance, it may prefer the old, more devilish Malone. George Reed-Dellinger, an analyst at NatWest Securities Corp., says the deal—pairing the No. 3 long-distance provider with three leading cable operators—is far less potent than Bell Atlantic-TCI. "It's a marriage of the capitally infirm with the financially weak," he declares.

Overly harsh? Maybe. But it underscores how much has changed for Malone since he lobbed his cherry bomb a year ago. TCI, with its onerous debt load, still needs a well-heeled telephone partner to break into the local phone business. But Malone is no longer choosing among multibillion-dollar Baby Bell offers. Cable reregulation has made TCI less valuable, and the Bells seem ready to plunge into video services without cable partners.

UNDER SCRUTINY. AT&T also has avoided TCI, while MCI Communications Corp. has eschewed any partners for now. So Malone and his cable colleagues, Comcast Corp. and Cox Enterprises Inc., ended up with the smallest of the long-distance players: Sprint. The partners are organizing a joint venture to bid for licenses to offer personal communications services (PCS), a form of wireless communications, in addition to other cable and phone services.

If this seems less ambitious than the Bell Atlantic merger, it may be because the businesses that drove the earlier deal—movies on demand and home shopping—are still years away from generating huge profits. Wireless communications has a more immediate payoff. Even so, the Sprint alliance faces its own regulatory hurdles. Only six states allow cable companies to compete in the phone business. "It's hard to call that a level playing field," says Marc B. Nathanson, chairman of Falcon Cable Systems Co., a large operator.

Malone has good reason to tread lightly with government regulators. Two other recent TCI deals are currently under scrutiny by antitrust experts at the Federal Trade Commission: its planned takeover, with Comcast, of home-shopping service QVC Inc. and Malone's Aug. 8 deal to buy Norfolk-based TeleCable Corp. for $1.6 billion.

In the QVC case, TCI already owns a controlling interest in the compa archrival, Home Shopping Network As part of the takeover of QVC, Ma would increase his stake to 43% f 23%. With such power, the FTC fears he could swamp fledgling home-shopi ventures. In the TeleCable case, acquisition would give it a "cluste cable systems in markets such as las, Kansas City, and Topeka. FTC cials worry that such concentrations discourage new competitors.

PROVOCATEUR. The FTC could co Malone to divest one of his home-s ping stakes. He would be less like accept an adverse ruling in the T Cable case. Telephone companies says, have long practiced the same of clustering the cable industry now siders cost effective: "To say that operators can't align themselves other cable operators is crazy."

Sprint.
COMCAST CORPORATION

MALONE WANTS A QUICK PAYOFF IN WIRELESS

LISA QUIÑONES/BLACK STAR

> **MAKING NO WAVES** "We're coming in as a new competitor in a monopoly industry. This is the side of angels"
>
> — TCI PRESIDENT AND CEO JOHN MAL

That's the old John Malone, full free marketeer and part-time pro teur. Indeed, after praising his S deal as procompetitive, Malone cou resist adding: "I like monopolies idea that we could put TCI and Be lantic together and preserve a monopoly posture was kind of ap ing to me." Just one more sign Malone's latest deal is more an ac modation than a triumph.

By Mark Landler in New Yor
Ronald Grover in Los Angeles,
Catherine Yang in Washington

We're bringing you an audit that focuses on where you want to go, not just where you've been.

An audit that only looks back on the past won't elp you move ahead—especially in today's turbulent usiness world.

That's where Arthur Andersen can help. While thers audit your numbers—Arthur Andersen audits our business. With new measurements. Better edback on controls. Plus, creative ideas to help ou improve performance.

Experienced Arthur Andersen auditors compare our controls and operating processes to the best in e world using the proprietary Global Best Practices nowledge base. Available *only* to Arthur Andersen rofessionals, the Global Best Practices knowledge base constantly updated. In these professionals' trained ands, it's an unequaled resource.

Arthur Andersen auditors can then share insight with you and help you discover innovative ways to improve your company's processes and enhance performance.

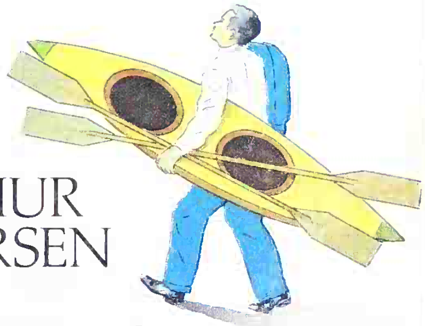
Find out how you can get more from your audits. To discuss with us personally how Global Best Practices can help you move your company ahead, call your local Arthur Andersen office, today.

Best Practices.
Putting insight
into practice.™

ARTHUR
ANDERSEN

994 Arthur Andersen, Arthur Andersen & Co, SC. All rights reserved.

ARTHUR ANDERSEN & CO, SC



DRUGS

WHINING ALL THE WAY TO THE BANK

Sales pose a political problem for breast-beating drugmakers

For more than a year, drug executives have been talking a gloomy game. Between the growth of managed care and the specter of health-care reform, they've been lamenting the end of the industry's glory days.

Tough times? Hardly. As third-quarter results roll in, many big drug companies are reporting banner sales and earnings. And that could renew calls for reform of the drug industry.

PROZAC NATION. The latest numbers are impressive (table). Once downtrodden Eli Lilly & Co. posted an 18.7% gain in third-quarter total sales, to $1.8 billion. Paced by a 21.2% gain in drug sales, Johnson & Johnson boosted its quarterly sales 15%, to $4 billion. And Merck & Co. had a 49% gain, to $3.8 billion, mainly because of its acquisition of Medco Containment Services Inc. Even without Medco, Merck's sales would have been up 15%. Profits also were generally strong: J&J was up 16%, to $525 million; Lilly 8%, to $319 million; and Merck 11%, to $785 million.

A major factor in the industry's sudden pickup: a surge in sales of antidepressant drugs such as Lilly's Prozac. Prozac had a staggering 74% rise in third-quarter sales, to $545 million. That was in part because wholesalers were stocking up to beat a Sept. 21 price hike. But analysts figure Prozac look-alikes from Pfizer Inc. and SmithKline Beecham also logged gains of about 50%.

The Drug Boom

	3RD-QUARTER SALES BILLIONS	INCREASE FROM PRIOR YEAR
JOHNSON & JOHNSON	$4.04	15%
ELI LILLY & CO.	1.82	19
MERCK & CO.*	3.79	49
PFIZER INC.	2.07	11
SCHERING-PLOUGH	1.13	6
DRUG INDUSTRY**	21.18	15

*1994 numbers include Medco acquisition

**11 major companies

DATA: STANDARD & POOR'S COMPUSTAT, COMPANY REPORTS

Plenty of other new products sold well, too. J&J's schizophrenia drug, Risperdal, which is safer and cheaper than rivals', has logged more than $100 million in sales since its February launch. Pfizer got a boost from a half-dozen new products. And Schering-Plough's healthy results largely came from gains by Claritin, a knockoff of Marion Merrell Dow Inc.'s antihistamine, Seldane.

Still, the drug industry's hot quarter is sure to spark controversy. Critics say Prozac and other antidepressants are being overused. Others contend that the industry is overstating its woes to avoid reform. "The strength of the industry's performance this quarter raises doubts as to whether it is truly in a crisis, says Senator David H. Pryor (D-Ark.).

Drugmakers without big new blockbusters are far less perky. Upjohn Co.'s sales slipped 4%, to $89 million, while net profits before restructuring charges slid 18%, to $126 million. But given how well the winners are doing, drugmakers may have to counter renewed charges that they're too healthy for the public's good.

By Joseph Weber in Philadelphia

CONTROVERSIES

BEHIND *THE BELL CURVE*

The Pioneer Fund backs even more racist-rousing research

If you think that *The Bell Curve*, a new book on the explosive subject of intelligence and race, is inflammatory (page 16), consider the conclusions of the scientists whose work figures in it. *The Bell Curve* merely frets that growing black and immigrant populations are lowering the average brain power of America. Psychologist J. Philippe Rushton of the University of Western Ontario goes much further. Not only are blacks dumber, he argues, but they also sport oversized genitals and tend to engage in indiscriminate sex. Or consider the views of the late Nobel laureate William Shockley, who suggested that blacks should be paid to be voluntarily sterilized.

Rushton, Shockley, and a handful of other academic researchers share more than debatable opinions. They—and their most controversial work—all have been funded by an obscure New York City group called the Pioneer Fund Inc. Co-founded by some prominent eugenicists in 1937, the fund's stated purposes were to study human genetics and encourage reproduction of descendants of "white persons who settled in the original thirteen colonies."

NOBELIST SHOCKLEY

Since then, the $5 million foundation has quietly handed out money for a wide range of studies on genetic differences. Only now is the Pioneer Fund "getting the exposure it should have gotten a long time ago," says Rabbi Abraham Cooper of the Simon Wiesenthal Center in Los Angeles. The catalyst for the scrutiny: *The Bell Curve*'s use of the Pioneer-funded research of those scientists and a California proposition to limit the rights of illegal immigrants. Opponents say Pioneer helped fund the work of the co-author of the initiative.

To critics such as Cooper, even the $700,000 a year that Pioneer doles out has a dangerous impact. By funding dubious studies that wouldn't get support otherwise, "it gives a veneer of respectability to the research," he says. It also helps feed the fires of eugenics, the belief that selective breeding can improve populations, and the often-related concept that whites are superior.

"OFF THE WALL." Preposterous, counters Harry F. Weyher, the corporate tax lawyer who serves as the unpaid president of the Pioneer Fund, which is backed by five trustees, mostly lawyers and businessmen. "Ninety-nine percent of what you hear about the fund is off the wall," Weyher fumes. Pioneer hasn't backed the California immigration initiative, he says, or funded any eugenics research. Instead, he says, its main thrust is simply learning about human genetics to "conserve the population quality" of the U.S. And in 1985, he points out, Pioneer deleted the word "white" from its charter.

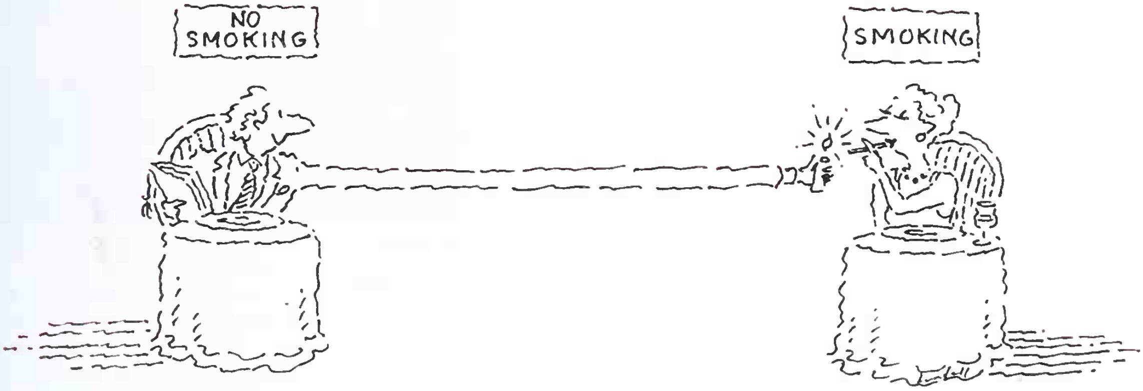
Weyher insists that the fund plays a crucial role by starting up research too controversial for any other organizations, such as a study at the University of Minnesota that searches for gene-caused similarities in twins who are raised apart. Weyher adds that only a few of Pioneer's projects touch on race.

That may be true. But those also are the studies that critics say fuel the worst prejudices in America.

By John Carey in Washington

Our position, word by word.

Courtesy



There are those who would have you believe that courtesy is a thing of the past — that smokers and nonsmokers have to be forced, through rules and regulations, to behave politely.

We say they're wrong.

At Philip Morris, we believe that common courtesy and mutual respect are still the best ways for people to resolve their differences.

By respecting each other's rights and preferences, both groups can easily work things out.

Smokers can ask before they light up.

And nonsmokers can recognize that smokers have a right to enjoy a cigarette — especially in separate, designated smoking areas.

That's it.

It shouldn't be a big problem. Not as long as we all recognize that, given a chance, people will prove that common courtesy still works.

For a free copy of our booklet, *Smoking Issues*, which contains more information about this subject, as well as other issues relating to smoking, please call us at 1-800-852-3445, Ext. 217.

PHILIP MORRIS U.S.A.

We want you to know where we stand.

Facts Matter In a recent USA TODAY/CNN poll among both smokers and nonsmokers, a majority of respondents said they would allow someone to smoke at their table in a restaurant.

© 1994 Philip Morris Inc

BASEBALL

HAS BASEBALL FOUND ITS CLEANUP MAN?

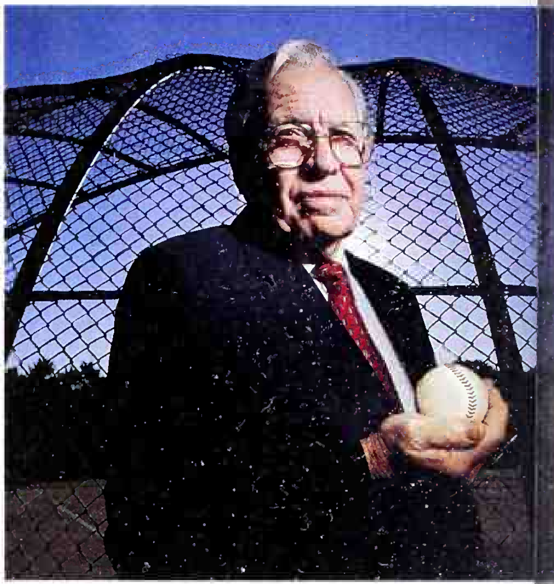
Bill Usery has a history of solving bitter disputes

If anyone can solve the Major League Baseball strike, it just might be William J. Usery Jr., the legendary negotiator called in by the Clinton Administration in mid-October. The wily, 70-year-old ex-Labor Secretary has resolved plenty of other stormy conflicts, including a 1990 walkout at Pittston Corp. and last year's coal strike. "If there's a deal both sides can agree on, he'll help them find it," says Pittston Chief Executive Joseph C. Farrell. Adds Steven Schlossberg, a former official with the International Labor Organization: "It's a rare person who can be paid by the employer, as Usery is in most cases, and be trusted by the union."

> "I've seen him mad, yelling and screaming. He's human, ain't he? But he never does that when both parties are present, only when he's with you in private."
>
> **JOHN F. PETERPAUL**
>
> *Former machinists union leader*

What's Usery's plan? No baseball expert (but a devoted Atlanta Braves fan), he has spent most of his time so far getting to know the owners' and players' reps, as well as the issues. He called an initial meeting with both sides on Oct. 19 to discuss how to get the negotiations going again and since then has met separately with each side. Joint sessions are likely to start in early November. Management, at least, is optimistic that he can forge a compromise. "No one goes through two months of a strike without saying, 'Gee, the assumptions I made when I started have changed, and I need to look again,'" says Charles O'Connor, the owners' chief outside lawyer. "Usery has the experience to identify the common ground between us."

What kind of guy did Clinton choose to save the national pastime? Raised in Milledgeville, Ga., by blue-collar parents, Usery never graduated from college. He joined the International Association of Machinists (IAM) almost by accident during an organizing drive at Armstrong Corp. He worked his way up the union and gained national attention in the early 1960s by negotiating pacts for IAM mechanics at Cape Canaveral. In 1969, he was asked to join President Nixon's Labor Dept. and later headed its federal mediation service. In 1976, President Ford named Usery his Labor Secretary.



KATHERINE LAMBERT

AT BAT: *Usery is no baseball guru, just a Braves*

ORNERY. Since 1977, Usery has worked out of a small Washington office as a for-hire peacemaker. His method: Wear down both sides with talk. He'll regale negotiators with anecdotes of Ford-era Cabinet meetings one minute, then split them apart for separate talks. "I've seen him mad, yelling and screaming," says John F. Peterpaul, who until recently headed the IAM's airline unit. "He's human, ain't he? But he never does that when both parties are present, only when he's with you in private."

The Pittston talks show how ornery Usery can be. After a bloody nine-month strike over job security and retiree health care, he kept everyone going around the clock for five straight days, then broke for a day and went back for four more. "He can turn you off with his nonstop talk sometimes," says former National Mediation Board Chairman Walter Wallace. "Many times, I said to him, 'Bill, cut the bull, let's get on with it.' But it's one of his techniques."

Of course, even Usery can't solve everything. He hasn't brought peace to Deere & Co., where management
the auto workers can't forge a new
tract. And "the saddest day of my
came, he says, when he failed to me
a deal between Eastern Air Lines
and its unions in 1986. The company
sold to labor's nemesis, Frank A.
renzo. Still, the incident demonstr
Usery's ability to stay on every
good side. Even though he continu
work for Lorenzo as Eastern's labo
viser, he remained in his former un
good graces, Peterpaul says.

> "He can turn you off with his nonstop talk sometimes. Many times, I said to him, 'Bill, cut the bull, let's get on with it.' But it's one of his techniques."
>
> **WALTER WALLACE**
>
> *Former National Mediation Board chairman*

To end the baseball strike, Usery
must get the teams' 28 squabbling
ers to adopt a common position. "T
a dispute that cries out for respon
collective bargaining," Usery s
Players' reps say they remain sk
cal that Usery can work any mira
But there already are some hints
the owners may give ground. Ric
Ravitch, the clubs' labor negoti
says that owners may not unilate
impose a salary cap right away, as
had been expected to do. Instea
wants to see if Usery can prod
deal. "We thought that if we sh
the union we must have an econ
change, they'd come to us," says O'
nor. "The union thought owners
cave if we lost the World Series.
we both have to reevaluate."

The sides remain far apart. But U
tends to find hopeful signs in the ti
openings. "I hear a 'maybe' in e
'no,'" he says. If the past is any in
tor, once the bargaining gets dow
dirty, Bill Usery will turn a few of
maybes into an accord that ends
ball's worst-ever imbroglio.

By Aaron Bernstein in New

SHARP
WINNING
GAME PLAN
COPIER VIDEO
SHARP SD-3075

"THE MOST RELIABLE COPIER EVER TO PLAY THE GAME JUST GOT BETTER."

RICK PITINO, CHAMPIONSHIP COACH

Whether you're crashing the boards or chairman of the board, you need a big producer you can rely on. In business, that's a Sharp Master Series high-volume copier/duplicator. The SD-3075 is the most reliable high-volume copier ever tested by Buyers Lab. And at 75 copies per minute, it was the first copier tested that produced over a million copies without any unscheduled service.

From this winning tradition comes the new SD-3062. It produces 62 copies per minute and finishes multiple sets of documents at the touch of a button. All of which saves time and ultimately, money.

To see how the right Sharp copier can be a big time player for you, call for a free copy of Sharp's new Winning Game Plan Video.

FREE VIDEO

Or fax 1-800-3-SHARP-3.

YOU NEED A WINNING GAME PLAN.
CALL 1-800-BE-SHARP

SHARP
FROM SHARP MINDS
COME SHARP PRODUCTS™

CD

COPIERS • FACSIMILE • LASER PRINTERS • NOTEBOOK COMPUTERS • COLOR SCANNERS • CASH REGISTERS • CALCULATORS • WIZARD® ORGANIZERS

© 1994 Sharp Electronics Corporation • Models Shown: SD-3075, SD-3062 • Buyers Laboratory Inc. Independent Testing From 1993 Study. Report Available Upon Request.

PEOPLE

THIS BAILOUT COULD COST IACOCCA A BUNDLE

Lee's divorce is already ugly. It's about to get expensive

Darrien Iacocca thought husband Lee might slow down when he finally quit the top job at Chrysler Corp. in 1992. But alas, a mellow retiree's life of mixed doubles and bridge with the neighbors was not to be: The world's best-paid car salesman just kept right on going, jetting around the globe to pull together a fledgling casino and entertainment empire.

That's the most irreconcilable difference cited by Darrien in an ever-uglier divorce case that has dissolved into threats, accusations of spying, and—most important—squabbles over Lee's fortune, pegged by his wife at more than $100 million. Darrien, a 55-year-old Los Angeles restaurateur who became Lee's third wife in March, 1991, wants dibs on one or more of the couple's five posh homes, as well as a chunk of the $21 million or more the cigar-chomping former auto honcho earned while they were still together.

The big question is, how big a chunk? A lot rides on a Nov. 9 hearing in Oakland County Circuit Court in Pontiac, Mich., that will determine whether the divorce is handled in Michigan or in California. Lee, who just turned 70, filed in Michigan on Sept. 1. He's eager to have the case settled there, since Michigan's "equitable distribution" rules tend to divvy up assets conservatively. To succeed, Lee must prove he was a Michigan resident for 180 days prior to filing the suit.

Darrien, meanwhile, filed papers in Los Angeles on Oct. 7. California's "community property" rules probably would give her half of what the couple accumulated during their marriage, figures Norman N. Robbins, a Michigan divorce lawyer who isn't involved in the suit.

The prospect of a California divorce already has meant more publicity. Iacocca has tried to keep the divorce hush-hush from the start. His original filing was sealed by a Michigan judge after Iacocca argued that the couple's dirty linen would promptly be aired around the globe. He also worried that bad publicity could scuttle his varied business activities, which include casino construction and an attempt to launch in-flight gambling. Indeed, Lee says in court documents, without elaborating, that his wife threatened "to wage financial warfare against me."

Only when Darrien filed in Californ was Lee's suit made public. And if t couple's prenuptial agreement becom part of court files, a list of Iacocca's a sets would become public. His aversi to such notoriety gives Darrien leve age. Says Constance R. Ahrons, a so ology professor at the University Southern California and author of *T Good Divorce*: "He may have to pay if wants to get this settled quickly."

The couple's colorful behind-th scenes theatrics don't augur well fo quickie settlement. In her divorce ing, Darrien says that Lee hired priva security guards and a former secreta named Montip Kongkaratana to spy her in the couple's $4.2 million, eig bedroom Bel Air (Calif.) mansion. T guards were stationed in vans outsi the front gate as well as in the hou When Darrien ordered them to lea they refused. "I feel as though I an prisoner in my own home," she wrot

COURT ORDER. Unnerved by these trusions, according to court papers, D rien had a "physical and emotional c lapse" and checked into a Los Ange hospital on Oct. 8 for four days of tre ment. In a statement filed with Darrie suit, her physician, cardiologist Da C. Levinson, sa she suffered fr "severe anxiety a depression." A Ca fornia judge on O 14 ordered Lee's e ployees to stay least 500 yards fr Darrien and the Air home.

Neither Lee n Darrien will ta about the breaku and their lawyers a cagey about their n moves. But the acc erating court fight fers clues. Legal e perts expect Darrien contest the coupl prenuptial agreeme signed just two da before their marriag suburban Detroit. Sh likely to argue that was forced to accept conditions under dure

In the end, the divo is certain to becom painfully public epis for both sides—hardly quiet retirement many year-olds hanker for.

By David Woodruff Pontiac, Mich.

Michigan or California? Where the breakup is handled affects who comes out on top

HAPPIER DAYS: LEE AND DARRIEN IACOCCA IN 1991

ALAN BERLINER/GAMMA-LIAISON

A REPUTATION as good as GOLD.

yota Motor Manufacturing in orgetown, Kentucky, maker of the mry, received the Gold Plant ality Award, North American nt, two years running†

It's been called the BEST car built in AMERICA.* It has won awards, DISTINCTIONS, and the LOYALTY of millions of owners. Along the way, it has earned a glittering REPUTATION as the GOLD STANDARD of sedans.

With its SOPHISTICATED safety systems, including DUAL AIR BAGS,** and the POWER of an available V6 engine, Camry CONTINUES to make a NAME for itself.

The 1995 Toyota Camry. Newly RESTYLED. et with a HERITAGE of QUALITY craftsmanship that only the best REPUTATIONS are MADE OF.

Call 1-800-GO-TOYOTA for a BROCHURE and location of your nearest DEALER.

New styling makes the Camry as beautiful to look at as it is to drive.

TOYOTA CAMRY

I Love What You Do For Me

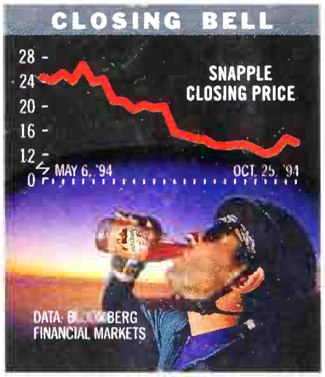
994 Toyota Motor Sales, U.S.A., Inc. Buckle Up! Do it for those who love you. *Camry XLE V6/Best car built in America. *Automobile Magazine*, March 1993. **To help avoid serious injury, always wear r seatbelt. Driver and front-passenger air bags are a supplemental restraint only. †J.D. Power and Associates 1993 and 1994 New Car and Light Truck Initial Quality Studies.℠ ‡1994 study based on a total 44,016 consumer responses indicating owner-reported problems during the first 90 days of ownership. Most Camrys are built in America.

In Business This Week

EDITED BY KEITH H. HAMMONDS

LILLY BOWS TO THE FTC

ELI LILLY'S $4 BILLION PURCHASE of a major drug benefits manager is likely to get a green light from trustbusters at the Federal Trade Commission after all—with strings. The company has agreed to FTC conditions meant to ensure that its acquisition of McKesson's PCS unit won't diminish competition: PCS will make its shopping list of drugs available to all drugmakers and will set up a "firewall" to prevent information on bids from rival drugmakers from flowing to Lilly, say sources close to the talks. Consumer advocates and trustbusters fear that drug benefits managers bought by pharmaceutical companies may favor their owners' products over those of rivals.


CLOSING BELL

DATA: BLOOMBERG FINANCIAL MARKETS

SNAPPED UP

Is Snapple Beverage in play? On Oct. 21, its stock popped up 17%, to 14 11/16, on rumors that Seagram, Quaker Oats, or PepsiCo were possible acquirors of the iced-tea company. The companies declined to comment. A deal with Seagram, which doesn't sell iced-tea, could make sense. But William Newbury, an analyst at College Retirement Equities Fund, which owns Seagram and Snapple shares, cautions that "tea is a product that anybody can make," and that any acquiror would have to compete with Coke and Pepsi. Investor Thomas Lee, whose firm holds 47% of Snapple, likely would be happy to sell —particularly at $25 a share, which consultants say is Snapple's asking price.

VULTURES IN THE VALLEY?

BENNETT LEBOW IS SET TO bring New Valley out of bankruptcy—but some investors aren't happy. LeBow's reorganization plan hinges on the sale to First Financial Management of most of New Valley's Western Union operations, for $893 million. Creditors, including Carl Icahn and Apollo Partners, would get $603 million of that, and holders of New Valley's Class A preferred—including LeBow's Brooke Group—would have a claim on the rest. A shareholder group is suing to keep Brooke from recovering any asset-sale proceeds. Carole Neville, a lawyer for the group, says the plan would make New Valley a "shell company." LeBow says most complaints are from "vulture investors."

AN UMPIRE FOR USAIR'S LABOR TALKS

A DAY AFTER ANNOUNCING A huge third-quarter loss on Oct. 24, USAir called on former Virginia Governor Gerald Baliles to salvage labor negotiations. Cost-cutting talks with the carrier's powerful pilots' union had broken off two weeks ago, after USAir announced plans to reduce its fleet. Now, both sides will sit down with Baliles to pursue an agreement that the airline hopes will cut $500 million in labor costs. Such a deal is vital if USAir, which lost $363 million in the first nine months of the year, is to skirt Chapter 11. The airline says it lost about $40 million in revenue from lost bookings in the third quarter following two deadly crashes.

HEADLINER

BLACK WEDNESDAY FOR GARZARELLI

Situation wanted: High-profile, longtime top-ranked stock market soothsayer who forecast the 1987 crash seeks new position. Salary in low seven figures.

Interested? Call Elaine M. Garzarelli, who resigned on Oct. 26 from Lehman Brothers, where she had worked since 1984. Unofficial word was that she fell victim to the same thing claiming a lot of lesser Wall Street lights: cost-cutting. Lehman figured that her quantitative-research publication didn't pass a cost-benefit analysis. Neither Garzarelli nor Research Director Fred Fraenkel, her boss, would return calls.

It hasn't been Garzarelli's year. In July, she lost her job running a mutual fund that used her investment ideas. Th reason: poor performance. She was arrested the next montl in East Hampton, N.Y., for driving while intoxicated. Headhunters say even if institutional investors aren't interested, Garzare li would be attractive to a brokerage catering to individual investors. Says Ala Johnson of Johnson Associates: "She's a celebrity and could generate a ton business."

By Jeffrey M. Laderma

ORACLE GETS HIT WITH AN ETHICS SUIT

TWO YEARS AGO, LAWSUITS charging it with questionable accounting practices clipped Oracle's wings. Now, the software giant is soaring again—and facing another potentially embarrassing lawsuit. On Oct. 24, former executive Terence Garnett sued Oracle and CEO Lawrence Ellison, alleging breach of contract and fraud over Garnett's ouster two months earlier. Garnett claims in the suit that while he was an Oracle employee, Ellison ordered him to take actions that would create a conflict of interest between Ellison and Oracle. Oracle execs call the suit "unfounded."

HARVARD WEIGHS ALL-YEAR B-SCHOOL

CHANGE IS AFOOT AT HARvard business school. HBS, fifth in BUSINESS WEEK's rec ranking of MBA programs is considering moving to ye round operation, offering s dents the option of earni a degree in 16 months inst of two years. First revea in *The Harbus News*, school's student newspape a faculty committee has rec mended that the school e students in September, Ja ary, and May, enabling c sections to be cut to 80 f 90. The plan was release the faculty on Oct. 14.

ET CETERA . . .

- MCI Communications m go it alone in building a tional wireless network.
- Delta Air Lines will travel agents' commissi for overseas trips to 8%.
- A programming bug fo a short delay of IBM's O Warp operating software
- Federal Express will self-service outlets in Sa Club stores nationwide.

One Of The World's Largest Banks Asked Us How To Make Their Wall Street PCs Run Better.

On the trading floors of Wall Street, computer downtime isn't just an inconvenience. It's a disaster. Our client faced trying to maintain hundreds of PCs there and thousands more nationwide. We told them the best way to service their PCs was not to service them at all. To let us take care of them. So they could focus on the business of banking, not PC maintenance.

We Told Them To Pull The Plug.

Through Dataserv, Inc., a BellSouth company, the bank received the technical expertise and quick repairs they required. They also received a significant reduction in downtime. Improved customer service. And the confidence that comes from a more reliable system.

The bank was pleased. But not surprised, since they were already relying on us for many of their cellular, paging and voice systems. You see, BellSouth is a lot more than one company. It's a family of companies. From paging, cellular, mobile data and information services to sophisticated telecommunications networks, BellSouth has the depth of resources required to meet your communications challenges today. And tomorrow.

Precisely why one very important bank opened their account with BellSouth. For more information, call your BellSouth representative or 1-800-726-BELL.

©1994 BellSouth Corporation

BELLSOUTH®

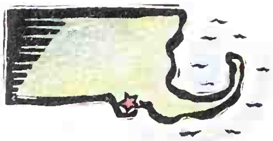
Telecommunications *Information Services* *Mobile Communications* *Advertising Services* *Everything You Expect From A Leader*℠

Smart Solutions℠

NUMBER 26

EXPRESS MAIL INTERNATIONAL

Person gets urgent order for golf balls.



Supplier is in Massachusetts.

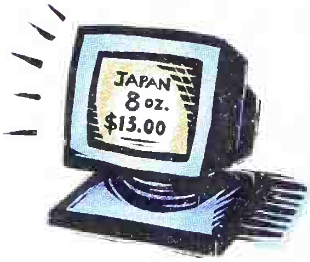
Order is from Japan.

U.S.
POST OFFICE

Person goes to Post Office.

INTERNATIONAL
EXPRESS
MAIL

Finds Express Mail International™ is a very smart solution.



Doesn't cost much.

Delivers around the world, fast.

Golf balls arrive by tea-time. Japanese are delighted.

Person is complimented for her drive.

For more information on Express Mail International and other Smart Solutions, call 1-800-THE-USPS, ext.1130.

©1994 USPS

We Deliver The World For You.

SI1

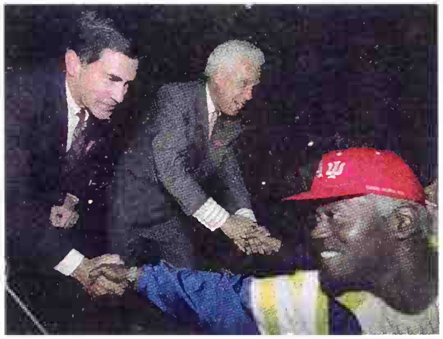
UNITED STATES
POSTAL SERVICE™

ITED BY OWEN ULLMANN

HE DEMOCRATS' CARE-OUT-THE-VOTE DRIVE

hey tried hope. They tried recounting Bill Clinton's economic accomplishments. They even managed to engineer a Presidential peace mission to the Mideast. But increasly, the Democrats' hopes of staving off big losses in the l-term elections have come down to one word: fear.

Vith key constituent groups in a funk, party strategists kon that the only thing that can prevent a GOP takeover of ngress is raising the turnout among minorities, union mems, and feminists. So they've pulled out all the Halloween lins, charging that the GOP would bring back Reagan-style goodies for the rich, shred the social safety net, and men- women's rights.



STUMP BUDDIES: *Robb and Wilder*

Republicans are furious with Clinton, few issues stir Democratic passions. nocrats are paying a price, activists , for a President who fought for free le rather than a bill banning replacent of strikers, and pushed deficit retion rather than social spending. hen you walk away from your base, r base walks away from you," says la- consultant Victor S. Kamber.

OF NEWT? Black turnout is particularvorrisome: Voting by African Amerís in this year's primary is below the m. Yet without strong black turnout, nocrats could lose close races in Pennsylvania, Michigan, nessee, and elsewhere. In New York, Governor Mario M. mo's reelection bid could be dashed if black voting dips n slightly. But David Bositis, an analyst at the Joint Cenfor Political & Economic Studies, says blacks are turned off he perception that white office-seekers seem to be "run- away from being associated with black voters."

ome black leaders are making direct appeals to African erican voters. Black House members such as New Jersey's ald M. Payne and Michigan's John Conyers and Barbarae Collins are campaigning for white Democrats in their states. Former Virginia Governor L. Douglas Wilder is stumping for old rival Senator Charles S. Robb. The message: GOP control of Congress would devastate the black social agenda.

The AFL-CIO is trying several approaches to fire up the rank-and-file. Union operatives have sent local officials a horror film that depicts a grim life under Republican rule. In Pennsylvania, labor pols are charging that House Minority Whip Newt Gingrich's "Contract With America" is "snake oil" economics that would gut social programs and lead to tax increases for workers. Labor officials say the campaign has boosted incumbent Senator Harris Wofford's approval rating with union members. Still, unionists remain a dispirited bunch. "There is a lot of skepticism and cynicism out there," says Karen Keiser, an organizer for the Washington State Labor Council. "It's a pox-on-everyone kind of attitude."

Women's groups, who have noted lower turnout in primaries, have also taken to the barricades. In Minnesota and Oregon, female Democrats are running against archconservative challengers. Feminist groups, through phone banks and direct mail, are spreading the message to working women that decades of hard-won gains may be halted by the religious right. "We need to show moderate women what the stakes are," says Ellen R. Malcolm, president of EMILY's List, a fund-raising group for women Democrats. "[Conservative] opponents are trying to put women back in the home."

It's too early to tell if such tactics will shake the Democrats out of their languor. But a vigorous counterattack could save some Democrats from extinction. "Turnout is the wild card," says political strategist Kevin P. Phillips. "If Democrats boost it by even a few percentage points, they could scramble the polls showing Republicans winning everywhere."

By Susan B. Garland, with Christina Del Valle

CAPITAL WRAPUP

ADE NO-SHOW

Vhat if Japan opened a market to e U.S. and nobody came? That's presely what's happening with Japan's rative public-works sector, which kyo has promised to make more acssible to American companies. With panese support, the American Bar ssn. had planned to hold a seminar Washington this fall to show Amerin companies how to crack the rently deregulated construction indus- . The list of speakers included akoto Taketoshi, a top official at the Construction Ministry, as well as leading Japanese business executives and U.S. trade advisers. But the red-faced sponsors were forced to call the conference off at the last minute. The reason: Not a single American construction-related company signed up.

PENSION-REFORM COMPROMISE

►Bowing to complaints from Corporate America, the Clinton Administration is softening some proposed reforms intended to curb a growing deficit faced by the Pension Benefit Guaranty Corp., which insures more than 66,000 benefit plans. Under a compromise worked out with business groups, the Administration has agreed to drop a provision that would allow the PBGC to challenge mergers or asset sales of publicly traded companies with underfunded pensions. Also, lower interest-rate assumptions that companies must use to project returns on plan investments will be phased in over five years rather than imposed immediately. Congress is expected to ratify the changes in a post-election session.

STEVE HELBER/AP WIDE WORLD

----Funny how it's the little things that attract people to a particular small business server.

Then again, maybe this is a big thing.

Introducing the
IBM PC Server, for small business.

486DX 66 MHz
or Pentium® 60 MHz
▪
Upgradeable
▪
30-day money-back guarantee
▪
*3-year on-site warranty**
▪
Tested to exacting IBM standards
▪
Industry standard architecture
▪
*Starting under $3,000***

You're about to place your entire business in a box no bigger than a suitcase. That's enough to make anyone pace the floor.

Fortunately for the life of your carpet, IBM now makes a server for small local networks.

This means, of course, that the kind of performance and reliability IBM is famous for, and the kind of support we're famous for (24 hours a day, 7 days a week, 365 days a year†) are now available to you, too.

All at the kind of price (we confess) IBM is not so famous for. A remarkably competitive price, whether you need to network five people or fifty.

And because the IBM PC Server is easily upgradeable, and happily works with most anyone's peripherals, it lets you create the perfect, total business solution.

For more details, talk to your favorite reseller, or, if you need a favorite reseller, just call us at the Personal Systems HelpCenter® at 1 800 772-2227.# For information via FAX, call 1 800 IBM-4FAX and ask for document 3078.

IBM®

*s of IBM's statement of limited warranty are available upon request. **Dealer prices may vary. †Via telephone from the Personal Systems HelpCenter.*
nada, call 1 800 465-7999. IBM and HelpCenter are registered trademarks of the International Business Machines Corporation. All other trademarks
gistered trademarks are the property of their respective holders. © 1994 IBM Corp.

EUROPE: THE PUSH EAST

More Western companies are moving in—and boosting growth

France's consumer-electronics giant Thomson makes TV tubes in Poland. Ireland's Waterford Wedgwood PLC turned to the Hungarians for a new lower-priced line of its famous crystal. Peter Littmann, chief executive of men's clothier Hugo Boss, this year slashed German production from 40% to 20%, shifting much of it to Slovakia and Slovenia. He's not happy about dropping several western suppliers and laying off workers but says: "I have no choice."

Manufacturers throughout Europe are reaching the same conclusions. No longer viewing Central Europe as just a potential market, companies are starting to rely on the region as an alternative manufacturing zone to get around high costs and to battle Asian and U. S. rivals. Indeed, Western Europe's backyard has both Philippine-level industrial wages and well-trained engineers. Günter Baumann sends the mufflers his German auto-parts company makes to Prague for bending and welding. "Our neighbors can now do the job just as well," he says. "This is how we can compete."

What was a tentative trickle of foreign interest after the fall of the Berlin Wall has grown into a steady stream of cross-border acquisitions, partnerships, and supplier networks. Forty thousand Western European companies have offices in Central Europe, and the ties are fast expanding. Direct foreign investment in Hungary, Poland, and the Czech Republic combined will total $15 billion by the end of 1994, two-thirds of it from Western Europe. "We used to see carpetbaggers make windfall profits and disappear," says Bela Kadar, Hungary's former International Economic Relations Minister. "Now, investors are fitting us into their global networks."

NEW CONFIDENCE. These connections are helping to get what were staggering economies on their feet. Pragmatic policymakers and hungry workers eager to learn new skills deserve a lot of credit. So do western companies that provided the training, marketing skills, and awareness of quality. Today, telephones work, restructured banks are pumping capital through their economies, managers focus on profits, and politicians get voted out of office for misguided policies. The Central European countries of Hungary, Poland, the Czech Republic, and even Slovakia have come a long way.

In fact, Central Europe finally appears poised to take off. Its economic output plummeted in the early 1990s as fledgling governments struggled to dismantle statist systems. But now, the Czech Republic is growing at about 5% a year, and Hungary and Poland are heading for 2% growth this year. Nor has the reemergence of former communists at the helm in Hungary and Poland thrown market reforms off co
That, in turn, is giving investors gr
er confidence. At the same time,
workers in these countries are hit
quality and productivity levels on
with their western counterparts.

That's good news for the west, w
has watched warily to see whether
Soviet Union's former satellites w
sign on to free-market democrac
slide toward inchoate politics and
nomics. A key barometer of the reg
stability, says Finland's deputy p
minister, Pertti Salolainen, "is th
stands on its own feet economica

While western industry increas
sees opportunity in Central Europe
region is particularly attractive to

LEE MALIS/SPECTRUM PICTURES/GAMMA LIAISON

What the Big Players Are Doing in the East

Western European multinationals are now shifting production to Central Europe, no longer seeing the region just as a market

AUDI

$195 million in engine plant in Hungary. Additional $280 million investment planned. Plant is open, replacing German production.

SIEMENS

Latest investment was $50 million for Czech electric-motor plant. Shifting labor-intensive auto-parts production to Poland and Czech Rep.

VOLKSW

Paid $332 mill
of Czech carma
in '91. Despite
Skoda remains
of strategy. Ne
launch due in

COMPETITIVE EDGE: *Lower wages make Czech textile makers attractive to western investors*

y, which is carving out an economic to the east. German labor rates, at ly $28 an hour in wages and benefits, so out of line with the rest of Eu- and the world that Central Europe es as a lifesaver for German com- es trying to stay in the global race. region also provides Germany with ée into what are bound to be grow- narkets from Warsaw to Moscow.

ıt some in Western Europe see ress in Poland, Hungary, and the h Republic more as a threat than an rtunity. That's especially true in sec- such as steel, coal, and agriculture— ral Europe's top industries—where Europeans are maintaining trade ers. With unemployment in the European Union at 10.8% and welfare payments straining budgets, the growing competitiveness of the eastern cousins looms large.

If the EU drags its feet on integration, however, it could not only thwart the east but risk stagnation for all of Europe. Warns Thomas Mayer, chief economist for Goldman, Sachs & Co. in Frankfurt: "If we slip into protectionism, Europe will become an industrial museum." Still, as more and more companies move production and managerial skills east, Central European countries will find their trade, legal, and economic systems increasingly aligned to those of the west—and resistance to eventual membership in the EU will crumble.

Right now, trucks continue to rumble across borders, binding the Continent despite the ambivalence. According to a recent Harris poll, more and more executives see the east as a partner, not a competitor, and 55% want to slash EU import barriers to eastern products. As technology transfers boost the east's competitiveness, its growing purchasing power will also help break down barriers. "We are already integrating at the micro level," says Karel Dyba, Economics Minister of the Czech Republic.

GE'S COUP. Initially, east-west links were chiefly through big companies plunking down tens of millions of dollars for privatized state companies. With its 1990 purchase of Hungary's Tungsram, General Electric Co. was a pioneer. The bet is paying off. Tungsram will turn a profit this year, and quality is so good that GE has shifted European lightbulb production there from Britain and elsewhere in Europe, exporting 90% of the output.

But direct investment into Central Europe doesn't tell the whole story; every dollar of investment goes much further than in, say, China, where there's so little infrastructure. Elisabeth Waelbroeck-Rocha, economist for researcher DRI Europe in Brussels, estimates that fully 55% of west-east business ties are through outsourcing or licensing rather than registered acquisitions, joint ventures, or startups.

Some analysts argue that the region's wage advantage may be fleeting as pay eventually catches up with western levels. But for the next decade or so, there is plenty of room for leaps in productivity. Unit costs may actually be falling, says Vienna's Creditanstalt-Bankverein, because in Hungary and Poland, productivity rose faster than wages last year. And in Bohemia, textile maker Pleas was bought by Switzerland's Schiesser Eminence and has trimmed the workforce and boosted quality. The changes have pushed productivity up, and now 70% of production is exported.

Certainly, there are pitfalls to relying on Central Europe. Marketing and management skills are weak, and training and equipment are expensive. Sharing technical knowhow with suppliers carries the risk that they'll apply it to a competitor. And the habits of a lifetime can be difficult to break. Danube Knitwear, set up in southern Hungary by private western investors to export T-shirts, gives bonuses for attendance to rid its workers of the communist-era penchant for sneaking out to do errands.

What was once a trickle of foreign capital has become a steady stream of investment

But Europe's challenge will be precisely to break old habits, in the east and the west. Central Europe's ongoing need for technology and capital is likely to make it even more dependent on western industry for its industrial transformation. And for Western Europe, where the overarching challenge is to create a globally competitive industrial base, the east will continue to beckon. With their fates thus linked, the economic bridges businesses are building across the old Iron Curtain will only multiply.

By Karen Lowry Miller in Prague, with Bill Javetski in Paris, Peggy Simpson in Warsaw, Tim Smart in Budapest, and bureau reports

EUROPE	CONTINENTAL	FIAT	GE LIGHTING	THOMSON
n Hungarian nt now supplies rom Britain Begins Opel ly at Polish	Bought 73% of Czech tire-maker Barum in 1993. Shifting production of basic tires there, freeing German workers for new technologies.	Paid $640 million in Polish auto maker. Plant is now sole source of Cinquecento city car. An additional $450 million investment is planned.	Invested $550 million in Hungarian bulbmaker Tungsram. Transferred all European light production there. Will be profitable this year.	Launched TV-tube joint venture in Poland in 1991. 70% of production is now exported out of east. Wants to use Poland as a platform to sell eastward.

CHINA

MORGAN STANLEY'S CHINESE COUP

A joint investment-bank deal was the prize for years of effort

For more than two years, Morgan Stanley & Co. has been cultivating its Chinese connections to help create China's first joint-venture investment bank. On Oct. 24, at a Beijing villa surrounded by lakes and gardens, the effort paid off. With Morgan Stanley Group President John J. Mack looking on, Chinese Vice-Premier Zhu Rongji launched the new bank, China International Capital Corp. (CICC). Alongside Mack were his partners in the bank, some of the most powerful stars in the Chinese business world (table).

The deal and the prolonged negotiations that preceded it demonstrate how Zhu is making fitful progress toward upgrading China's outmoded banking system. CICC could be an important element in Beijing's efforts to raise the estimated $500 billion needed to modernize China's infrastructure. It also illustrates the Chinese strategy for key industries such as banking, insurance, and autos. By allowing no more than a few foreign companies to enter at a time, Beijing's leaders want to prevent local officials from cutting their own deals. And by admitting only a select few, Beijing helps ensure the ventures' success—and keeps those on the outside interested.

LATECOMER. If CICC works, it could serve as a model for other investment banks in China. The bank, capitalized at $100 million, is designed to help Chinese companies raise funds in international markets and advise local enterprises on restructuring and project financing. The bank will also make some direct investments of its own.

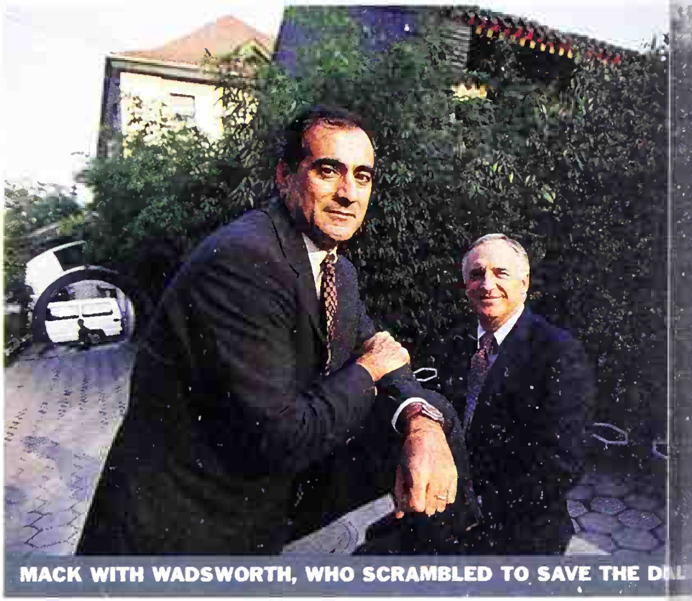
The new bank could prove a useful vehicle for easing Morgan Stanley into China's domestic capital markets, which remain off-limits to foreigners. About 40 foreign banks have applied to become partners in joint-venture financial institutions. Until CICC is up and running, though, no others are likely to win permission from Beijing to compete with it. So Morgan Stanley is getting a big headstart on rivals such as Goldman Sachs and Merrill Lynch. "CICC will get a lion's share of deals," says Tony Larkin, a bank analyst with Smith Court Far East Ltd. in Hong Kon

Morgan Stanley was a latecom the deal, which had its origins in That's when two of its principal ners first met in Nigeria. Payson the son of Hong Kong tycoon Cha Ming, was overseeing his father's te factories in Lagos, while Edwin R. an overseas Chinese from the Phi pines, was working as a World economist. Over the years, Lim ro the World Bank, opening its China in 1985. Cha became managing dir of Mingly Corp., a multibillion-d holding company.

DEVASTATING MOVE. Last fall, the men bumped into each other aga Beijing. Cha had concluded that it time to set up an investment ban help China gain access to internat financial markets. Acting indepen ly, Lim had explored the same idea Vice-Premier Zhu, whom he had met in 1980. Cha and Lim decid work together to see if they could it work.

INSIDERS

Beijing will likely wait to see how the new bank does before allowing similar foreign ventures—giving Morgan Stanley a big headstart on its rivals


MACK WITH WADSWORTH, WHO SCRAMBLED TO SAVE THE D

ZHU RONGJI GAVE HIS O.K.

The New Bank's Key Players

China's first international investment bank boasts a powerful group of shareholders

DATA: BUSINESS WEEK

MORGAN STANLEY

EQUITY STAKE 35

The U.S. ment ban extensive ence in a foreign i to project

Lim had ready access to top bankers
l officials thanks to his World Bank
perience. In the discussions, Beijing
icials made it clear that they would
y accept a deal including players from
eral countries. So Lim brought in
vernment of Singapore Investment
rp. (GSIC), headed by former Prime
nister Lee Kuan Yew. The group
nages a significant portion of Singa-
e's foreign assets.

Soon after, Cha and Lim met to decide
ich foreign investment bank to bring
Although Salomon Brothers Inc. and
dman, Sachs & Co. had built repu-
ions in China as preeminent Ameri-
investment banks, Cha insisted on
rgan Stanley. He had recently
rked with the firm, which had suc-
sfully placed a $100 million convert-
bond in 1993 for Cha's HKR Interna-
ial Ltd., an $840 million Hong Kong
perty developer.

Morgan Stanley had been exploring
idea of a joint-venture investment
k on its own. In June, 1992, John S.
dsworth Jr., chairman of Morgan
nley Asia Ltd., had suggested the
a to Wang Qishan, vice-president of
ople's Construction Bank of China
BC). With $122 billion in assets, PCBC
long been the most important lo-
player in financing Chinese infra-
ucture projects. Wadsworth spent a
r cultivating Wang. Then, in June,
3, Wang was suddenly promoted to
uty chief of the central bank. The
e was devastating to Morgan. "Our
or advocate was off to another proj-
" says Wadsworth.

LASH OF CULTURES. As discussions
l with PCBC, Wadsworth scrambled
resurrect the deal. A former col-
gue of Wadsworth turned out to be
ndly with Lim and suggested that
y get in touch. In October,
dsworth called Lim at his World
k office in Washington. A month
r, the two of them met over a lunch
oft-shell crabs at Maison Blanche
taurant, not far from the White
use. They showed each other the
posals they had sent to the Chinese.

HIGHWAY BUILDING: *China needs about $500 billion to modernize by 2000*

GREG GIRARD/CONTACT

"My letter and his could really have come out of the same typewriter," says Wadsworth. Since Cha was leaning toward Morgan Stanley anyway, the team was formed.

With the overseas partners lined up, Lim in early 1994 left the World Bank to pursue the effort full-time. Shuttling from Hong Kong to Beijing, Lim managed to win approvals from PCBC and the Finance Ministry. But getting the nod from conservatives on the State Council, China's Cabinet, proved more difficult. That's when the group called in its biggest chit. Cha's father, Cha Chi Ming, had recently donated $20 million for a new science and technology foundation in China. On Deng Xiaoping's birthday last August, he handed out 10 awards of $116,000 each to Chinese scientists. That led Premier Li Peng, a leading conservative, to express his "thankfulness." Now, to smooth the way for the banking deal, the elder Cha made the rounds in Beijing, securing the necessary approvals from conservative officials.

That clinched it. On Sept. 20, PCBC notified its partners that the deal was on. Soon, everyone gathered in Hong Kong to hammer out the details. Cultural differences flared between the Americans and the Chinese. "For Americans, confrontation is a daily routine," says Payson Cha. "But it will take time to transplant that idea in China."

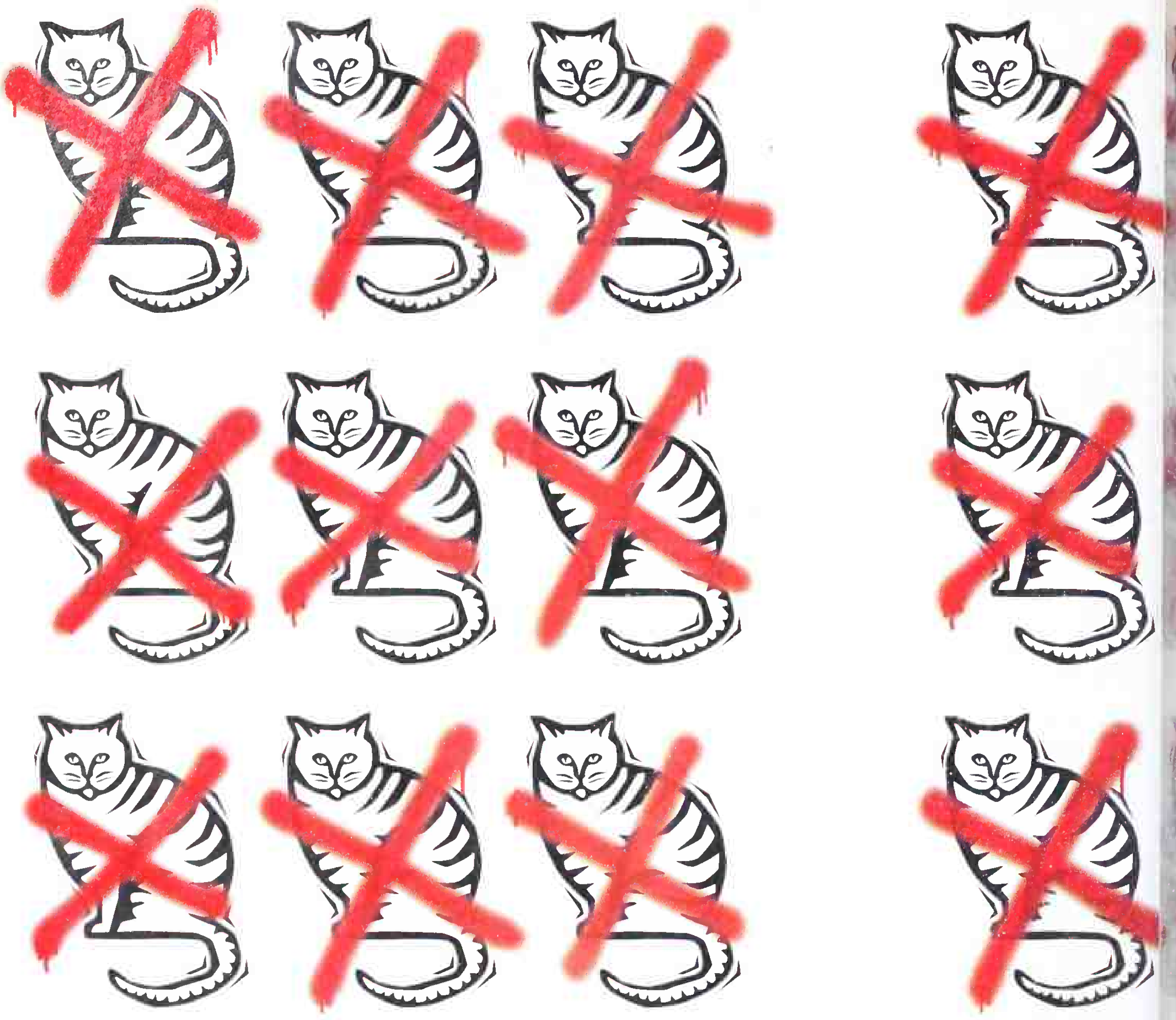
Morgan Stanley, for example, wanted an agreement that management issues would be settled by a simple vote. The Chinese, however, wanted to resolve differences through discussion. The two sides agreed finally to settle issues through discussion but set a deadline for how long these talks could last. After nearly a week meetings in Morgan Stanley and Mingly offices in Hong Kong's Central district and the Ritz-Carlton Hotel, where the Chinese were staying, Cha helped secure the final agreement.

PLENTY OF RISKS. Although the Americans have only a 35% stake in the bank, Morgan Stanley did gain a de facto veto over CICC moves. That's because all shareholders will have to sign off on a deal before it can proceed. "If the shareholders don't agree, then the deal doesn't get done," says one Morgan Stanley executive. In another reassuring move, Wang Qishan, Morgan Stanley's old PCBC connection who went on to the central bank of China, will be CICC's chairman of the board.

But plenty of risks remain. PCBC has extremely close ties with the State Council, and might, therefore, feel pressure to make funds available to help bail out ailing state enterprises. Moreover, if Beijing leaders suddenly open the market to outsiders, Morgan Stanley could find itself saddled with a venture in which it has less than 100% control. Morgan Stanley, however, is betting that such a development is at least several years off. In the meantime, it's busy conducting business the Chinese way.

By Joyce Barnathan in Hong Kong

S UCTION CHINA	MINGLY CORP.	GOVERNMENT OF SINGAPORE INVESTMENT CORP.	CHINA NATIONAL INVESTMENT & GUARANTEE CORP.
.5%	7.5%	7.5%	7.5%
e-owned s access of largest ucture	The multibillion-dollar Hong Kong holding company has valuable connections with Chinese leaders	The Singapore government agency is eager to make direct investments in China	The Beijing-run company plays a key role in restructuring state enterprises



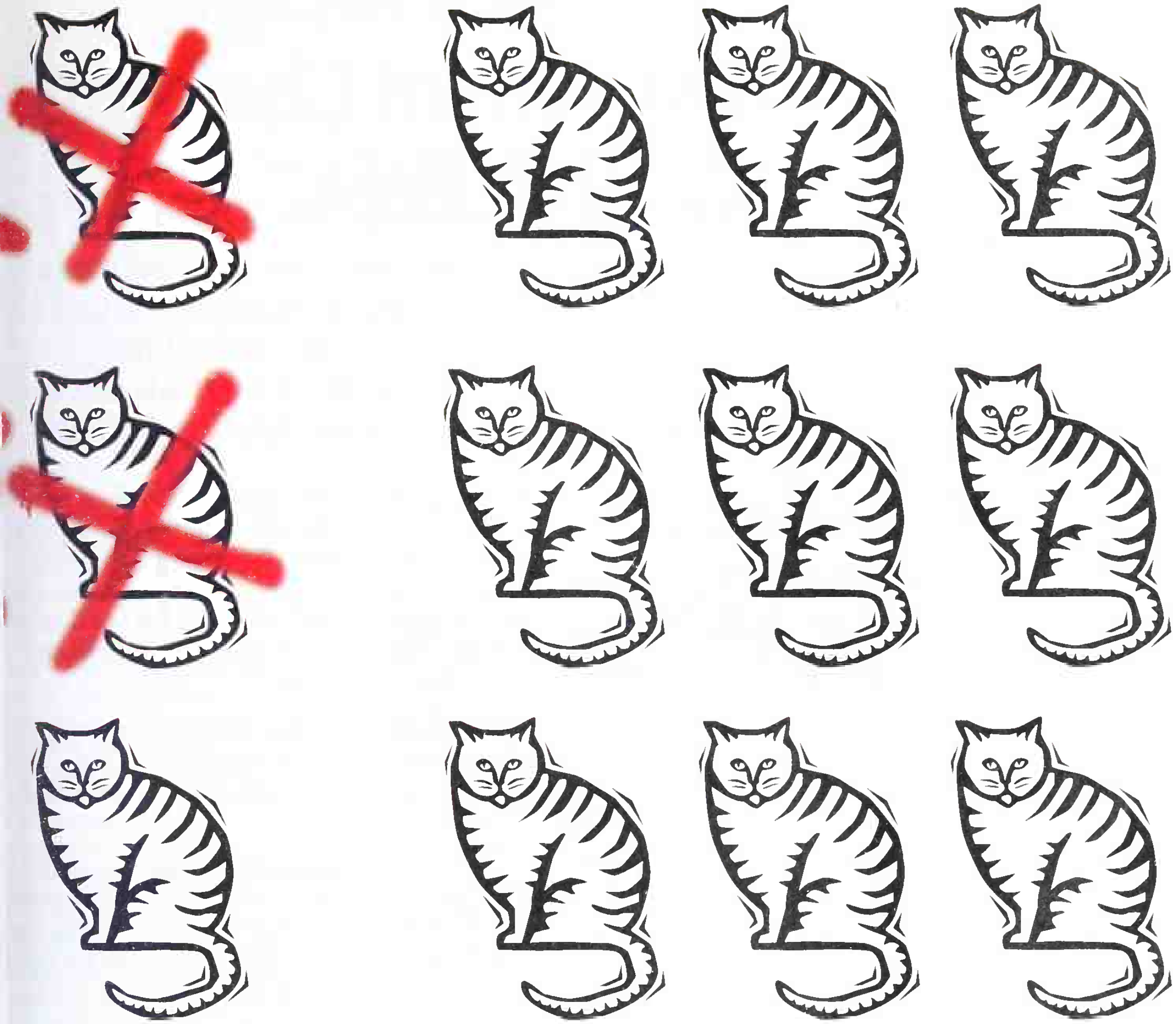
Let’s say compu

intel inside
pentium
PROCESSOR

Some computers have nine lives left. Others don’t. That’s why if you’re buying a PC today, you should only be considering Pentium™ processor-based PCs.

The reason is simple. A more pow
PC lasts longer, since it will still have
plenty of horsepower when tomorrow
applications come along. And most n
Pentium processor-based systems als
include the latest PC technology — li

© 1994 Intel Corporation



Pentium™ processor-based PCs

have nine lives.

local bus for high-speed graphics and
and Play technology for easy expansion
e years to come.
That, plus the fact that these PCs are now
ffordable, makes this a great time to buy a
tium processor-based PC. Especially when
you'll be getting a system that performs so well. Today. And several lives from now. For more information call 1-800-626-6788, Ext. 213.

intel®

Take the Fidelity Investment Challenge. It's Risk Free.

Fidelity Investment Challenge

Fidelity Investments, the nation's largest mutual fund compan
has educated millions of investors about mutual fund investin
Now Fidelity Discount Brokerage brings you the Fidelity Investment Challenge so you can learn how to trade directly i the stock market, absolutely *risk free*. Here's how it works:

Real Stocks. Each participant will be given $250,000 of play money to invest. You'll make your trades through an Invest ment Challenge 800 number. Telephone representatives execute your orders using real-time prices. Or, place yo trades using a touch-tone trading line. And, you'll recei a monthly statement detailing your trades and ranking you against the other players.

Real Markets. Try out new strategies in real market conditions, with no risk at all. You'll trade in the same way you would with a Fidelity Brokerage account when you choose to buy, sell, or short stocks traded on the NYSE, AMEX and OTC exchanges.

Real Prizes. The player with the most valuable portfolio on February 10, 199 will drive away with this 1995 Eagle Vision TSi, plus $2,000 in cash. Over $10,00 in cash will be awarded to the top 15 finishers. The Top 50 investors, and the top player in each state will win Fidelity On-line Xpress™ financial software. The top 200 investors will win a handsome Fidelity Investment Challenge T-shirt.

Play Money. Remember, the Fidelity Investment Challenge is *only a game*, a its purpose is to enhance your understanding of the market. So, have *fun* — an join thousands of other amateur stock watchers across the country in racking u simulated profits to drive away in a new car.

November 14, 1994 to

February 10, 1995

Win Fortune. The top player will drive home this 1995 Eagle Vision TSi with $2,000 in cash. The top 15 finishers win over $10,000 in cash and valuable prizes.

Win Fame. Top players will be published in Business Week magazine. Find your name listed with the leaders in any of the 6 weekly issues starting 12/12/94.

You Could Win This 1995 Eagle Vision TSi or Cash and Prizes

Sign up to play the Fidelity Investment Challenge today and receive a special price of just $89.95 (regularly $99.95).

Call 1-800-858-1994, ext 25.

We'll send you the Official Game Package including rules, instructions, a stock listing guide and transaction ledger to track your trades.

Competition begins November 14, 1994.

Fidelity Investments®

The Fidelity Investment Challenge is a contest administered on behalf of Fidelity Investments by REPLICA Corporation and its affiliate, Wall Street Portfolios. Although the contest uses actual market conditions and securities, neither the money, nor the transactions are real. Awards of prizes are the sole responsibilit of REPLICA, and winners may be subject to taxes for prizes. The Fidelity Investment Challenge is not open to persons under the age of 18, or employees or th immediate families of any of the affiliated Fidelity Investments companies. The contest is for amateur investors only. Professional brokers may not participate.

ITED BY WILLIAM J. HOLSTEIN

ETTING A CAPITALIST FOOT N THE NORTH KOREAN DOOR

he Oct. 21 deal between the U. S. and North Korea aimed at defusing Pyongyang's nuclear threat doesn't require the North to dismantle its key facilities until 2000. That's critics say the U. S., South Korea, and Japan are giving y more than $4 billion for nothing.

Vhat the deal could do, however, is set the stage for the th to begin a Chinese-style economic opening while still nically at war. The U. S. is betting that such a step-by- opening will give the North incentives to alter its bellicose avior and eventually reunify with the South. So it will soon t providing oil and upgrading phone links. South Korea, Ja-, and the U. S. will also begin setting up the Korea Energy elopment Organization to pay for two new light-water re-rs the North will get under the deal.

eoul is expected to pay about 50% of $4 billion. Japan will pick up a still etermined percentage, in addition to ing perhaps billions of dollars in war arations. South Korea will take the in constructing the reactors, which be similar to its Ulchin units 3 and 4.

ATTITUDE. The first key test will e when the North decides whether et South Korean and other foreign ineers in to select the construction and, later, build the plants. Seoul es-ates about 1,000 South Korean engi-rs and skilled workers will have to orth and about the same number of North Korean techni-s will have to come south for training. Those exchanges ld build confidence on both sides, says Yeon Ha-Cheong, ident of the Korea Institute of Health & Social Affairs. t could help the country's new leader, Kim Jong Il, over-e resistance from his own military, analysts in Seoul say.

here are already hints of a new North Korean attitude. th Korean business sources say northern state companies offices in Beijing have begun to court them. In particular, the North wants Hyundai to push ahead with a tourism-development plan at sacred Diamond Mountain inside the North, the sources say. Hyundai and other conglomerates expect Seoul to authorize a limited number of direct links soon.

Pyongyang also has initiated fresh contacts with European executives, who are eager to invest in the Rajin-Sonbong free-trade zone. In this northern zone near the Tumen River, foreigners "can take all profits out of the country, build factories, and expand there as they wish," says a North Korean diplomat at the U. N. "It will be quite free for them." The North has set up the zone hundreds of miles from its main population centers to minimize the foreign influence on its 21 million people. That's the crucial gamble Kim is taking, and one he may not fully understand. "Just as in China, you can't keep people out of these zones," says Selig S. Harrison of the Carnegie Endowment for International Peace in Washington. "Over the years, it will spread awareness to other parts of North Korea."

ATOMS FOR PEACE: *South Korean nuke*

DAVID POLLACK/THE STOCK MARKET

In terms of trade, the U. N. diplomat says British and French companies are interested in exporting gold, zinc, and lead from the North, while the Japanese want to buy marine products. The more cautious Japanese, however, are "still watching what is happening between the U. S. and us," the diplomat says.

Despite these hints, no one wants an opening to proceed so fast that it destabilizes Kim. There is already the possibility that Kim's apparent illness could remove him from decision-making. Many "minefields" remain ahead, warns a Japanese official. But ironically, the U. S., Japan, and South Korea now have a vested interest in helping a North Korean dictator manage a controlled opening of his economy.

By Laxmi Nakarmi in Seoul, Ruth Pearson at the U. N., Amy Borrus in Washington, and Robert Neff in Tokyo

GLOBAL WRAPUP

UEEZING THE PALESTINIANS

ollowing a rash of terrorist attacks m Hamas, the Israeli government is ing steps likely to inflict deep eco-mic pain on Palestinian areas for ars to come. They could also threat- the peace process just as President l Clinton visits the Middle East.

Until the attacks, about half of the lestinian workforce, or about 30,000 ople, labored in Israel's construction lustry. But in an attempt to thwart terrorists, Israel has sealed off the st Bank and Gaza, keeping the laborers out. And now Israel is signaling that it wants to shift away from depending on Palestinian workers.

Following the suicide-bomber bus attack that killed more than 20 people in Tel Aviv, the government approved work permits for an additional 15,000 Asian workers for the construction industry. The government also extended the work permits of the 26,000 Polish, Turkish, Bulgarian, and Thai workers already employed in construction. So even if the current crisis eases, Palestinian workers are likely to find that their jobs are gone—permanently.

NO SCANDAL, PLEASE

▶ Recent allegations of Tory corruption have left Prime Minister John Major's Conservative Party in chaos. The latest: Two ministers are accused of taking cash from lobbyists. Both have resigned. The scandal comes after a Gallup Poll showed that 61% of those questioned viewed the Tories as "sleazy and disreputable." To limit the damage, Major has taken the drastic step of creating a permanent panel to monitor the conduct of public officials.

ENTREPRENEURS

A MARATHON MAN WITH MARKETING POWER

Runner Brian Maxwell is king of the energy bars

Big companies—who needs 'em? In 1986, marathoner Brian Maxwell wrote a letter to Quaker Oats Co. and other giant food manufacturers asking them to consider licensing a new nutrient-rich, low-fat concoction for athletes he called the energy bar. "They responded: 'We have our own R&D department, thank you very much, please leave us alone,' " Maxwell recalls.

Guess who's having the last laugh. Maxwell eventually dubbed his product the PowerBar and decided to go it alone. Now, the 41-year-old entrepreneur is king of a market that is growing an estimated 20% annually, and giants such as Quaker are running to catch up. Maxwell's privately held Powerfood Inc., based in Berkeley, Calif., will sell $30 million worth of its carbohydrate boosters this year. Customers such as Neil Iscoe, a 39-year-old electronics industry executive and cyclist in Austin, Tex., can't get enough. "I'm a heavy PowerBar user," Iscoe says. "I buy them by the case."

SMALL POTATOES. That sort of endorsement—and Powerfood's 40% annual growth rate—has inspired Quaker's $800 million Gatorade sport drink division to whip together a competitor called GatorBar. Hoping to capitalize on the fact that the PowerBar has something of an acquired taste, Quaker thinks it can catch up with what it insists is a more savory product. Both companies are betting the market will expand to include not just high-performance athletes but mainstream snackers looking for a heal
alternative to fat-laden candy bars
breakfast bars. Gatorade Mark
Vice-President Debbie Kelly esti
the energy bar market could appr
$200 million in five years.

Of course, Powerfood's $30 milli
revenues is small potatoes in the
business. But Maxwell's story s
how a tidy fortune can still be ma
an old-line industry like food by a
ing intense dedication to a bright i
even if there's not much capital to
with. As Kelly levels her sights o
market, she has nothing but admir
for Maxwell's persistence. "He cr
the category," she says. "I have t
most respect for what Brian Ma
and his family have done. I thin
awesome."

Born in England, raised in Tor
and schooled at the University of
fornia at Berkeley, Maxwell w
world-class marathon runner
ranked third internationally in 197
made the Canadian Olympic tea
1980 but missed the Moscow game
cause of the Western nations' bo
that year. His idea for a high-en
low-fat snack came after he narr
lost one race when low blood sugar

FOR THE LAST 15 YEARS, PC'S HAVE BEEN IN THE NEWS.

Here's some computer technology that will never become outdated: CNN at Work.℠ With Headline News, stock tables, all the timely information on CNN, now on your PC. It's small enough so it won't interfere with your work. But big enough to help you make smart decisions. You'll need a fast 486 or Pentium™ processor-based networked PC. CNN at Work is easy to install and won't cause any trouble on your network. (Except

ANDY FREEBERG

POWER COUPLE: THE MAXWELLS

> The trick in creating the PowerBar was to make it palatable. The first versions were "horrible glop," Brian Maxwell says

dizzy in the last mile. Although e were some products on the market claimed to boost energy, Maxwell 't think they worked. So he began ng to cook up his own using a mix of edients and the stove in his kitchen. he basic energy bar recipe is a bal- of simple carbohydrates for quick energy, complex carbohydrates for sustained energy, and low fat to make it easy to digest. The trick is making it palatable. The first stuff out of the pan was "horrible glop," says Maxwell. He teamed up with his girlfriend (now wife), Jennifer—a marathon runner and nutritionist—and for three years they experimented, wrapping the bars in plastic for their runner friends to try. "We got to be a joke," Maxwell says. Instead of improving performance, the bars sometimes sent their friends "running straight to the bathroom."

Eventually they hit on a mix of fructose, oat bran, maltodextrins, and milk proteins. They packed the bars with vitamins, minerals, and amino acids and flavors such as chocolate or berry. The result hardly tasted like a Snickers bar, but it was a lot healthier. Amateur and professional athletes snapped them up. The first U.S. cycling team to ride the Tour de France asked for free PowerBars in return for sponsorship. That prompted CBS Sports to broadcast a short profile of the company in 1987, after which sales through bike shops and mail order took off. Today, PowerBars are found from Kroger stores to price clubs, where they are discounted off their high $1.69 suggested retail price. Maxwell also sees plenty of opportunity overseas. International sales already make up 9% of the total.

Maxwell built his company on a mere $75,000 in capital—"not enough money for a downpayment on a house in Berkeley," he says. The bulk of that came from posing in an ad for Xerox Corp.'s Marathon line of copiers. His dad kicked in $5,000, and Maxwell added $10,000 of

NOW IT'S THE OTHER WAY AROUND.

CNN at Work
CNN

for the occasional flare-up in the Persian Gulf, of course.) You can even retrieve pertinent stories by name with our Story Finder. So you can watch what you want, when you want. Call today for the biggest news in and on PC's. ***1-800-538-3373 Ext.103.*** *CNN at Work. Because sometimes the news just can't wait until you get home.*

CNN AT WORK
intel

CNN at Work in your office requires a specialized gateway connected to your network. (The Intel System for CNN at Work) and monthly subscriptions for each viewer. *Intel and the Intel Inside Logo are registered trademarks of Intel Corporation. ©1994 Cable News Network. All rights reserved.*

his own savings. He used the money to move out of the kitchen and contract with a candymaker to produce PowerBars. But early on, Maxwell learned the value of a motivated workforce and the need to control his own manufacturing.

The quality of the PowerBars churned out by the contractor he hired was inconsistent, and the workers seemed disengaged. "So on the days they'd be making PowerBars, we'd go over there in the morning and slip each of the workers a $20 bill," Maxwell says. Quality improved dramatically.

Still, the contractor's equipment kept choking on the gooey PowerBar formula, because the low fat content failed to keep the machinery properly lubricated. Maxwell, an architecture major, helped design his own machines and opened his own plant in 1989. A "disciple of Tom Peters," Maxwell says he works hard to motivate his workforce of 100. One tool is to add 10% of operating profits to their paychecks each year. "We share our numbers with all the employees," Maxwell says. "Everyone's aware that a PowerBar wrapper costs 4¢ and a shipping carton $1.28."

Motivating new customers is a different challenge. People need to be educated on "why it doesn't taste quite like a candy bar," Maxwell says. Dozens of tiny competitors are nibbling at Powerfood's market, with brand names such as Edge and BTU Stoker. But Maxwell says he is worried only about Gatorade, which is trying to gain an edge on taste by using a fruit juice-fig concentrate as the base ingredient in its GatorBars, while coating them with nuts and grains.

LIFTING ALL BOATS? Maxwell recently got a chilling demonstration of the Quaker division's clout: Gatorade grabbed PowerBar's sponsorship of the Ironman Triathlons, a sports marketing coup, given the publicity the Ironman contest attracts among amateur athletes around the U.S. Maxwell is hoping Gatorade's aggressiveness will only expand the category—giving a lift to all products. But he's also taking pains to ensure he doesn't get stomped. To professionalize operations, he is seeking a new chief financial officer and a new vice-president for sales and marketing, functions he has been handling on his own.

Given the PowerBar brand name, however, the Maxwells could probably sell the company for a tidy profit. Indeed, Jennifer Maxwell, 29, says they've been approached several times. For now, though, the couple is still having fun; the GatorBar rollout seems only to have inflamed their natural competitiveness. As any marathon runner knows, the adrenaline really starts flowing when someone's breathing down your neck.

By Russell Mitchell in Berkeley, Calif.

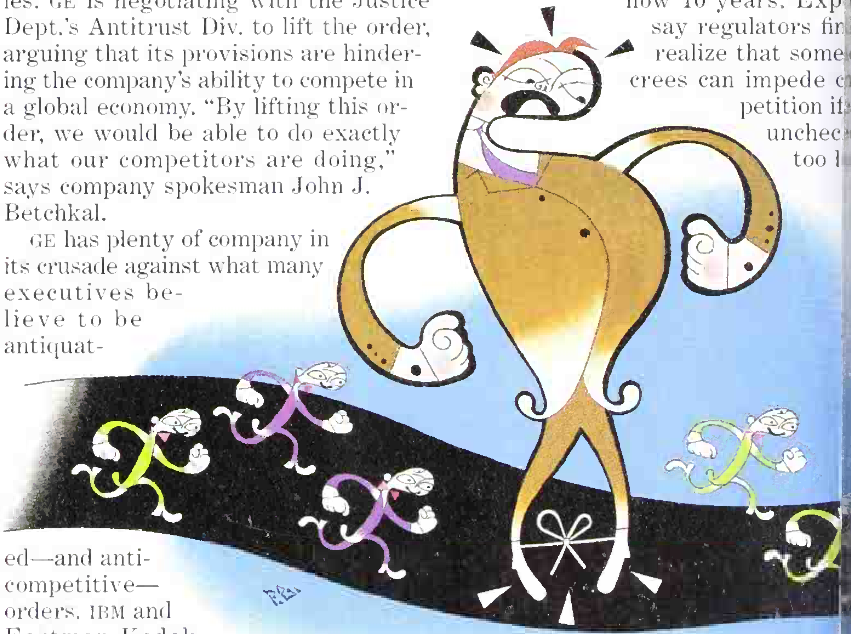
ANTITRUST

OLD, ONEROUS, AND STILL ON THE BOOKS

Are dusty consent decrees hobbling Corporate America?

As anniversaries go, Oct. 12 was an odd one for General Electric Co. It was on that day 83 years ago that GE signed an agreement with the government designed to weaken the company's dominance of the lighting industry. Among other measures, the consent decree banned GE from manufacturing private-label or generic lighting products and required the company to disclose its ownership of several lighting businesses that had been thought to be independent.

But that was all during the time of the Model T, the first transcontinental airplane flight, and the great trustbuster William Howard Taft. Today, GE and a growing number of other companies constrained by decades-old consent decrees say it's time to remove the shackles. GE is negotiating with the Justice Dept.'s Antitrust Div. to lift the order, arguing that its provisions are hindering the company's ability to compete in a global economy. "By lifting this order, we would be able to do exactly what our competitors are doing," says company spokesman John J. Betchkal.



GE has plenty of company in its crusade against what many executives believe to be antiquated—and anti-competitive—orders. IBM and Eastman Kodak Co. have joined the fight, too. The argument is simple: How can antitrust agreements written decades ago be relevant in today's economy? "You would have to be a genius to write a decree that would be effective for 50 years," says Stephen Calkins, an antitrust expert at Wayne State University Law School.

What has suddenly spurred th challenges, after years of little or no tivity? Part of the answer, say expe is that global competition has gre intensified over the past decade. for instance, has been hit particul hard and has been frustrated watch competitors flourish under practices barred from using.

SLACKING OFF. Another factor has b a change in the government's attit It used to be almost impossible to suade regulators and courts to aban or modify consent decrees. But in J the Federal Trade Commission nounced that its antitrust decrees w lapse after 20 years. The agency invited companies to seek review old decrees. The average life spa the Justice Dept.'s antitrust order now 10 years. Exp say regulators fin realize that some crees can impede c petition if unchec too l

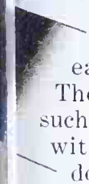
"The problem with these decrees is they don't learn with society," says iel M. Wall, an antitrust lawyer in Francisco.

GE, for example, wants to begi fering private-label lightbulbs to re ers—a business segment that gl competitors such as Philips Ligh

Osram Sylvania Inc. already have. ddition, the company wants to sell eric products to compete in the low-riced end of the lighting market. company won't say how much these eavors would be worth but is con-ed that rivals are profiting from its licament. The government is weigh-E's request.

xperts estimate that more than 100 nese decades-old decrees are still rolling some corporate behavior. t antitrust agree-ts entered into today 't open-ended. For nple, the settlement ched recently be-en the government Microsoft Corp. is to expire in just 6½ s.

EASE? Yet for all the iment that has been essed in favor of up-ng outmoded enforce-t measures, compa- are encountering opposition. Critics it's because even the passage of time a more global mar-lace, many compa-still retain too much rol over their indus-s to be freed from in restraints. IBM is ing heads with a ber of its competi-over a 1956 consent ee that, among oth-ings, forced it to of-omputer services rately from its man-uring and sales busi- It also required IBM, h had previously leased its equip-, to sell outright its uters and equipment mpetitors.



ch provisions creat-what are now multibillion-dollar ftermarkets composed of independent leasing and service businesses and dealers of used IBM computer equipment. The 265 independent lessors alone earn more than $15 billion. These companies argue that such revenues would plummet without the decree. "If you don't regulate IBM, it will put cuffs on companies like ours to com- effectively. And that will cause con-ers to suffer," argues Philip A. es, a senior vice-president at Com- Inc., the largest independent com--leasing company.

dependent service organizations (ISOs) agree, arguing that the court should draw a distinction between IBM's diminished strength in manufacturing and its continued dominance of the computer-service business. "There is a superficial appeal to IBM's argument that we need to reassess things after 40 years," says Ronald S. Katz, a San Francisco lawyer who represents the ISOs. "But IBM could hobble or get rid of its competition" if the decree were to be lifted. IBM, which has said it must be free to match such competitors as Electronic Data Systems Inc., declines to comment.

IRONIC. Thus far, the Justice Dept. has remained silent on the IBM case, which is pending in federal court. Not so with respect to Kodak, which in May persuaded a court to overturn two consent decrees. Kodak successfully argued that it no longer possessed enough power to control prices or hinder competition. Consequently, Kodak claimed it should be allowed to sell private-label film and to bundle its film and photofinishing businesses. Robert B. Bell, Kodak's antitrust counsel in Washington, says his client would have come out with a number of innovative products if it weren't for the decrees from 1921 and 1954.

The government has appealed the Kodak case, arguing that the company still wields too much market control. The appeal, which is expected to be heard in January, is deemed so important that Assistant Attorney General Anne K. Bingaman is expected to make a rare court appearance to argue the case herself. That Bingaman would be battling the case so hard strikes some critics as ironic. "It's really baffling to companies to have the government fight decrees that are 80 years old when current policy allows them to expire in 10 years," says Bell.

Baffling, maybe. But the Kodak decision could affect dozens of other decrees on the books by creating a new legal standard for overturning them. That's a feat in antitrust law that hasn't been accomplished since 1932—the time of prohibition and the kidnapping of Charles Lindbergh Jr.

By Linda Himelstein in New York

TRYING TO UNLOOSEN OLD TETHERS

EASTMAN KODAK Kodak is fighting a 1921 decree that bars it from selling private-label film and a 1954 decree that prohibits it from selling film and photofinishing in one package.

IBM The computer maker wants to overturn a 1956 order that requires IBM to sell its machines outright to customers instead of only leasing them. The decree also forces IBM to provide parts to independent service organizations and to sell its data processing services through a separate subsidiary that treats IBM like any other unaffiliated customer.

GENERAL ELECTRIC GE has asked the Justice Dept. to consider lifting a 1911 order designed to dilute GE's control of the lamp market. Among other provisions, the old decree prohibits GE from manufacturing private-label or generic lighting products.

Whaddya Say To A Guy Who's Had The Same Job For 50 Years, Has Never Called In Sick Or Showed Up Late, Never Taken A Vacation Or A Holiday, Never Asked For A Raise Or Griped About His Bonus And, Believe It Or Not, Has No Plans For Retirement?

SMOKEY

Thanks.

Remember - only you can prevent forest fires.

Ad Council A Public Service of the USDA Forest Service and Your State Forester.

3800
SUPERCHARGED

GM ©1994 GM Corp. All rights reserved.
Riviera is a registered trademark of GM Corp.
Buckle up, America!

Finally, a supercharged concept car…
comes to life.

The Concept.

The concept is simple. Help an
gine breathe, and both power and
iciency will be enhanced.

The Car.

To make it happen, our engineers
percharged the 3800 V6 engine.

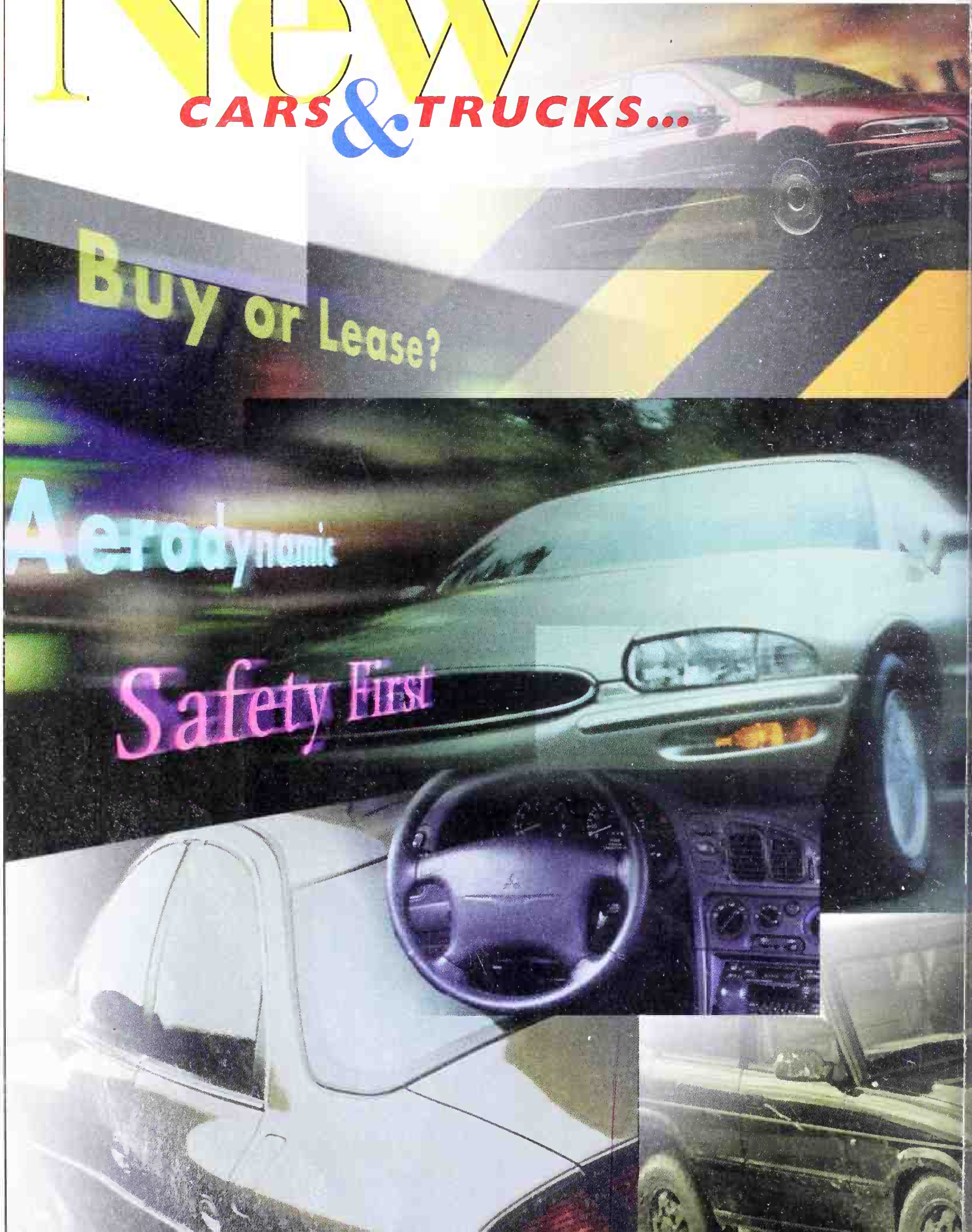
The result is a highly reliable engine with the efficiency of a V6, and more horsepower than many V8s. That means excellent acceleration for passing and expressway merging.

See and drive Riviera, with its available supercharged V6, at your Buick dealer. To learn more, call 1-800-4-RIVIERA.

Riviera by Buick

New CARS & TRUCKS...

What's Coming in '95 and Beyo


Buy or Lease?
Aerodynamic
Safety First

Thinking about a new car or truck? Just take a look at your options in 1995. There are more than 900 models to choose from, including a remarkable number of completely new vehicles.

The large selection promises to kick vehicle sales that are already in high gear into overdrive. Analysts figure the domestics could sell another 500,000 units in 1995 if they had the capacity to build them. "From a buyer's standpoint," observes William Pochiluk, president of Autofacts, Inc., in West Chester, PA, "it's a pretty exciting time."

The U.S. auto industry, by the way, may not be where you think it is. True, Michigan cranks out one-third of the nation's automobiles. Ohio ranks second with a little over 16%. Third place goes to...Tennessee, which boasts some of the auto industry's most advanced assembly plants. Its factories produce more than 600,000 vehicles annually, including the Saturn line of cars, Nissan's Altima sedan, Peterbilt highway trucks and Komatsu Dresser heavy construction equipment.

Tennessee is also home to a remarkably broad range of more than 130 automotive suppliers. Goodyear and Bridgestone/Firestone operate major radial tire plants in the state, for example. Other companies produce everything from airbags, automotive glass and mirrors to exhaust systems, electrical components and hoses.

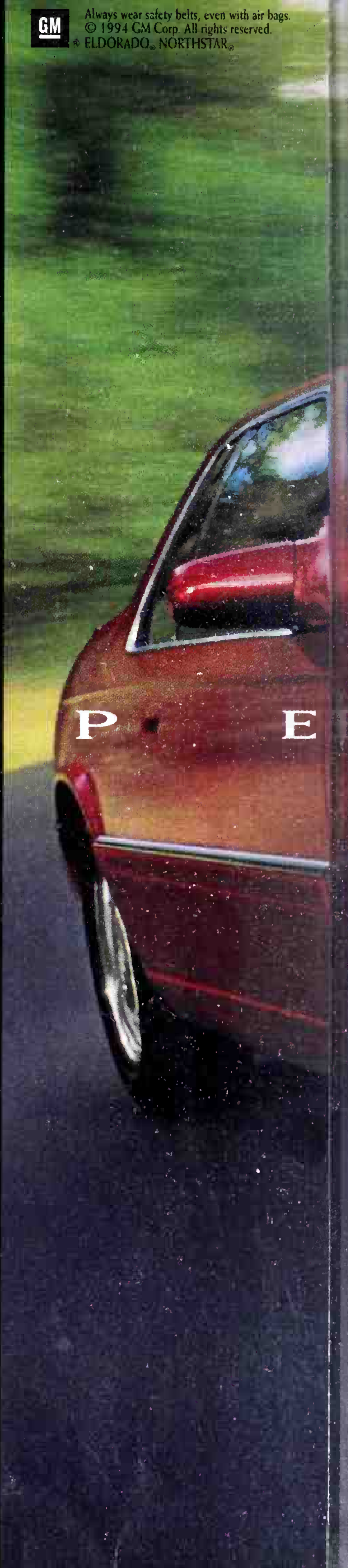
Tennessee, which didn't even rank in the top 10 car producers four years ago, credits its rapid growth to an eager work force and an aggressive business development program fostered by Gov. Ned McWherter. Manufacturing now accounts for nearly 25% of the state's employment and about 30% of its $5 billion-plus annual output.

Imports, meanwhile, face pressure from unfavorable currency exchange rates. For models made in Japan, the handicap works out to some $2,500 per vehicle, says Chris Cedergren, senior vice-president with AutoPacific Group Inc. in Santa Ana, CA.

Making sense of 1995 pricing is, as usual, difficult. Average price hikes are modest. But hide big jumps for some models. And the industry's sharp drop in the use of sales incentives can make actual transaction prices higher.

Price won't be the only factor in determining sales volume this year, of course. Safety has leaped near the top of buyer wish lists, along with styling and performance. Fortunately, manufacturers are making all three "standard equipment" this fall.

uy or
rodynami
Safety



GM

Always wear safety belts, even with air bags.
© 1994 GM Corp. All rights reserved.
® ELDORADO®, NORTHSTAR®

Yoga? Herbal wraps? Maybe for some.

But we endorse a more aggressive form of relaxation.

The kind you can only get in an Eldorado Touring Coupe.

RELAXATION THERAPY

Consider. With our 32-valve, 300-hp V8, in just 7.5 seconds your troubles will be 60 mph behind you.

To help shrug off life's little potholes, our Road-Sensing Suspension reads and then instantly adjusts to every inch of pavement.

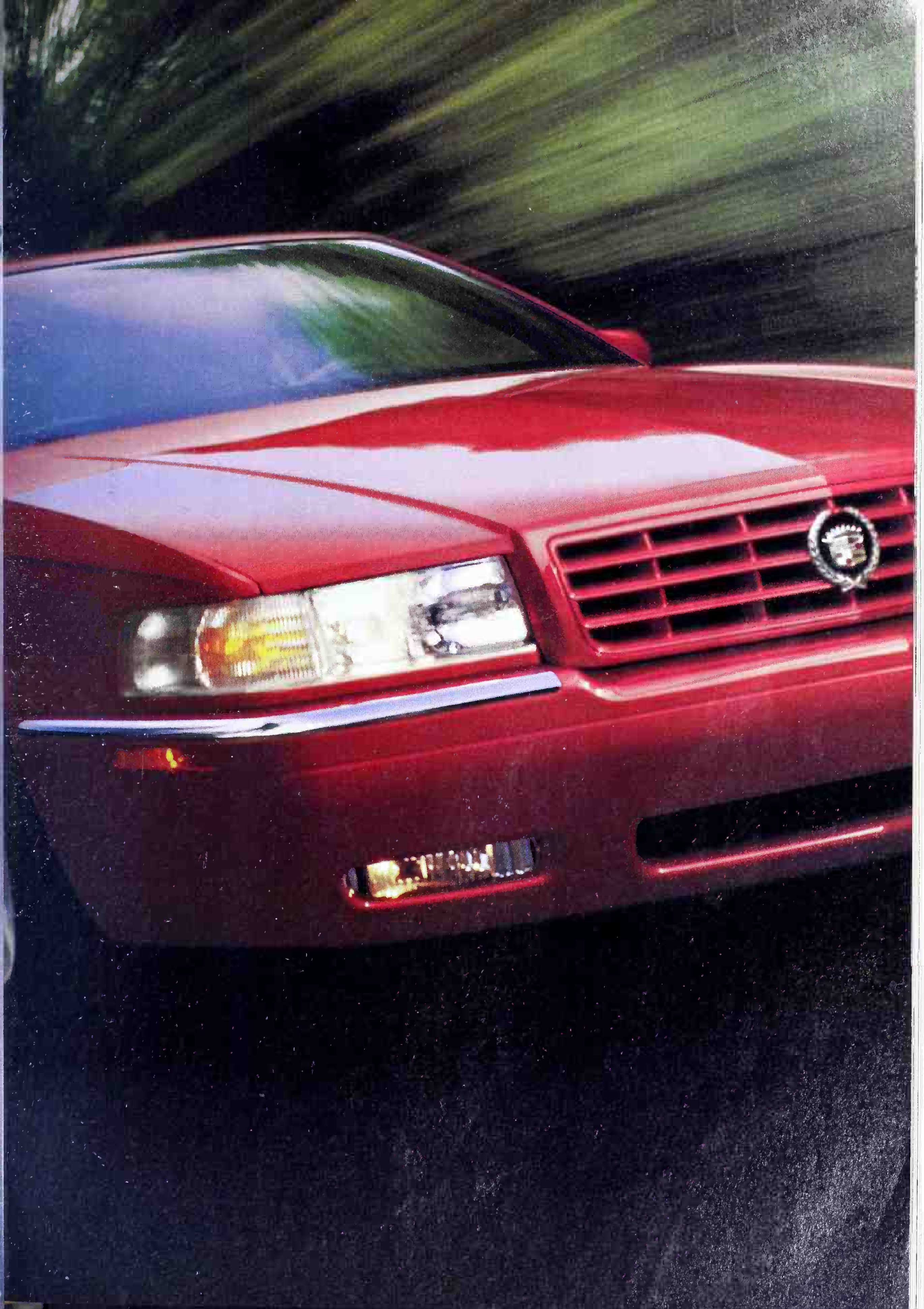
ESCAPE

And thanks to our Speed-Sensitive Steering, the faster you go, the more firmly you'll feel in control.

Isn't it wonderful that something so therapeutic can be so much fun?

Northstar System: 32-Valve, 300-HP V8
• Road-Sensing Suspension • Traction Control
• ABS • Speed-Sensitive Steering • Plus Dual Air Bags
• Call 1-800-333-4CAD

ELDORADO TOURING COUPE
CREATING A HIGHER STANDARD™



DETROIT'S PRODUCT PARADE

Detroit's Big Three auto makers rarely pick the same year in which to overhaul their most popular car models. But that's what happened for 1995. Manufacturers are rolling out nearly two dozen completely new vehicles, the most for a single model year in recent history.

Most of the new iron are subcompact, compact, and midsize coupes and sedans in the $12,000 to $20,000 price range. That's the midsection of the market representing some 75% of total auto sales in the United States. On the truck side, a bevy of all-new minivans and spo utility vehicles debuts in segme that account for nearly half of truck sales.

General Motors Corp.

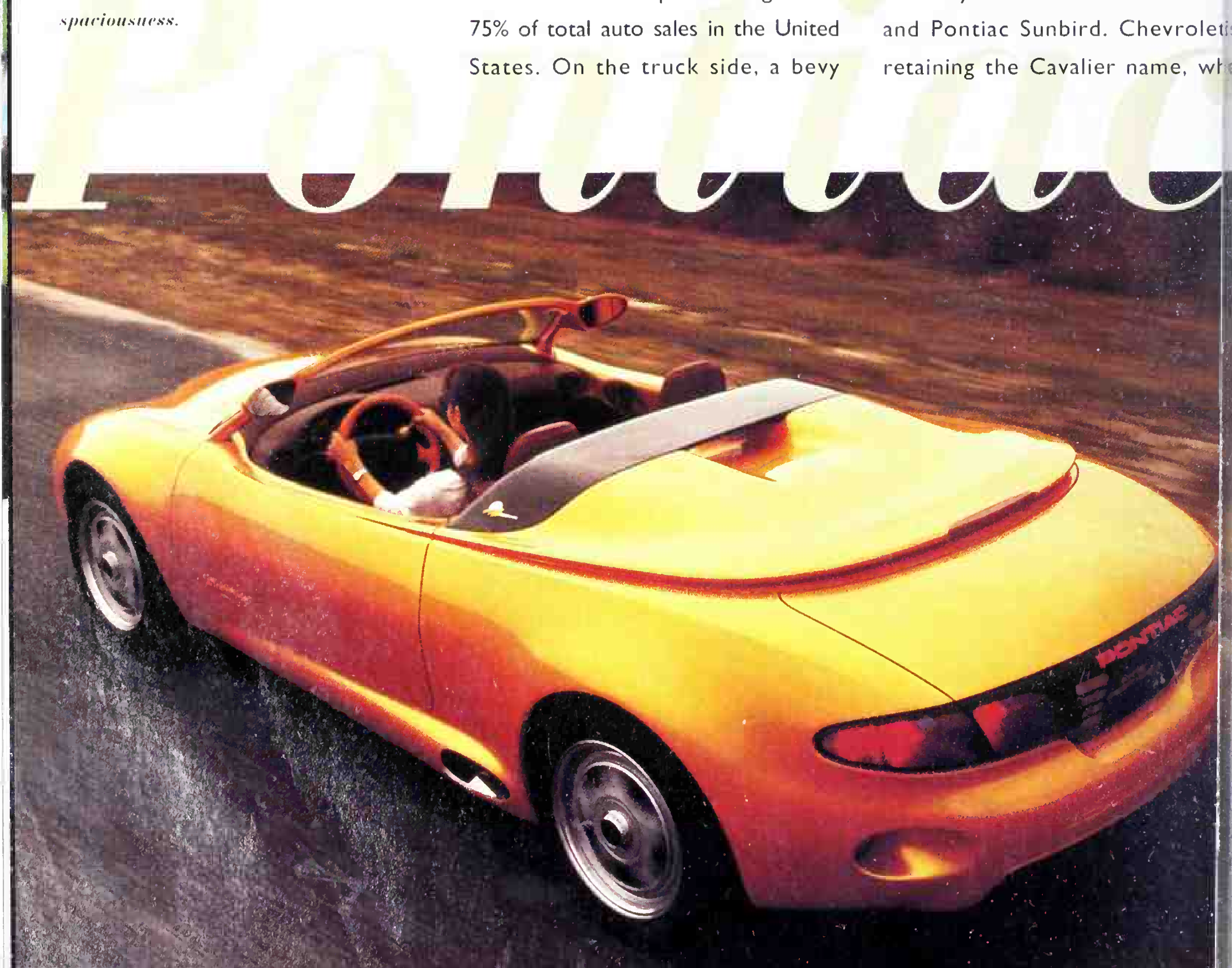
GM has the most to gain in 1995 w a huge array of new products. Unl most of its rivals, it has the capacity build them. If you're looking fo comeback story this year, GM may be.

This fall's new GM models st with all-new, sporty replacements the 14-year-old Chevrolet Caval and Pontiac Sunbird. Chevrolet retaining the Cavalier name, wh

Sunfire Speedster

Below: Pontiac's new Sunfire subcompact was inspired by this open-air concept roadster that appeared at auto shows earlier this year.

Above: The Speedster's interior features a low "belt line" to give occupants a feeling of uncluttered spaciousness.



Chevrole

MONTE CARLO
MONTE CARLO
LS

ıntiac is calling its new model Sune. The highly equipped twin submpacts (around $12,000) include ındard dual airbags and four-wheel tilock brakes. Both models are ıger and wider with a stiffer structre for improved handling. Converıle editions debut next spring.

GM has also freshened its six-passnger Chevrolet Lumina four-door d loaded it with such features as al airbags, remote door locks, and advanced theft-deterring ignition y system. The Monte Carlo name revived in a powerful two-door rsion of the Lumina.

The Geo Metro also takes on a new d stiffer body that offers roomier nensions.

At the top end of the market, GM buts the stunning Buick Riviera upe ($27,600 and up) and fourıor Oldsmobile Aurora (about $32,00). The sister cars provide buyers with a smooth ride, powerful acceleration and dramatic "aero" styling.

Ford Motor Co.

Most of the attention at Ford is focused on the results of its $6 billion project to replace its Ford Tempo, Mercury Topaz and European Sierra compacts with a single "world car" design concept. Called the Mondeo overseas, the all-new design debuts in the United States this fall as the Ford Contour and Mercury Mystique.

1995 Monte Carlo

Chevrolet revives its famous Monte Carlo name this year as a well-equipped two-door Lumina with an available 210 hp. engine.

Geo Metro Sedan

Longer and wider for '95, the Metro has been America's fuel-economy champ for six years.

It suggests both Fortu

Calfnap-grained leather-trimmed seats. Cavernous space thanks to its innovative cab-for

design. A premium 120-watt Chry

Infinity Spatial Imag

Sound System

no fewer tha

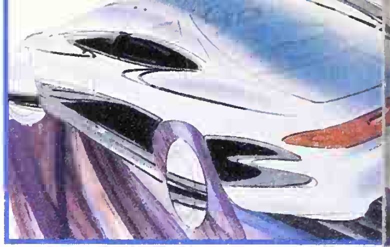
0 and Indianapolis 500.

ers. And, of course, driver and front passenger air bags.† Why, with all that, you'd think we made
ar exclusively for the corporate elite. Enter a 214 horsepower, 24-valve, 3.5 liter V6 engine.
touring suspension and traction control. Plus a wide track for superior handling. And you'd be
think racing elite. Chrysler LHS. Whatever circles you drive in, you'll be comfortable in both.

ore information, call 1-800-4-A-CHRYSLER.

Chrysler LHS
form follows function

Fortune 500 is a registered trademark of Time Inc. Indianapolis 500 is a registered trademark of IMS Corp. †Always wear your seat belt.



Mercury Mystique

Below: The front-drive Mystique offers a light-weight V-6 engine, nimble handling, optional antilock brakes and traction control.

Above: The Mystique was conceptualized with a seamless "cab forward" design that improves interior roominess.

Observers are calling the new cars Ford's most sophisticated compacts ever. They feature a sportier suspension, new engines, and transmissions, roomier interiors, contemporary styling, and a V-6 engine that requires no maintenance (except for routine fluid and filter changes) for 100,000 miles.

Ford also introduces an all-new subcompact Aspire (around $9,000) and restyled Lincoln Continental this year. The Aspire is billed as the least expensive car offered in the United States with standard dual airbags. Antilock brakes are optional. The Continental arrives with traction control, a stiffer body, and revised suspension.

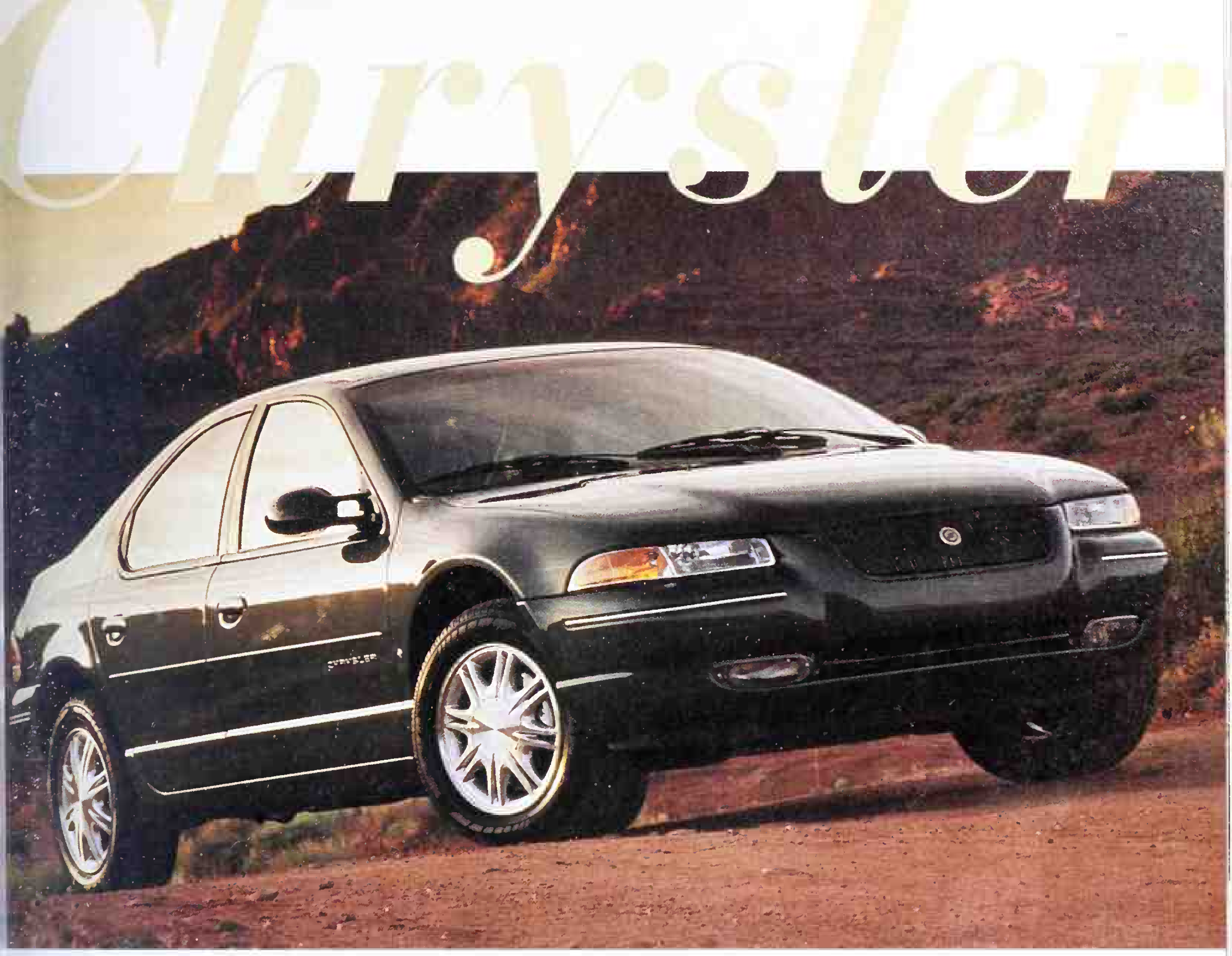
Chrysler Corp.

Chrysler Corp. rolled into the 195 model year with its production ca- city already strapped. The problem likely to persist as the company co- tinues its five-year, $20 billion pr- uct make over.

Chrysler's perky Neon subco- pact has been an instant hit sin debuting earlier this year. A mo powerful two-door coupe, the Ne Sport, has been added this fall.

Two compacts, Chrysler Cir and Dodge Stratus (base-priced un $14,000), take over for the Accl and Spirit two-doors, respectively

Mercury
MYSTIQUE
Mystique LS
Mercury



Cirrus LXi

Chrysler's big-windowed Cirrus LXi is a compact sedan with rack-and-pinion steering and a V-6 engine that produces 164 hp. The Cirrus and its sister model, the Dodge Stratus, provide the interior roominess of intermediate size cars.

rd version is likely to appear under Plymouth nameplate next fall.

Roomy Chrysler Sebring and dge Avenger sport coupes 4,000-$17,500) step in for the aron and Daytona (with convert- e editions of the midsize models ected next summer).

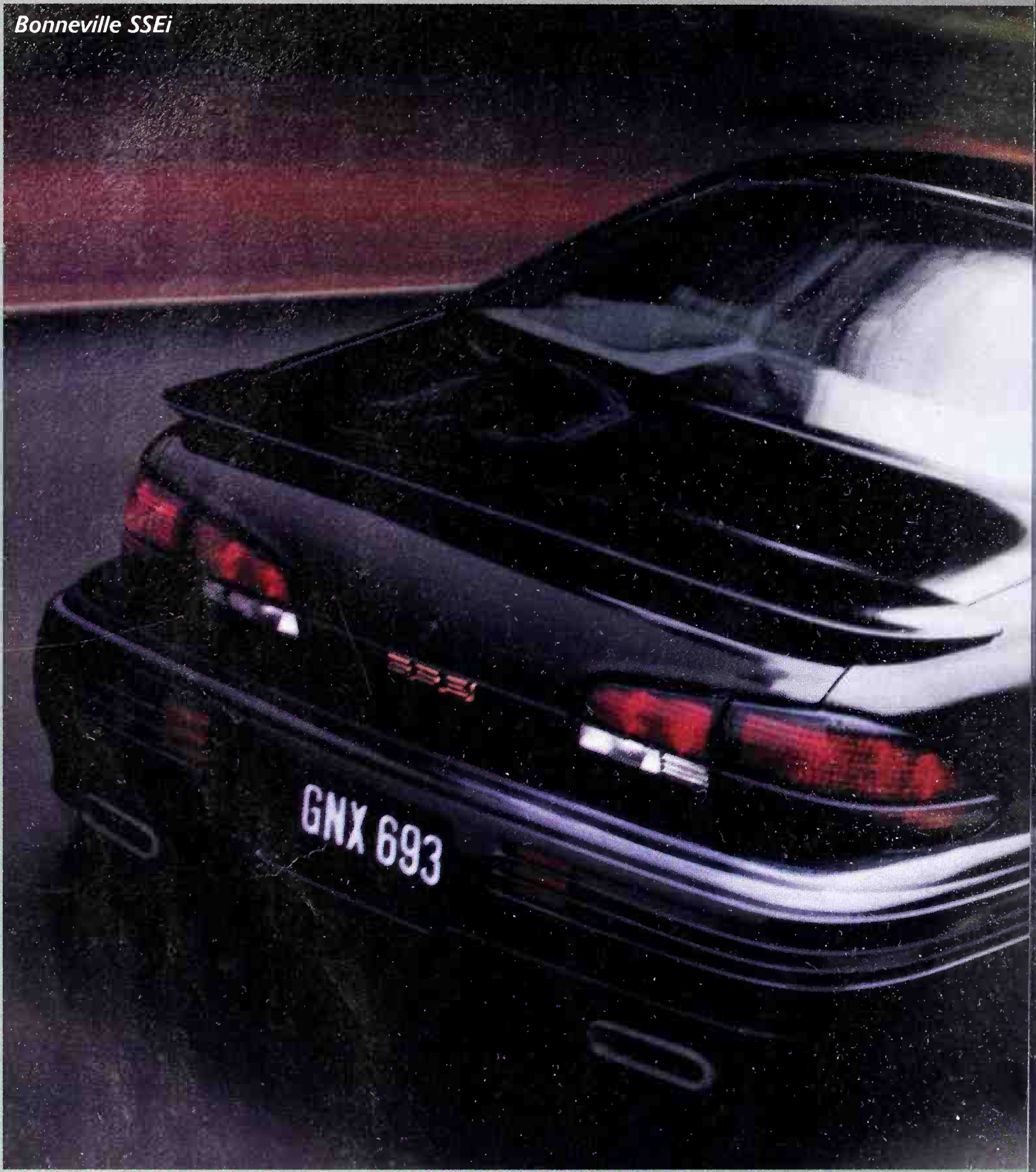
WAVE OF IMPORTS

o makers in Asia and Europe have nty of new iron to show off in 5. Here are some highlights:

BMW adds three models. The 316i mpact is a bobtailed, three-door chback. The M3 is a high-performance, rear-drive coupe producing 240 horsepower. And a new edition of BMW's big 7-Series sedan gets more room and power.

HONDA unveils Odyssey, its first minivan, early next year. Built on the same "platform" as its popular Accord sedan, the sleek vehicle is being described by Honda as a "family utility vehicle."

HYUNDAI replaces its Excel with a longer and more powerful model, the Accent, this winter. Hyundai is also reportedly working on a minivan but isn't expected to introduce it for another two years.



The Pontiac® Bonneville SSEi is engineered for enthusiastic perform
Inspired and technologically advanced, it is a car uni
fitted to the driver. SSEi's design bridges the Atl
incorporating the best from both Europe and Am
From its 225-horsepower supercharged V6 t
sumptuous available leather seating areas,

PONTIAC CARES with a 3-year/36,000-mile no-deductible bumper-to-bumper limited warranty, plus free 24-hour R

1994 GM Corp. All rights reserved. Always wear safety belts, even with airbags.

Reserved is where you park.

Not how you drive.

ds you with a feeling of sophisticated power. And exciting refinement. More horsepower
a BMW 525i and more torque than the Lexus LS 400.* ABS and dual airbags are standard.
eville® grips the road with available Traction Control and
uter Command Ride adjustable suspension system. You
spend thousands more on a driving sedan of this caliber.
hy? Call **1-800-2PONTIAC** for complete information.

PONTIAC
BONNEVILLE
WE ARE DRIVING EXCITEMENT™

ce and Courtesy Transportation. See your dealer for details. *Based on MSRP of comparably equipped 1994 BMW 525i and Lexus LS 400 models.

New Cars & Trucks...

1995 Eclipse GSX

Top Right: The turbo-charged, all-wheel-drive Mitsubishi Eclipse GSX was designed in California and is built in Illinois.

Below: The Eclipse features dual airbags and a lower cowl that adds roominess.

Volkswagen GTI VR6

Bottom Right: Volkswagen's GTI can scamper from zero to 60 mph in less than 7 seconds, thanks to a V-6 engine that produces 172 hp.

JAGUAR, owned by Ford Motor Co., introduces a new XJ6 sedan that revives the marque's classic round head lamps. The car will come equipped with a supercharged, six-cylinder engine putting out 330 horsepower.

KIA, the Korean auto maker who also supplies Ford's new Aspire subcompact car, unveils a pint-sized sport-utility vehicle of its own, the four-door, four-wheel drive Sportage.

Lexus presents the first major redesign of its flagship LS400 luxury model. The new version will be longer, lighter, and more powerful that its predecessor.

MAZDA is making waves with its 1995 Millenia, a luxury car with a cut-rate price ($26,000). The four-door features an optional V-6 engine with unusually high output, thanks to modifications in the timing of the traditional four-stroke cycle.

Mitsubishi reengineers its Eclipse sports car (built with its twin, Chrysler's Eagle Talon, in Normal, IL by Mitsubishi's Diamond Star Mot The plant also produces the Do Avenger and Chrysler Sebring).

NISSAN presents redesigned re-engineered versions of its en level Sentra, 240SX rear-drive sp coupe and family-sized Maxima.

TOYOTA offers a redone subc pact Tercel and introduces its lar sedan ever, the six-passenger Ava A mini-sport utility vehicle is exp ed next summer.

SUBARU gives its all-wheel d Legacy an aero look and introdu traction control.

VOLKSWAGEN revives a conver version of its third-generation G the '95 Cabrio. A sporty, V6-pow coupe, the GTI, also bows.

BUY OR LEASE?

This year the average price new car is running close to $19, according to the National Auto bile Dealers Assoc. That's up f $15,900 five years ago. But no prices are rising. Stickers on so '95 models — many of them lu cars from Europe — have plunged several thousand dollars.

It'll take some hunting to fi bargain, though. As usual, some "b price models will be virtually imp sible to find. And while some pr are down, others — frequently th attached to the all-new models are up significantly.

Mitsubishi

Volkswagen

Announcing a car luxurious enough for the conservative right, and sporty enough for a radical left.

The Infiniti G20t.

© 1994 Infiniti Division of Nissan Motor Corporation U.S.A.

The Infiniti® G20® has always been more than simply an affordable model in our luxury car line. It's an affordable luxury model in our luxury car line.

From the treatment you receive when you buy it to the amenities you enjoy when you drive it, the G20 leaves no doubt that it was designed to be, above all else, an Infiniti.

Now, in the new G20t (for "touring"), our concept of luxury takes a considerably more aggressive turn.

To the road-gripping qualities of the G20's standard — and exclusive — multi-link front suspension, the G20t adds a viscous limited-slip differential to help increase traction on less predictable surfaces.

There's a leather-appointed interior, including power sport seats with lateral bolsters to assist in holding you secure under such conditions.

There's even a number you can call to satisfy your growing curiosity. It's 1-800-341-4560.

That, along with a Guest Drive® at your Infiniti showroom, should clearly demonstrate that no matter what your automotive preferences may be — conservative luxury or liberal doses of performance — the experience will never be middle-of-the-road.

It's everything that's possible.™

INFINITI®

One alternative is to lease your next vehicle. About one in four shoppers does these days. When you lease, you end up driving "more car" than you could afford if you purchased outright.

Is leasing right for you? If you're over age 50, you probably don't think so, according to studies. Indeed, buying makes sense if you drive more than about 15,000 miles annually, expect to keep your vehicle five years or longer, or plan on customizing it with extensive add-ons such as a complicated stereo system.

Consider leasing if you like a new set of wheels every two or three years, loathe the trade-in process, or want to leverage your monthly payments into the fanciest vehicle possible. You can also lease used cars. True, you don't end up owning anything when you lease. But proponents say that is no great loss, since a car or truck is a depreciating asset.

CLEANER INSIDE AIR

Today's cars are already much cleaner for the outside environment. But what about conditions inside the vehicle? Research suggests that the air inside your car may be up to eight times more contaminated than the air outside.

3M Ventilation Filte

Above: Filters like this on
are designed to fit inside
a car's heating and coolin
system. They prevent pol
tants and odors from en-
tering the passenger cabi

Infiniti I30

Below: The I30 is the new
addition to Infiniti's line
of luxury cars. The front-
wheel drive sedan will de
next spring as a '96 mode

Critically acclaimed. Now available on video.

"A healthy assortment of amenities – from air conditioning, electric windows and cruise control to an alarm, an adjustable steering column and power mirrors – is standard."
1993 Road & Track Buyer's Guide

"...space is more abundant than you'd expect in a car of the G20's size, truly able to accommodate four 6-footers."
1993 Road & Track Buyer's Guide

.sufficient to make a
MW 318i owner think
ice before offering any
pplight challenges."
G20t, Motor Trend
April 1994

"Regardless of price, it's sure to possess distinct appeal for anyone with a passion for driving."
G20t, Motor Trend
April 1994

The Infiniti G20

Built to tolerances of .001 inch. State-of-the-art construction and design. Full spectrum sound.

And we're just talking about our video. Which, by no mere coincidence, is the ideal way to become acquainted with a luxury sedan that has received enthusiastic "thumbs up" from critics and drivers alike: The Infiniti® G20.®

To receive a copy of our video, or to arrange for a Guest Drive,® simply call our toll-free number.

Who knows? It could be the one time you and the critics find yourselves in complete agreement.

1-800-419-7521

It's everything that's possible.™

INFINITI®

994 Infiniti Division of Nissan Motor Corporation U.S.A.

Auto makers are beginning to offer a solution: high-tech filters that help your car's heating and air conditioning system trap dust, pollen, smoke, and other pollutants. Some, such as the newest additions to 3M Inc.'s line of Filtrete™ cabin air filters, trap unpleasant gases as well. The dual 3M filters use carbon to soak up gases and a proprietary electrostatic fiber that captures particles as small as four millionths of an inch across.

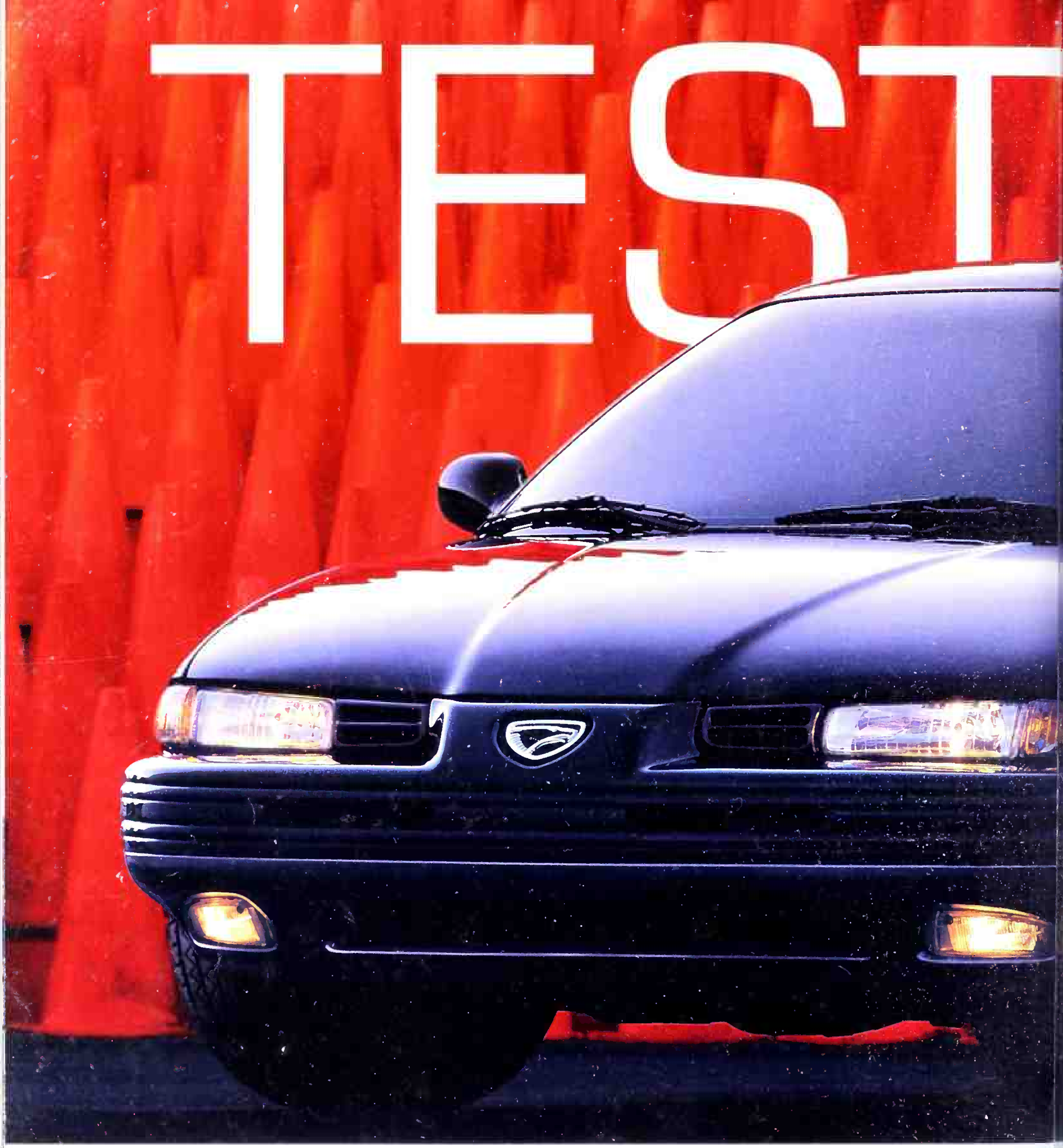
Cabin air filters first showed up in luxury European cars. Now they're popping up in more moderately pri models from several other manuf turers. You'll find them in curr models from Mercedes-Benz, BM Fiat, Opel, Saab, and Infiniti, am others. Dual-mode filters will app in several U.S. models in the late '9

Cabin air filters like the ones fr 3M are 100% efficient at trapping la er particles such as pollen and spo They are designed to be replaced 15,000 miles or about once a year coincide with routine vehicle mai nance schedules.

Lincoln Continental

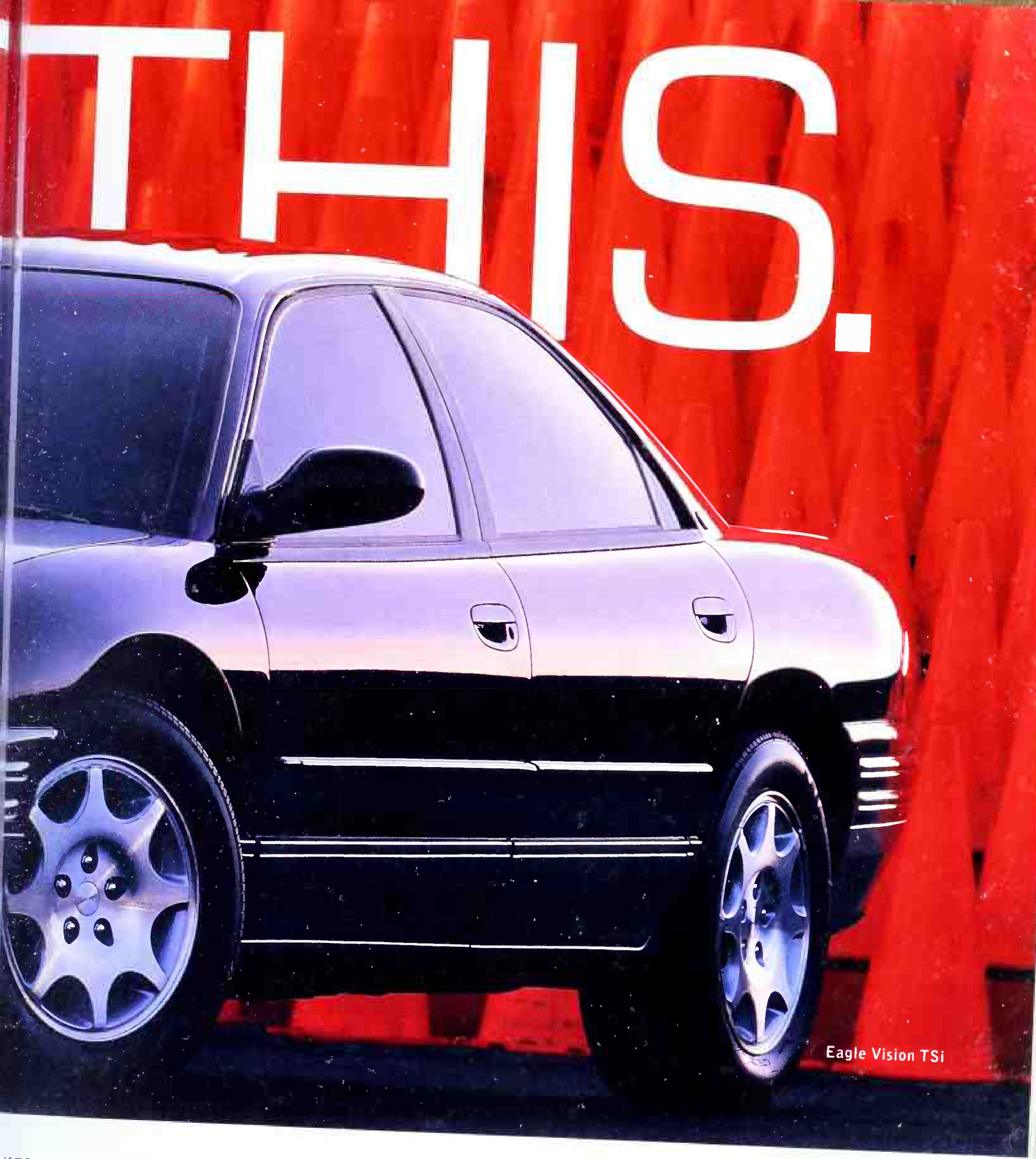
The all-new Continental is Lincoln's first model to come with front-wheel drive. It comes equipped with a V-8 engine, dual airbags, ABS, and optional traction control.

EAGLE



THE EAGLE VISION TSi

NO MATTER WHAT WE SAY, NOTHING MATTERS UNTIL YOU ACTUALLY GET IN AND DRIVE THIS CAR. UNTIL THEN, WORDS LIKE 24-VALVE 214 HORSEPOWER ENGINE, FULLY INDEPENDENT SUSPENSION, SPEED-SENSITIVE VARIABLE-ASSIST POWER STEERING, POWER FOUR-WHEEL ANTI-LOCK BRAKES, AND OPTIONAL LOW-SPEE TRACTION CONTROL CAN ONLY HEIGHTEN YOUR EXPECTATIONS. TRY IT FOR YOURSELF, AND TH PROTECTION OF EAGLE VISION'S DRIVER AND PASSENGER AIR BAGS,* THE COMFORT OF IT AUTOMATIC TEMPERATURE CONTROL SYSTEM AND THE SOUND OF AN OPTIONAL ELEVEN-



KER SPATIAL IMAGING™ AUDIO SYSTEM WILL
ME SOMETHING MORE THAN A MATTER OF
ECTURE. WHICH IS WHY WE CREATED THE
E TEST DRIVE. A SYSTEMATIC EVALUATION
GNED TO DEMONSTRATE THE CUTTING-EDGE
NOLOGY CHRYSLER CORPORATION PUTS
EVERY EAGLE. ON THE NEXT PAGE, YOU'LL

FIND A HANDY GUIDE. JUST TAKE IT TO YOUR EAGLE DEALER AND GIVE VISION YOUR OWN REAL-WORLD TEST. THEN ASK YOURSELF THE ONLY QUESTION THAT REALLY MATTERS: DID WE PASS THE TEST?

THE EAGLE TEST DRIVE

*Always wear your seat belt

WITH THIS.

WHEN YOU VISIT YOUR EAGLE DEALER, WE INVITE YOU TO TAKE THIS EVALUATION FORM TO USE AS YOUR GUIDE FOR TESTING THE EAGLE VISION FEATURE-BY-FEATURE. AFTER YOU'VE COMPLETED THE TEST DRIVE, WE SUGGEST THAT YOU RECORD YOUR IMPRESSIONS, RATING EACH OF THE FOLLOWING TEST CRITERIA.

RATE 1 (LOWEST) TO 5 (HIGHEST)

EXTERIOR APPEARANCE

☐ 1. Design & Color
☐ 2. Door Entry/Exit

SAFETY/SECURITY FEATURES

☐ 3. Air Bags*
☐ 4. Alarm System
☐ 5. Child Protection

ROAD PERFORMANCE

☐ 6. Steering
☐ 7. Cornering
☐ 8. Acceleration From Stop
☐ 9. Highway Merging/Passing
☐ 10. Braking
☐ 11. Riding Comfort

INTERIOR ACCOMMODATION

☐ 12. Instruments/Visibility
☐ 13. Seating Support & Comfort
☐ 14. Roominess
☐ 15. Climate Control
☐ 16. Audio System
☐ 17. Cargo Space

CUSTOMER ONE ● CARE

☐ 18. 3/36 Bumper-to-Bumper Protection

OTHER (YOUR PERSONAL CHOICE)

RECORD YOUR IMPRESSION OF 1 OR 2 OTHER ITEMS THAT CAUGHT YOUR ATTENTION DURING THE TEST DRIVE (EXAMPLE: THE CONVENIENCE OF EASY ACCESS CONTROLS FOR WINDOWS, MIRRORS, AND POWER DOOR LOCKS AT THE DRIVER'S LEFT.)

☐ 19. ____________
☐ 20. ____________

1. Vision's revolutionary cab-forward design brings the edge of the windshield down and forward and moves all four wheels toward the corners–improving both handling and roominess while establishing a world-renowned design aesthetic (see your dealer for color selections).

2. Easy-opening flush door handles and wide-opening aircraft-style doors make getting in and out a delight.

3. Please don't try them out, but notice that driver and front passenger air bags* are standard on every Vision, as are side-guard door beams and designed-in crumple zones.

4. Ask for a demonstration of the optional vehicle theft alarm system that, when the vehicle is tampered with, will flash headlamps and taillamps, sound the horn, and disable the engine temporarily.

5. Vision offers an optional integrated child safety seat that replaces the center rear armrest and is designed for children weighing 20 to 60 pounds.

6. Speed-sensitive variable-assist power rack-and-pinion steering (standard TSi; optional ESi) makes turning easier in tight parking spots and firmer at highway speeds.

7. A rigid unibody reduces structural bending while the fully independent suspension utilizes front and rear stabilizer bars to control body roll through the turns.

8. Both the standard 3.5 litre engine on TSi and the 3.3 litre engine on ESi (214 and 161 horsepower, respectively) exhibit smooth off-the-line performance. On slippery surfaces, optional traction control (TSi only) limits wheel spin up to 25 mph.

9. Sophisticated sequential multi-point fuel injection and active-tuned air induction (3.5 litre) contribute to instant response for passing at highway speeds.

10. Standard four-wheel disc brakes with ventilated front rotors provide smooth stops. Anti-lock brakes (standard TSi; optional ESi) give you greater steering control to help avoid obstacles during a quick stop.

11. Cab-forward's wheels-to-the-corners design results in a naturally smoother ride. Thanks to the suspension's generous wheel travel, engineers were able to tighten ride and handling properties while minimizing harshness.

12. Steering, shifting, and other operating controls are designed and placed right where you need them. Sight lines are clear to instruments and side mirrors, as well as to traffic due to narrow front roof pillars.

13. Front bucket seats offer infinitely adjustable recliners, driver lumbar adjustment, and 8.6 inches of seat travel. Front seat belts are height-adjustable and belt buckles travel with the seat for proper fit and comfort.

14. Cab-forward helps give Vision an exceptionally roomy interior with generous legroom and shoulder room for three rear seat passengers.

15. Big rotary controls operate a powerful ventilation system with rear seat directional outlets. An automatic temperature control system (standard TSi; optional ESi) lets you set and maintain the temperature you select for the cabin. Solar-control windshield and rear window glass fight heat build-up.

16. Audio includes the standard 6-speaker stereo AM/FM cassette, or an optional 11-speaker Spatial Imaging Sound System with 120-watt amp, 5-band graphic equalizer, and your choice of cassette or compact disc player.

17. Better access to 16.6 cu. ft. of usable trunk space comes by way of a decklid design that lowers the liftover height, making packages much easier to load.

18. Every new 1995 Eagle Vision comes with our Customer One Care, including 3-year/36,000-mile bumper-to-bumper vehicle protection and 24-hour roadside assistance.**

*Always wear your seat belt. ** See limited warranty at dealer. 3/36 excludes normal maintenance and wear items. Roadside assistance provided by Cross Country Motor Club, Inc., and in California by Cross Country Motor Club of California, Inc.

DEALERSHIP NAME ____________
VEHICLE TESTED ____________ PRICE AS TESTED $ ____________
CONDUCTED WITH ____________ DATE ____________
NOTES: ____________

FOR MORE INFORMATION OR AN APPOINTMENT TO TEST-DRIVE EAGLE VISION, PLEASE CALL:

1-800-2-TEST-EAGLE

Litho in U.S.A. 6/94

Toyota

HE OLDER DRIVER

y boomers, those born between 16 and 1964, are starting to push Since this group does most of the buying in America, it's no surprise t auto makers are getting serious ut what they can do to make dri- g more enjoyable for older drivers.

Manufacturers aren't doing it just e nice. Older drivers are the most l to an automotive brand, accord- to a survey commissioned by *omotive News* and *Advertising Age* conducted by J.D. Power & Asso- es. The survey says automotive tomers aged 50 years or more are e as likely to repurchase a brand re customers under age 30. It found the highest loyalty for Cadillac, Buick, Lincoln, and Toyota.

So what do older drivers want in a vehicle? Another study, this one for the Society of Automotive Engineers, provides not-so-surprising answers.

The study asked drivers between 50 and 88 years old to rank 34 ergonomic features. Results suggest auto makers should reduce glare, make seat belts easier to use and simplify the clutter of knobs and buttons on the dash. Other wanted improvements: doors that take less effort to operate and vehicles that are easier to enter and exit.

Avalon XLS

Avalon, Toyota's first full-size car, is built in Georgetown, KY, on a lengthened Camry platform.

Below: Toyota calls the roomy Avalon its most "Americanized" model ever.

WITH THIS.

WHEN YOU VISIT YOUR EAGLE DEALER, WE INVITE YOU TO TAKE THIS EVALUATION FORM TO USE AS YOUR GUIDE FOR TESTING THE EAGLE VISION FEATURE-BY-FEATURE. AFTER YOU'VE COMPLETED THE TEST DRIVE, WE SUGGEST THAT YOU RECORD YOUR IMPRESSIONS, RATING EACH OF THE FOLLOWING TEST CRITERIA.

RATE 1 (LOWEST) TO 5 (HIGHEST)

EXTERIOR APPEARANCE

☐ 1. DESIGN & COLOR
☐ 2. DOOR ENTRY/EXIT

SAFETY/SECURITY FEATURES

☐ 3. AIR BAGS*
☐ 4. ALARM SYSTEM
☐ 5. CHILD PROTECTION

ROAD PERFORMANCE

☐ 6. STEERING
☐ 7. CORNERING
☐ 8. ACCELERATION FROM STOP
☐ 9. HIGHWAY MERGING/PASSING
☐ 10. BRAKING
☐ 11. RIDING COMFORT

INTERIOR ACCOMMODATION

☐ 12. INSTRUMENTS/VISIBILITY
☐ 13. SEATING SUPPORT & COMFORT
☐ 14. ROOMINESS
☐ 15. CLIMATE CONTROL
☐ 16. AUDIO SYSTEM
☐ 17. CARGO SPACE

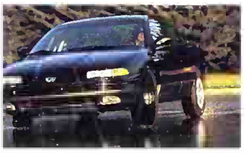
CUSTOMER ONE ✪ CARE

☐ 18. 3/36 BUMPER-TO-BUMPER PROTECTION

OTHER (YOUR PERSONAL CHOICE)

RECORD YOUR IMPRESSION OF 1 OR 2 OTHER ITEMS THAT CAUGHT YOUR ATTENTION DURING THE TEST DRIVE (EXAMPLE: THE CONVENIENCE OF EASY ACCESS CONTROLS FOR WINDOWS, MIRRORS, AND POWER DOOR LOCKS AT THE DRIVER'S LEFT.)

☐ 19. ______________________
☐ 20. ______________________



1. Vision's revolutionary cab-forward design brings the edge of the windshield down and forward and moves all four wheels toward the corners–improving both handling and roominess while establishing a world-renowned design aesthetic (see your dealer for color selections).

2. Easy-opening flush door handles and wide-opening aircraft-style doors make getting in and out a delight.

3. Please don't try them out, but notice that driver and front passenger air bags* are standard on every Vision, as are side-guard door beams and designed-in crumple zones.

4. Ask for a demonstration of the optional vehicle theft alarm system that, when the vehicle is tampered with, will flash headlamps and taillamps, sound the horn, and disable the engine temporarily.

5. Vision offers an optional integrated child safety seat that replaces the center rear armrest and is designed for children weighing 20 to 60 pounds.

6. Speed-sensitive variable-assist power rack-and-pinion steering (standard TSi; optional ESi) makes turning easier in tight parking spots and firmer at highway speeds.

7. A rigid unibody reduces structural bending while the fully independent suspension utilizes front and rear stabilizer bars to control body roll through the turns.

8. Both the standard 3.5 litre engine on TSi and the 3.3 litre engine on ESi (214 and 161 horsepower, respectively) exhibit smooth off-the-line performance. On slippery surfaces, optional traction control (TSi only) limits wheel spin up to 25 mph.

9. Sophisticated sequential multi-point fuel injection and active-tuned air induction (3.5 litre) contribute to instant response for passing at highway speeds.

10. Standard four-wheel disc brakes with ventilated front rotors provide smooth stops. Anti-lock brakes (standard TSi; optional ESi) give you greater steering control to help avoid obstacles during a quick stop.

11. Cab-forward's wheels-to-the-corners design results in a naturally smoother ride. Thanks to the suspension's generous wheel travel, engineers were able to tighten ride and handling properties while minimizing harshness.

12. Steering, shifting, and other operating controls are designed and placed right where you need them. Sight lines are clear to instruments and side mirrors, as well as to traffic due to narrow front roof pillars.

13. Front bucket seats offer infinitely adjustable recliners, driver lumbar adjustment, and 8.6 inches of seat travel. Front seat belts are height-adjustable and belt buckles travel with the seat for proper fit and comfort.

14. Cab-forward helps give Vision an exceptionally roomy interior with generous legroom and shoulder room for three rear seat passengers.

15. Big rotary controls operate a powerful ventilation system with rear seat directional outlets. An automatic temperature control system (standard TSi; optional ESi) lets you set and maintain the temperature you select for the cabin. Solar-control windshield and rear window glass fight heat build-up.

16. Audio includes the standard 6-speaker stereo AM/FM cassette, or an optional 11-speaker Spatial Imaging Sound System with 120-watt amp, 5-band graphic equalizer, and your choice of cassette or compact disc player.

17. Better access to 16.6 cu. ft. of usable trunk space comes by way of a decklid design that lowers the liftover height, making packages much easier to load.

18. Every new 1995 Eagle Vision comes with our Customer One Care, including 3-year/36,000-mile bumper-to-bumper vehicle protection and 24-hour roadside assistance.**

---

*Always wear your seat belt. **See limited warranty at dealer. 3/36 excludes normal maintenance and wear items. Roadside assistance provided by Cross Country Motor Club, Inc., and in California by Cross Country Motor Club of California, Inc.

DEALERSHIP NAME ______________________
VEHICLE TESTED ______________________ PRICE AS TESTED $ ______________________
CONDUCTED WITH ______________________ DATE ______________________
NOTES: ______________________

FOR MORE INFORMATION OR AN APPOINTMENT TO TEST-DRIVE EAGLE VISION, PLEASE CALL:

1-800-2-TEST-EAGLE

Litho in U.S.A. 6/94

Toyota

THE OLDER DRIVER

Baby boomers, those born between 1946 and 1964, are starting to push 50. Since this group does most of the car buying in America, it's no surprise that auto makers are getting serious about what they can do to make driving more enjoyable for older drivers.

Manufacturers aren't doing it just to be nice. Older drivers are the most loyal to an automotive brand, according to a survey commissioned by *Automotive News* and *Advertising Age* and conducted by J.D. Power & Associates. The survey says automotive customers aged 50 years or more are twice as likely to repurchase a brand as are customers under age 30. It found the highest loyalty for Cadillac, Buick, Lincoln, and Toyota.

So what do older drivers want in a vehicle? Another study, this one for the Society of Automotive Engineers, provides not-so-surprising answers.

The study asked drivers between 50 and 88 years old to rank 34 ergonomic features. Results suggest auto makers should reduce glare, make seat belts easier to use and simplify the clutter of knobs and buttons on the dash. Other wanted improvements: doors that take less effort to operate and vehicles that are easier to enter and exit.

Avalon XLS

Avalon, Toyota's first full-size car, is built in Georgetown, KY, on a lengthened Camry platform.

Below: Toyota calls the roomy Avalon its most "Americanized" model ever.

SAFETY FIRST

Today's consumer expects virtually any new vehicle to carry the latest in safety features. So manufacturers are adding airbags, traction control, and antilock braking systems (ABS). Where federal safety standards are involved, auto makers are generally ahead of schedule.

Experts say the flood of interest in safety reflects the changing priorities of the baby boom generation. It's the group whose huge buying power has fueled such past automotive trends as "muscle" cars, hatchback coupes and off-road vehicles.

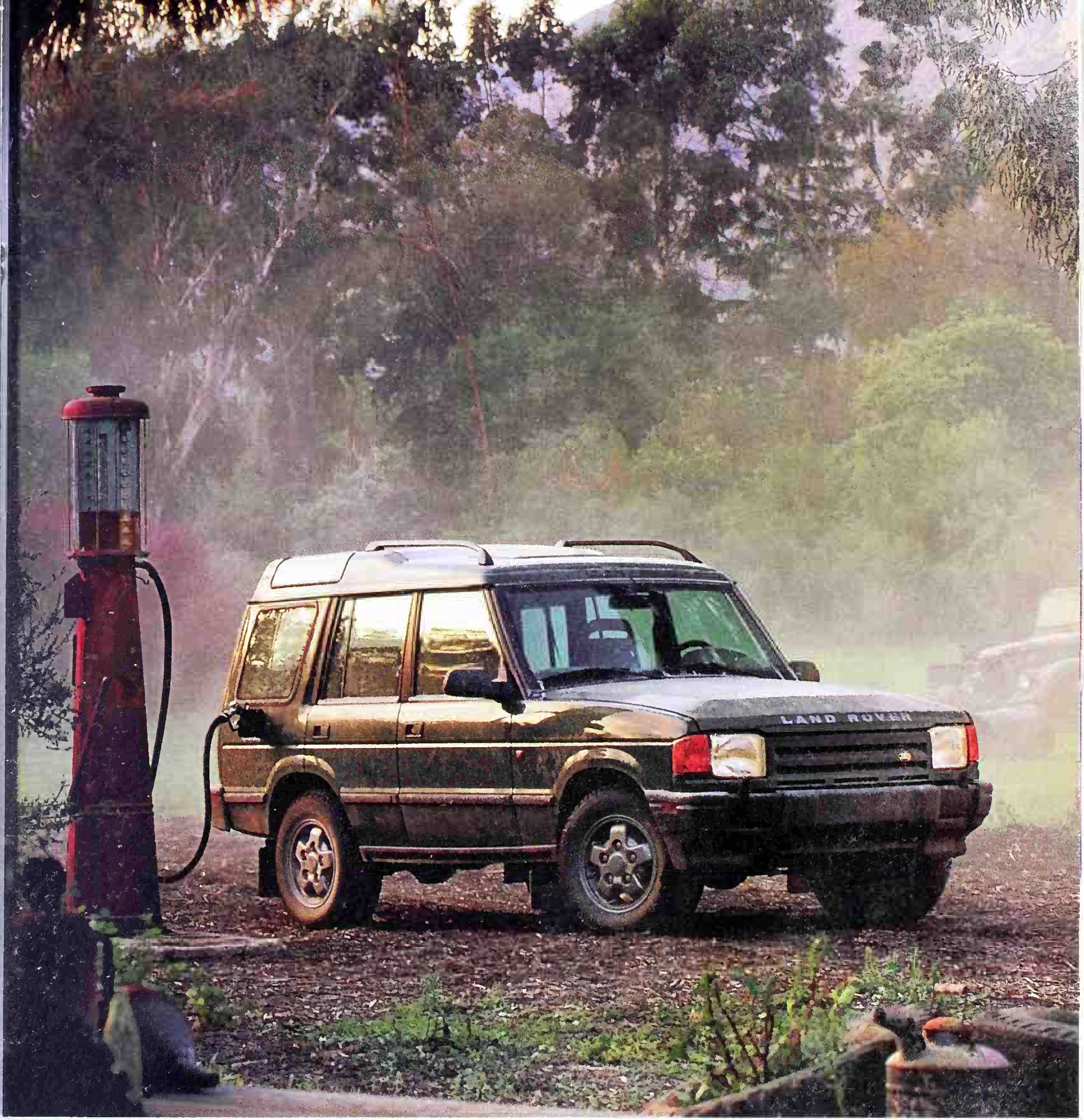
Fortunately, the desire for safety has come just as cheap computing power is making it easy and inexpensive to provide. Twenty years ago, it would have cost hundreds of thousands of dollars per car to achieve the needed calculating power for such features as airbags and antilock brakes. Now the price is a few hundred dollars per car. As additional computerized systems are added to cars, it becomes easier to "piggyback" new safety features with those already found on the vehicle.

No-Skid Brakes

Next to airbags, antilock braking systems are the fastest-growing automotive safety item available today. ABS helps prevent a vehicle's wheels from locking up during hard braking. That's important because your moving car cannot be steered if its wheels aren't rolling. Instead, you skid forward into

Mazda Millenia

The all-new Millenia is a luxury sedan available in three models priced between $26,000 and $31,400. Standard or optional equipment includes dual airbags, ABS, theft alarm, traction control, moon roof, heated seats, and keyless entry system.



How to prepare the Discovery for the jungles of Madagascar.

What can you possibly do to make the new Discovery from Land Rover any better?

It already has a 14-gauge steel chassis, steel frame, and phenomenally resilient coil spring suspension, all of which enable it to drive through places where the only other vehicles you'll see are helicopters.

It also already comes with almost 70 cubic feet of interior space. That's almost enough room for a whole Malagasy little league team.

And it already has a high level of security. Aside from its steel inner body cage, side door beams, ABS, and permanent four-wheel drive, the Discovery is the first 4x4 ever to have dual airbags.

So why not call 1-800-FINE 4WD for the nearest dealer?

It is, without a doubt, an astonishingly capable vehicle. Realize though, that even the Discovery can't drive beyond a certain point:

"E."

LAND ROVER DISCOVERY

the very obstacle you slammed on the brakes to avoid.

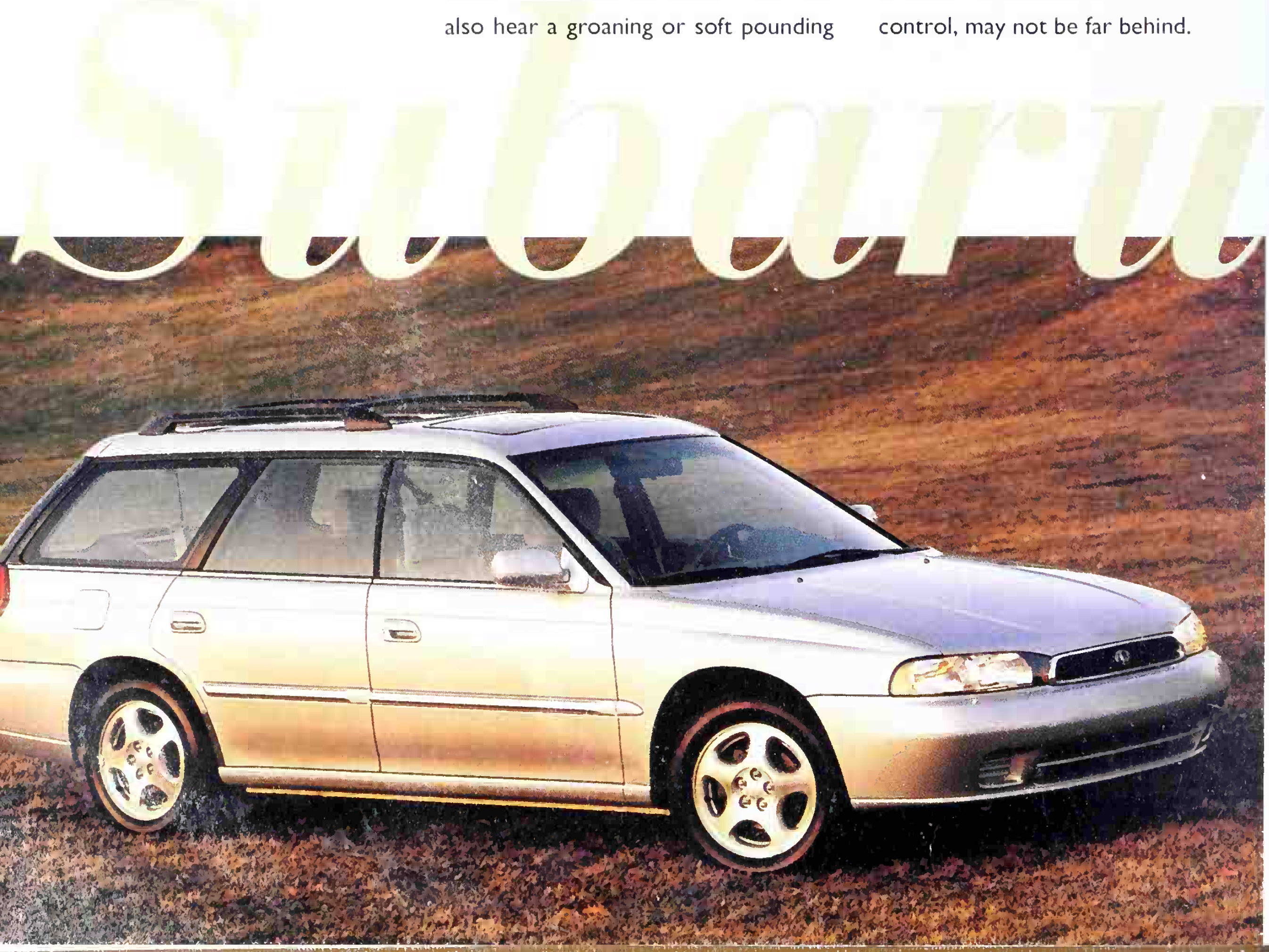
ABS provides maximum braking while retaining the ability to steer around obstacles. It works automatically, but only when it's needed. During a normal stop, your car's brakes work just like those on a car without ABS. Stomp on the brakes during a panic stop, however, and ABS rapidly "pumps" your brakes on a wheel-by-wheel basis as needed. Result: You stop as quickly as conditions permit, yet retain the ability to steer your steer.

You'll feel ABS at work as a soft pulsing of the brake pedal. You may also hear a groaning or soft pounding noise. Just remember to keep your foot pressed firmly on the brake. Letting up disengages the ABS and lengthens your stopping distance.

Next-generation ABS systems will actually help you steer during emergency braking maneuvers. One such system developed by Bosch and Mercedes-Benz applies a little extra braking force to the appropriate wheels during hard braking to help reduce understeer (plowing ahead) or oversteer (fish-tailing).

Controlled Getaways

ABS is likely to be all but standard by 2000. The system's cousin, traction control, may not be far behind.



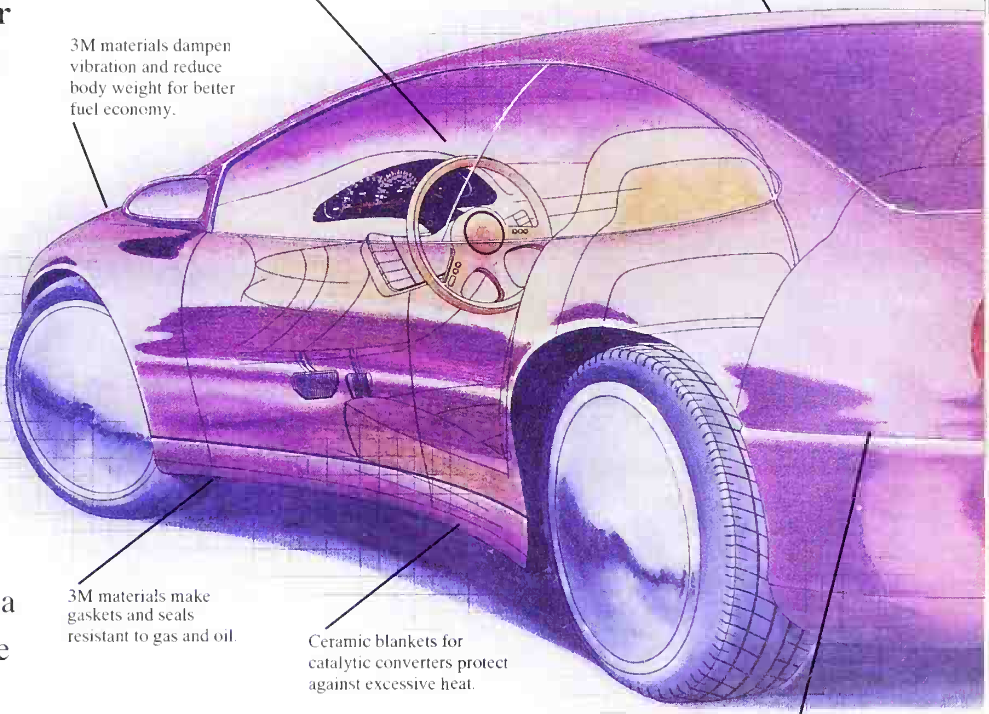
Legacy LS Wagon

Subaru's restyled Legacy is available in several trim levels as a compact-size sedan or station wagon. Built in Lafayette, IN, the two models are offered with front-wheel drive or all-wheel drive powertrains. Traction control and ABS are also available.

We didn't invent the wheel. Just hundreds of things that make it useful.

Your car may have another name on the grille, but it will contain countless 3M parts, instrument components, systems and features that make driving safer, more comfortable and more stylish.

From its nameplate to the connectors in its electrical system, to a family of products that reduce noise, vibration and corrosion, your car is a perfect example of 3M's diverse technologies and innovative work ethic.



3M tapes and abrasives help create the finish. 3M protective films help keep it beautiful.

3M ventilation filters clean outside air entering your vehicle. Heat and glare are reduced by 3M window tint film.

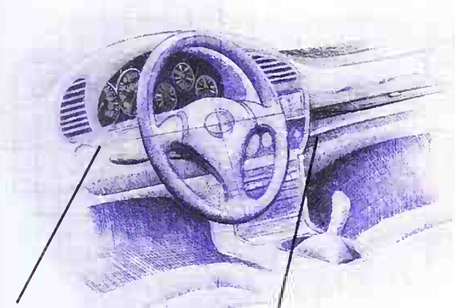
3M materials dampen vibration and reduce body weight for better fuel economy.

3M materials make gaskets and seals resistant to gas and oil.

Ceramic blankets for catalytic converters protect against excessive heat.

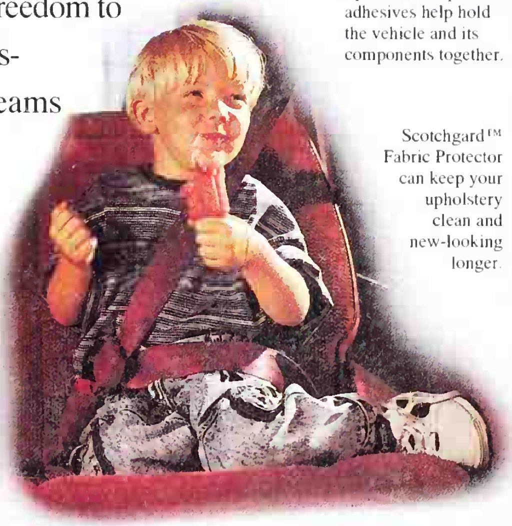
Special 3M tapes and adhesives help hold the vehicle and its components together.

In an atmosphere that encourages people to reach, offers the freedom to fail and supports the cross-fertilization of ideas, 3M teams have created more than 60,000 products that make our world richer, safer, better. And a lot easier to travel through. For information call: 1-800-364-3577, that is 1-800-3M-HELPS.



3M low-power lighting devices make instruments easier to read.

Special 3M reclosable fasteners allow for design flexibility.



Scotchgard™ Fabric Protector can keep your upholstery clean and new-looking longer.

3M *Innovation*

© 3M 1994

ABS prevents your wheels from locking when you brake. Traction control keeps them from spinning when you accelerate. Like ABS, traction control is particularly useful on slick surfaces. It also shares some of the equipment used in an ABS system.

Traction control systems stop wheel spin by automatically reducing engine power and, in some cases, by applying the brakes. Still relatively new, the systems are available on only a fraction of 1995 models sold in the United States.

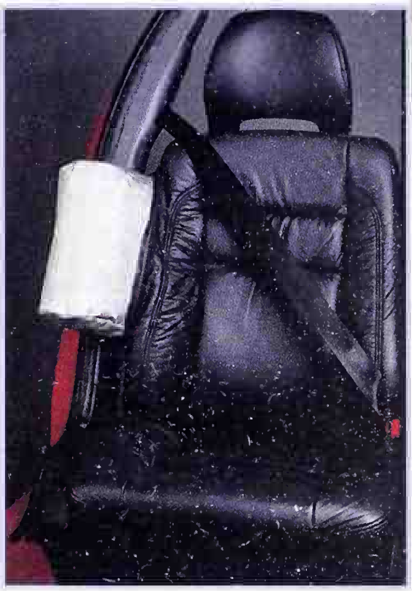
Airbags Front...& Side

Frontal impacts account for half of all passenger car occupant fatalities. Airbags, used along with seatbelts, are a big help in reducing injuries in such accidents. They'll be required equipment for new cars and trucks after Sept. 1, 1998.

But what about side impact crashes, which claim another one-third of all passenger car fatalities? For 1995,

850 Turbo Sedan

Volvo is giving its models a more rounded look, starting with the 850 series this year. The turbo sedan and station wagon each produces 222 hp.



Top Right: Volvo's exclusive side airbags fit inside the 850 Turbo front seat backs. They're standard on all '95 850 Turbo's and will become standard on all Volvo models in 1996.

Volvo introduces the industry's first side airbag system. Built into the outside edge of each front seatback, it pops out between you and the door in a side impact. The self-contained system works independently of the car's frontal airbag system.

Other manufacturers are developing side airbag systems that mount in the door itself. Volvo prefers a seat-mounted system because it is always positioned properly relative to the occupant regardless of how the seat is positioned.

Volvo's side airbag system is standard in the company's 850 Turbo and as a $500 option for non-turbo 850s. Volvo plans to make the system standard in all its U.S. models a year from now.

Lights On For Safety

If you've driven in Sweden or Canada, you've noticed cars running with their headlights on during the daytime. These countries require so-called daytime running light systems which switch on the headlamps at reduced power whenever the ignition is turned on.

Now daytime running lights are coming to America. This fall they're standard on all Volvo models. They'll also appear in GM's Chevrolet Corsica and Beretta, light pickup, and Geo Metro models. GM expects to make the devices standard in virtually all its vehicles by 1997.

Daytime running lights aren't required by U.S. law. In fact, some states specifically outlawed them until being overruled last year by the National Highway Traffic Safety Administration. NHTSA says it wants more experience with the lights on U.S. roads before deciding whether to mandate them.

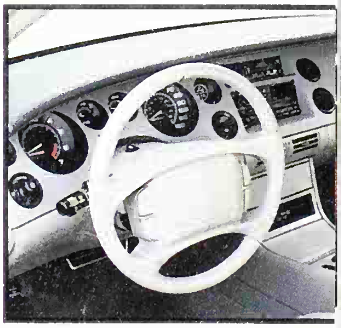
THE AERO LOOK

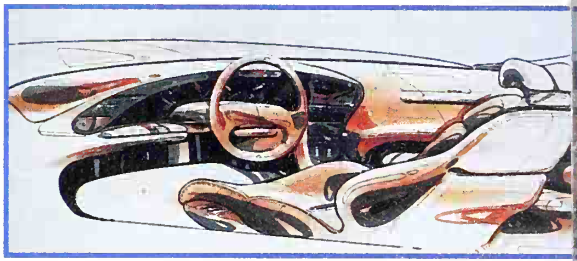
In the 1960s and early 1970s, America's cars were boxy. Yes, there were some swoopy exceptions. But even those put form over function. In

Buick Riviera

The 1995 Riviera (at about $28,000) helps set a new standard in aerodynamic styling. A supercharged V-6 engine is available.

Below: Round gauges and vents mounted on a sweeping instrument panel bring the Riviera's flowing design into the cockpit.





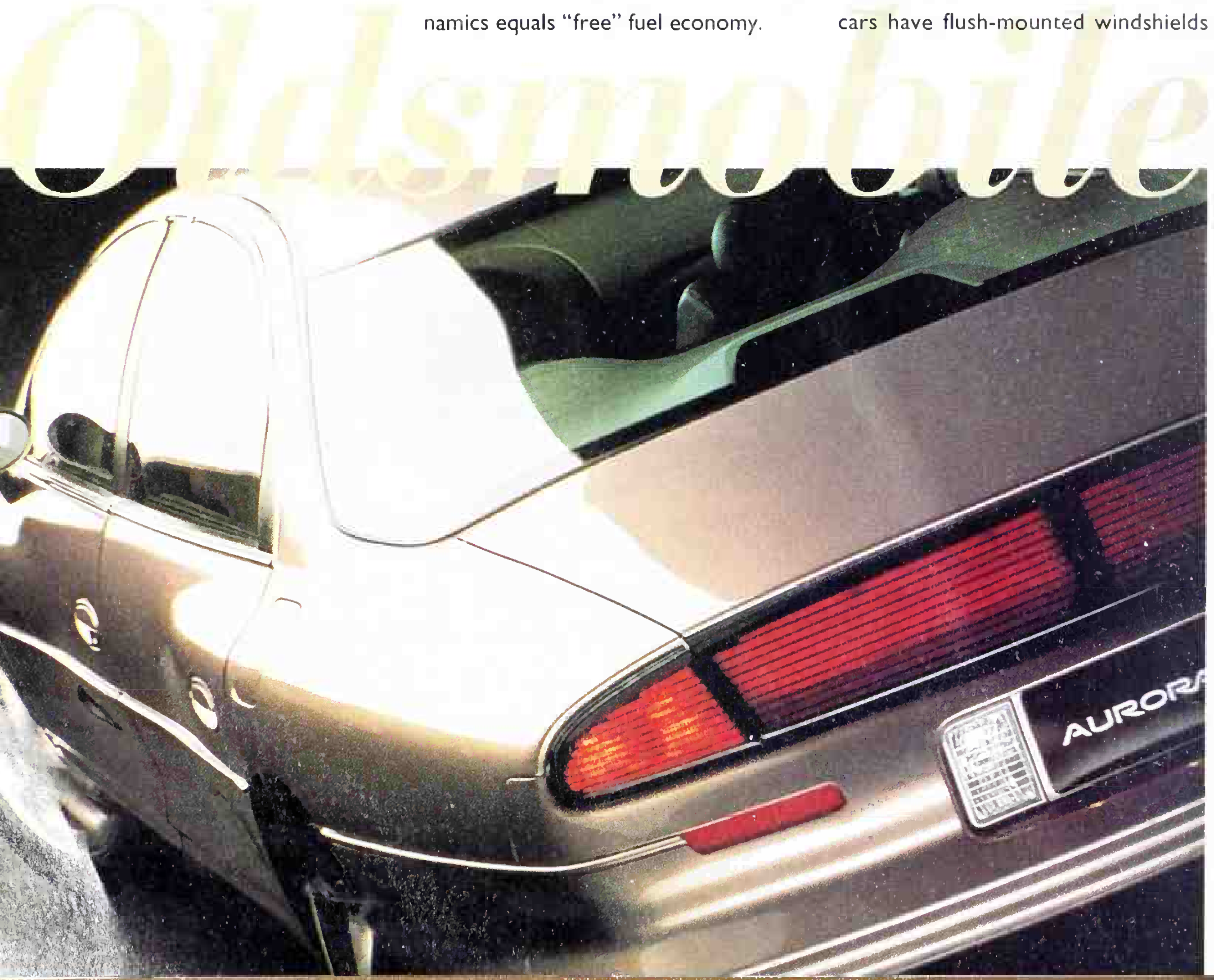
those days, designers did not pay much attention to the task of making a vehicle's body slip through the air more smoothly.

They're certainly paying attention now. It started in 1983 when Ford unveiled its "aero" styled Thunderbird. The car's rounded edges, steeply sloping windshield and rear window, and smooth door seams were considered somewhat radical at the time. Today they're standard design elements for the world's auto makers. One reason: Good areodynamics equals "free" fuel economy.

What Makes It 'Aero'?

There's no question about the aerodynamics of vehicles like the '95 Buick Riviera or Oldsmobile Aurora. But a vehicle doesn't have to have a zoomy-looking body to benefit from aero touches.

Consider windows. Not long ago, bulky chrome trim and roof-mounted rain channels were the norm. Today's cars have flush-mounted windshields



1995 Aurora

Oldsmobile's luxury Aurora shares the "aero" styling of Buick's Riviera in a four-door layout. The front-wheel drive Aurora offers a long list of standard equipment, including a V-8.

Above: A concept sketch of the Aurora's interior.

and side windows to smooth the flow of air across them.

Other wind-cheating designs are more subtle. Merely rounding off any sharp edge along the front or sides of a vehicle can help. The same goes for smaller grille openings and flush-mounted door handles. Some cars actively reduce their wind drag at highway speeds by lowering the suspension automatically.

Most new cars also employ an aerodynamic feature you may never see: smoother undercarriages that reduce drag on air passing beneath the vehicle.

The Vanishing Antenna

Another way to improve aerodynamics is to get rid of the outside radio antenna. Where to put it? How about sandwiching it as a micro-thin layer of transparent silver inside the windshield?

The idea comes from PPG Industries as an extension of the Sungate™ technology it developed to reduce solar heat gain through the windshield. Sungate windshields use a layer of silver just five millionths of an inch thick to reflect the sun's heat rather than absorb it as conventional tinted windows do.

PPG discovered the silver layer can double as a radio antenna. The system, it says, works better than wires imbedded in the windshield or other windows. GM already uses non-antenna versions of the Sungate windshield in its slope-nosed minivans. At least one auto maker is expected to introduce PPG's windshield antenna design within a few years.

KEEP ON TRUCKIN'

American consumers have been buying trucks at a furious pace for several years now. For the model year just ended, in fact, sales of light trucks, vans, and sport utility vehicles represented about 40% of all vehicle sales in the United States. "The baby boom generation," says analyst Chris Cedergren, "just loves the sport utility and minivan segments."

1995 Windstar

Above: Ford's roomy, front-wheel drive Windstar minivan features aerodynamic styling and carlike handling characteristics.

Pathfinder LE-V6

Below: Nissan's Pathfinder will switch to a unitized body construction and more carlike ride next year.

BUCKLE UP - TOGETHER WE CAN SAVE LIVES

Ford designers from left to right:
Susan K. Westfall, David Hilton, Gary Braddock, Soo Kang, Paul Arnone, Aaron Walker

IF YOU WANT TO KNOW WHAT CARS AND TRUCKS WILL BE LIKE IN *2005* TALK TO SOME OF THE PEOPLE WHO *LIVE THERE.*

AT Ford Motor Company, our young designers help keep us in touch with the future, SHARING THEIR VIEWS of the world they'll be inheriting and the vehicles they envision there. ∾ *To widen their horizons even further, we provide them with access to other Ford design studios from Turin, Italy to Melbourne, Australia, all of which are linked electronically. In this "GLOBAL STUDIO" environment, these men and women of the computer age use the latest tools and technologies to design vehicles for people living in a RAPIDLY CHANGING WORLD.* ∾ *At Ford, this is one way our young designers make sure that our customers get what they want, before they even know they want it. To us, that's what quality is all about.*

• FORD • FORD TRUCKS • Ford • LINCOLN • MERCURY •

QUALITY IS JOB 1℠

Cedergren figures the minivan craze, which accounts for some 1.1 million sales per year, will peak by the end of the decade as the children of baby boomers mature and leave home. While some van owners will stick with those spacious vehicles, others are likely to switch back to cars again. In the meantime, says Cedergren, Chrysler and Ford will vie as the top suppliers of vehicles to the U.S. market.

It's the same story in the sport utility vehicle, or SUV, market. These go-anywhere alternatives to the station wagon now account for some 1.5 million vehicle sales annually in the United States. More importantly, auto makers are moving fast to make them more carlike in ride, handling, power, and interior comfort. In doing so, says Cedergren, manufacturers may keep today's SUV owners truckin' well into the next century. Says Cedergren, "We see the truck market remaining strong for the rest of the decade."

The SUV Phenomenon

If you're looking for the hottest vehicle on the market today, just get in

Ford Explorer

Ford's popular sport utility gets a new nose, front suspension and new interior for 1995. Dual airbags, rack-and-pinion steering, four-wheel disc brakes, and a larger fuel tank are also standard.

HERE'S A "SOUND" REASON TO BUY A NEW FORD CONTOUR OR MERCURY MYSTIQUE.

In fact, you have a choice of "sound" reasons, such as the AM/FM Stereo CD radio with Premium Sound. Or choose the dealer-installed CD player or trunk-mounted 10 disc CD changer. Any of these options enables you to take your home CD library with you and enjoy the same high-quality music that you are accustomed to hearing at home. Ford Electronics engineers have designed audio system components to complement each other and deliver a "live" performance sound bringing you more enjoyment per mile. So when you purchase your new Ford Contour or Mercury Mystique, make sure you ask for the AM/FM stereo CD radio with Premium Sound or a dealer-installed CD player... it's worth every decibel.

10 disc changer

Ford Contour

Mercury Mystique

THINK OF IT AS

YOUR HOME CD SYSTEM…

AWAY FROM HOME.

Ford
ELECTRONICS
TECHNOLOGY WITH A PURPOSE®

1995 Chevy Blazer

Top Right: Chevrolet's completely redesigned Blazer has a rounder look, softer ride, and more contemporary interior.

Land Rover Discovery

Bottom Right: Priced under $30,000, the V-8 powered Discovery is the world's first SUV with dual airbags and two sunroofs.

Below: The Discovery's interior offers plenty of storage and standard equipment that includes dual temperature controls.

line to buy a sport utility vehicle. Analysts say 1995 sales of SUVs are sure to set a record as new and freshened products from Chevrolet, GMC, and Ford debut.

Why the mania for SUVs? Credit the unique combination of carlike luxury and sporty practicality such vehicles offer. Most SUVs today are still being built on truck platforms for the sake of ruggedness. GM, for example, will put its new full-size Chevrolet Tahoe and GMC Yukon SUVs on the same chassis used by its full-size pickup trucks. Both four-door models are expected next spring.

But today's SUVs are a far cry from the bouncy models of a decade ago. Thus Chevrolet's all-new '95 Blazer offers no less than five suspension packages. Its sister the GMC Jimmy, offers three. Ford's five-year-old Explorer also gets an all-new suspension — along with a more aerodynamic snout and new interior — for 1995.

How far can you take luxury in an SUV? The Range Rover County LWB provides a good answer. At $52,500, the self-proclaimed "gold standard" of the sport utility class coddles and protects its passengers with such features as a height-adjustable electronic air suspension system, all-terrain ABS, traction control, full-time four-wheel drive, dual airbags, Connolly leather seats, hand-rubbed walnut trim, 160-watt stereo with CD player, dual temperature controls and electrically heated windshield, front seats, mirrors, and washer jets.

Many of the same features are provided in the company's comparatively budget-priced Land Rover Discovery. At $28,900, the all-new model offers something its big brother doesn't have: two sunroofs.

Both models, along with an open-air sport utility called the Defender 90 (around $27,900), are sold through "Land Rover Centres," unique dealerships that cater exclusively to the 4x4 crowd with an off-road demonstration track located on the premises.

Land Rover says the Centres will be staffed with sport utility enthusiasts who have first-hand experience in off-roading. Visitors will find off-road equipment for sale, along with rugged outdoor clothing.

The dealerships will also offer off-road driving clinics for novices and experts alike. Owners can sign up for the company's week-long driving academy held near Aspen, CO.

Chevrolet

LAND ROVER
L94 THP

Land Rover

From 0 to 6
With four sets o

And we're not talking about Sunday bags, either. But even with all that room, the 1995 Chevy Impala SS behaves less like a typical luxoboat than a swoopy 2+2—and just try squeezing three of your best-fed golfing buddies and their sticks into one of those. To help improve your lie, we outfitted Impala with beefy 17-inch BFGoodrich® Comp T/A® tires,

For a brochure call 1-800-950-2438. The Chevrolet Emblem and Impala are regist

n 7.4 seconds.
lubs in the trunk.

massive disc brakes all around and a rear suspension straight out of *Tales of the Highway Patrol*, including de Carbon gas shocks, steel springs and anti-roll bars. But honestly, is the Impala SS really that fast? Let's put it this way: you'll never miss another tee time.

IMPALA SS GENUINE CHEVROLET™

marks and Chevy is a trademark of the GM Corp. ©1994 GM Corp. All Rights Reserved. Buckle up, America!

Delco's Telepath 100

Delco Electronics Corp.'s "Telepath 100" provides direction as well as distance to selected destinations via special graphics in the radio display. Telepath 100's lower cost approach is attributable to its being fully integrated into the radio.

ELECTRONICS GALORE

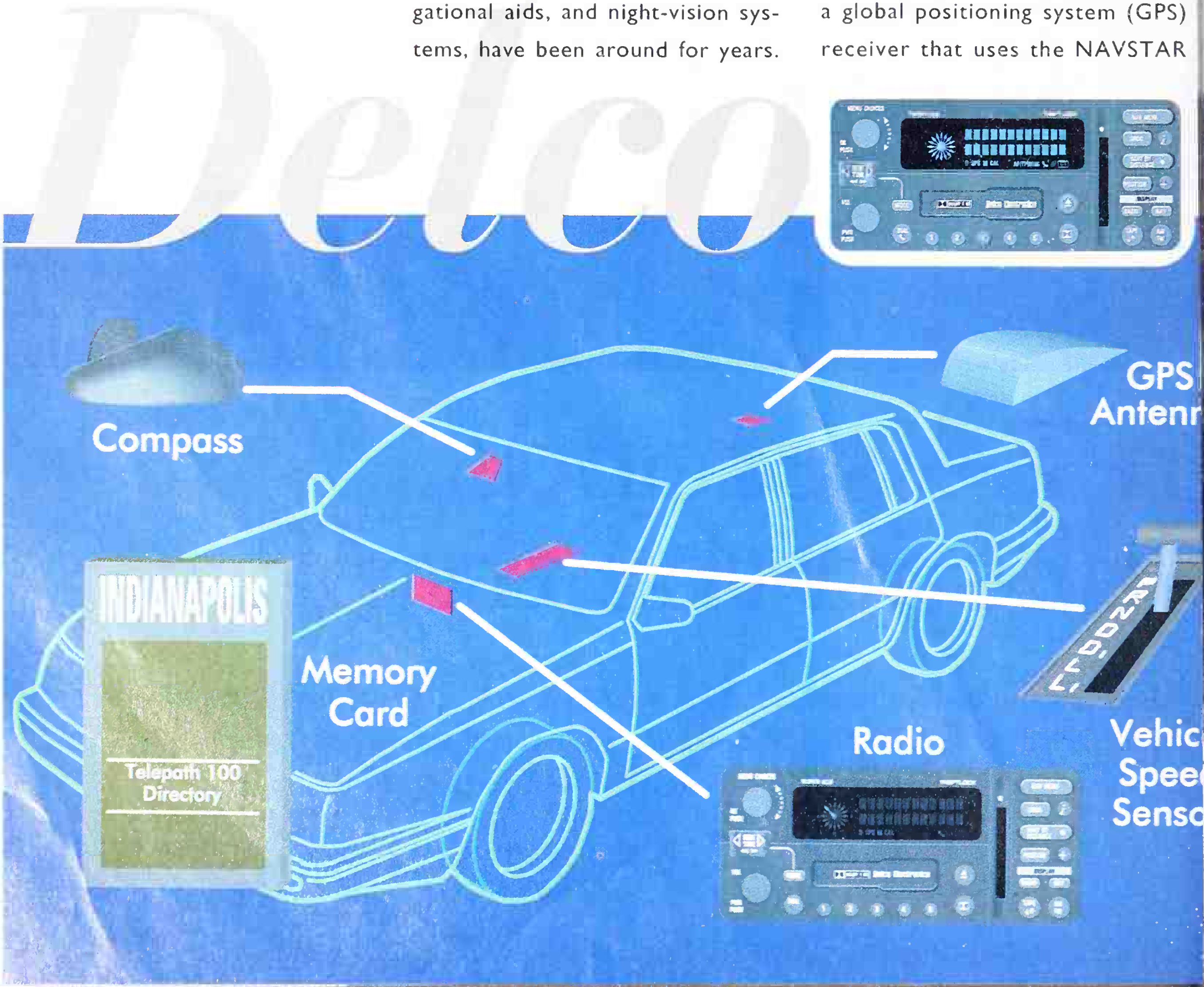
Even the plainest of today's economy cars uses a microprocessor to control the fuel system and keep exhaust emissions within legal limits. There's another computer tucked away to tend the airbag system. Want ABS or a fancy radio? Say hello to even more computers.

That's only the beginning. Auto makers are poised to roll out a wide array of new electronic gadgets over the next few years. The technology for many of them, including navigational aids, and night-vision systems, have been around for years. But prices are finally beginning to drop enough to make them feasible for the mass market.

The Navigator-Radio

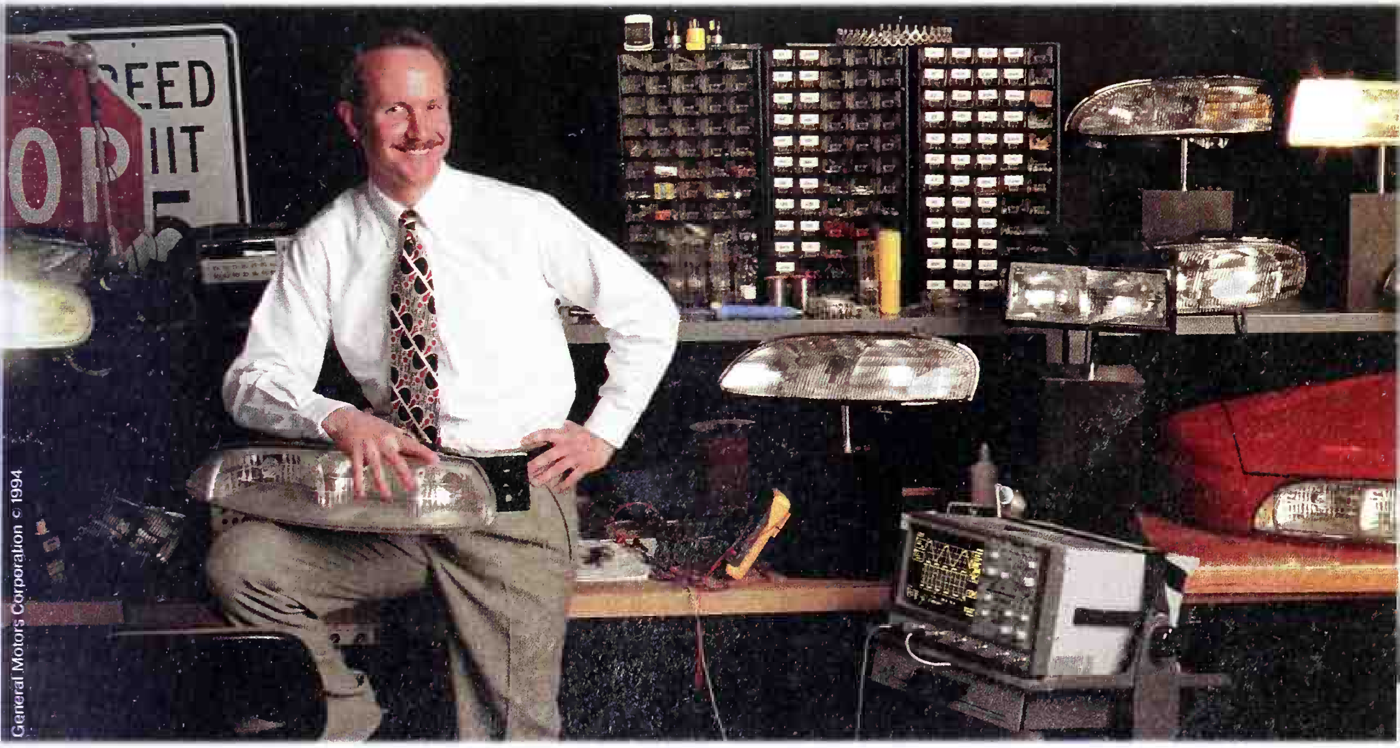
One way to cut costs on new automotive electronic gear is to build it into systems already on board. That's just what Delco Electronics has in mind with Telepath 100, a new navigation system that doubles as an AM/FM stereo radio and cassette player.

Telepath 100 keeps you on track with a dead-reckoning device and a global positioning system (GPS) receiver that uses the NAVSTAR



General Motors.

"SOME OF OUR BEST IDEAS EVEN HELP PEOPLE WHO DON'T DRIVE GM CARS."



General Motors Corporation © 1994

Soon it will be easier to avoid General Motors cars and trucks. That's the advantage of daytime running lights, according to Joe Griffin, lighting engineer at General Motors Inland Fisher Guide division. Daytime running lights are special headlights that come on whenever you start your engine. Cars that have them are often easier to see, and that can help other drivers avoid collisions. This fall, General Motors will be the first automaker to offer low intensity daytime running lights as standard equipment on thousands of its U.S. cars and trucks. They could make your time on the road safer, even if you don't drive a GM vehicle.

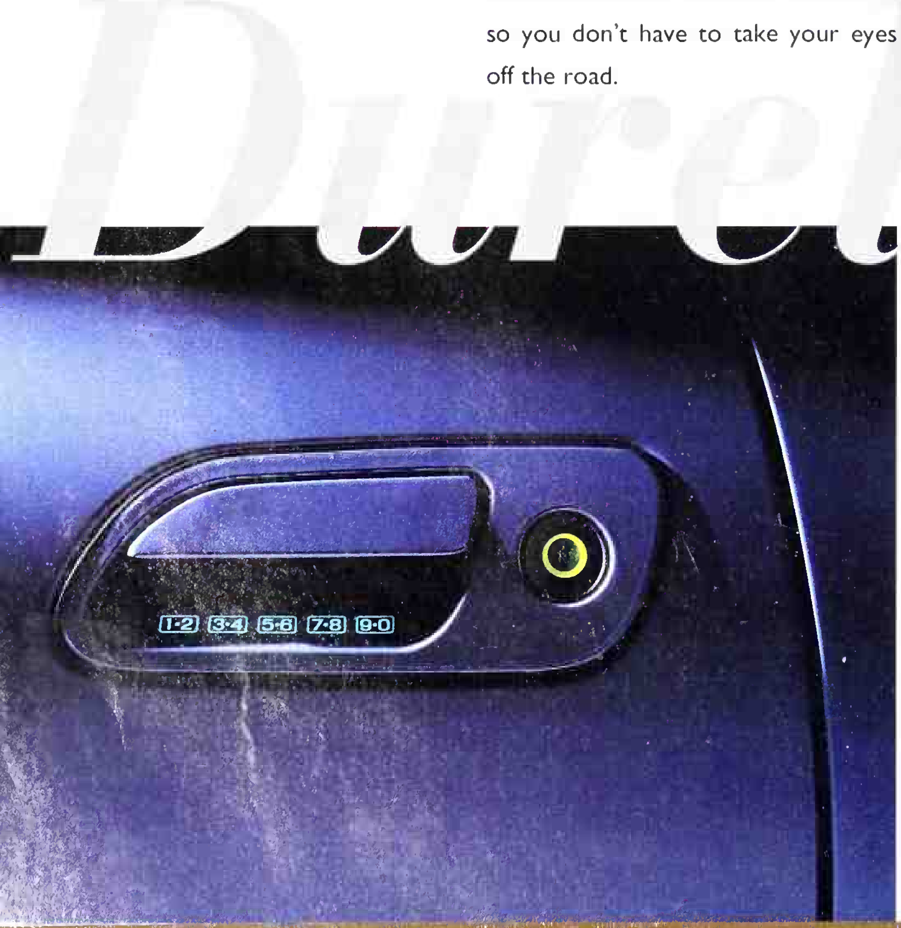


Photo Courtesy of Rogers Corporation

DUREL 3 EL Lamps

Keypads on the Lincoln Mark VIII are illuminated by a glowing sheet of paper-thin plastic material. A driver presses through a thin flexible membrane over the lamp itself when keying in a command. Similar material is being used to light up dials and labels inside cars.

system of 24 satellites established by the U.S. Dept. of Defense. A plug-in electronic directory the size of a credit card lists restaurants, hotels and other travel destinations.

Punch in a destination and Telepath 100 uses a simple arrow display to tell you when and which way to go. A digital readout indicates how far to the next turn. The system even tells you which side of the road your destination is on.

The system can also be wired into your cellular phone. Then you can call your destination with the press of a single button. Telepath 100 can also be connected to Delco Electronics' "head-up display" that projects navigational information onto the windshield so you don't have to take your eyes off the road.

Telepath 100 isn't the only navigation system around, of course. Oldsmobile is offering its own GPS system, but only for customers in Los Angeles. Aftermarket systems you can add to just about any vehicle are being sold by Blaupunkt, Etak, and others.

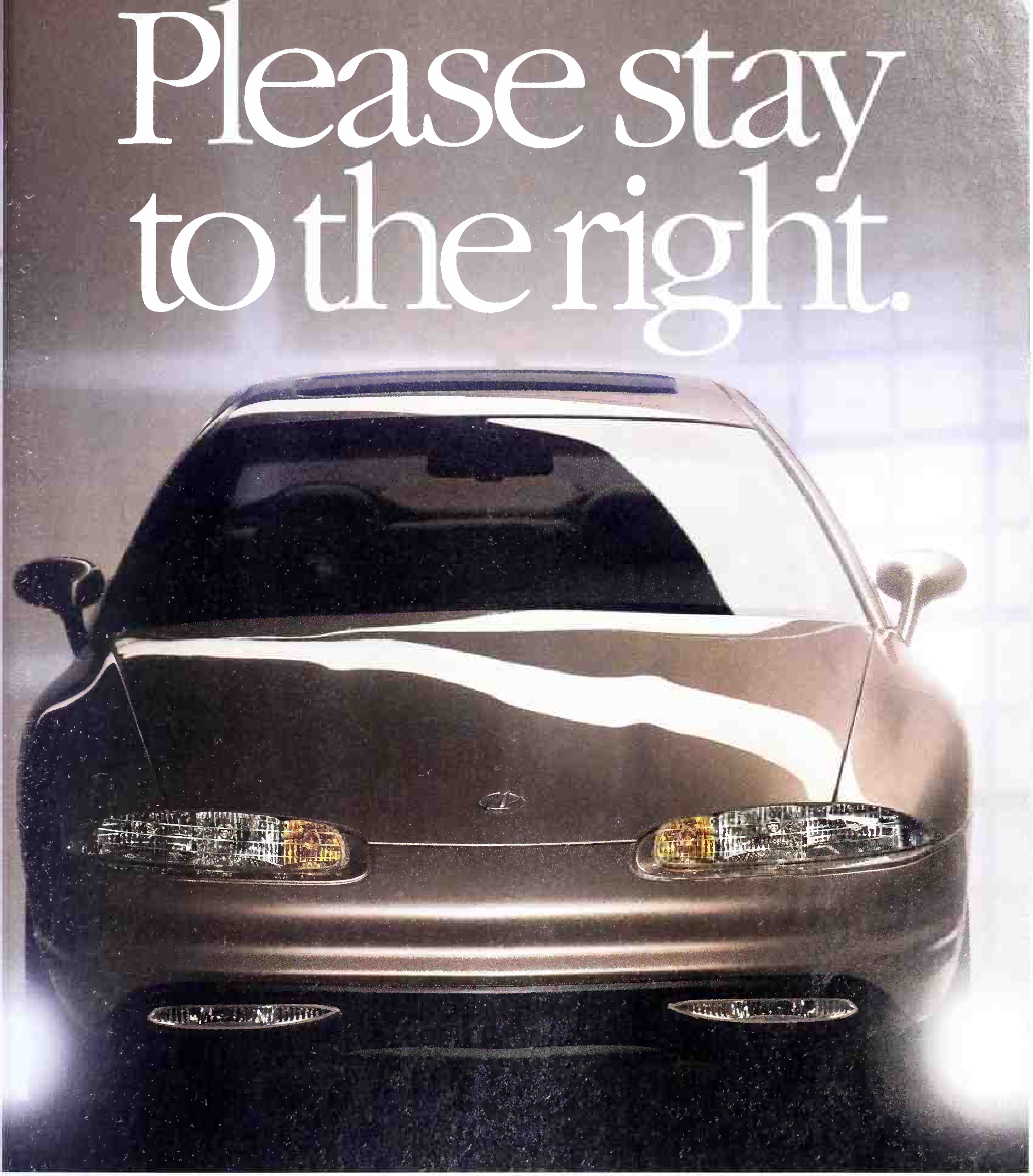
Lighting Up

It's annoying to fumble around in your car at night looking for a door handle or dark control knob. It's just as bad trying to read unlit labels on the radio or ventilation system. So auto makers are figuring out ways to light up more and more labels inside their cars and trucks.

One of the most intriguing approaches: a paper-thin sheet of plastic that glows when a trickle of electricity is applied. The flexible material can be cut into any shape — including those with holes — and bent to fit into tight areas. It also uses far less power, emits heat-free light, and never "burns out."

The stuff is called electroluminescent lighting. EL has been around for decades. Until now, it hasn't met the durability standards auto makers demand for critical lighting jobs. But manufacturers are being won over by a next-generation material developed by Durel Corp., a joint venture of Rogers Corp. and 3M.

Durel's EL lamps are being built into automotive instrument panels, radios, ventilation control panels, and other displays.



It's not many luxury-performance sedans that can scare traffic into the slow lane on looks alone. But that's how the new Aurora is. Aggressive. Bold. With a 32-valve, 250hp, DOHC V8, ABS, leather,* walnut and CD stereo sound. All of which make the left-hand lane a much more enjoyable place to be. Aurora by Oldsmobile. See what happens when you Demand Better. 1-800-718-7778.

AURORA
An American Dream

GM © 1994 GM Corp. All rights reserved. Buckle Up, America! Aurora is a trademark of General Motors Corp.
*Aurora seating areas trimmed in leather.

WHAT'S AHEAD

The 1995 model year offers U.S. consumers more choice in all-new cars and trucks than they've seen in recent memory. An equally intriguing array of new electronic features are coming to market now.

A steady parade of new products is slated for the rest of the decade. But two factors could impact auto makers' plans.

One is cost. Higher prices are all but inevitable. Regulations already account for about $3,000 of the price of a new car, according to the Automotive Consulting Group in Ann Arbor, MI. The group says new standards will probably add another $1,500 to the tab by the end of the decade.

A more sobering wild card for auto makers is energy costs. Fuel prices have been stable for 15 years now. But another energy crisis could have a profound impact on current assumptions about vehicle design and performance.

Experts say the auto industry is much better prepared for such an emergency than it was when the last oil shock occurred in 1979. Consumers may be, too: The vehicles they drive today are twice as fuel-efficient as the models of 15 years ago.

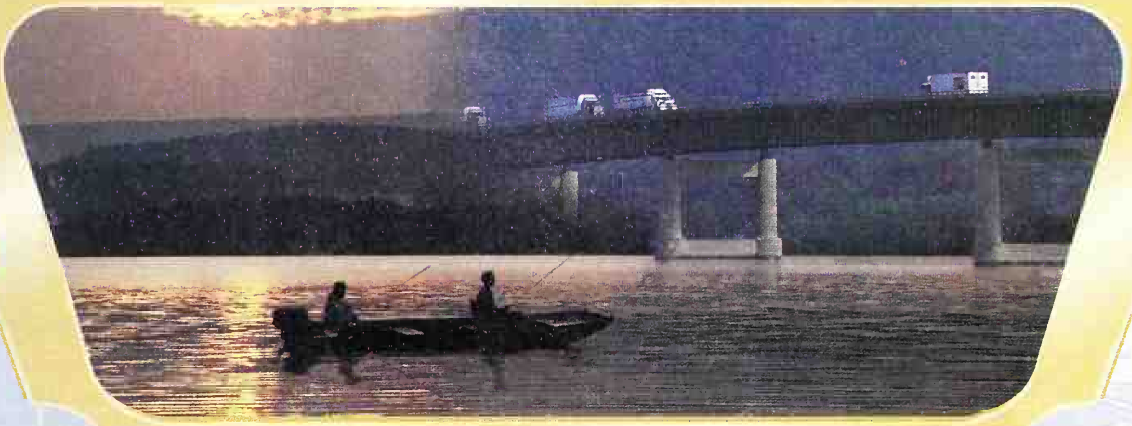
William Hampton is a Detroit-based journalist who has written about the auto industry for 24 years.

Neon Sport

Chrysler's popular Neon subcompact line gets a two-door Sport version in 1995. The coupe comes with a firmer suspension, quicker steering, and a more powerful engine than the four-door version. Fuel economy is rated at 29 mpg in the city and 38 on the highway.

TENNESSEE

THE TICKET TO TOMORROW



In Tennessee, getting your products to market is a top priority...
leaving you time for other pursuits.

Highways: Tennessee has $4 billion of new roads and is within one day's delivery of 76 percent of the major United States markets.

Schools: Tennessee's new 21st Century Schools program is training your future workers in state-of-the-art classrooms that demand accountability.

Health Care: Tennessee's new TennCare program will lower your employee health insurance bills by managing the medical care of our poor and uninsured citizens.

Taxes: Tennessee has no personal income taxes, no state property taxes and a brand new tax incentive package for businesses locating in the state.

Call the Tennessee Department of Economic and Community Development
at 1-800-251-8594 / Fax 1-615-741-5829.

320 6th Avenue North, 7th Floor
Nashville, Tennessee 37243-0405
c/o Bob Parsons

MEET THE LEADERS OF THE CORPORATE WORLD.
CHEMICAL
DEAN WITTER
2213
2486
2219
3814
2792

Congratulations to the winning teams of the 1994 Chemical Bank Corporate Challenge®, and to all the finalists who qualified for the international championship race from an initial field of over 121,000 runners from nearly 6,000 companies. Your competitive spirit continues to show that a company's success can be measured by the finish line as well as the bottom line.

Men's Division Winning Team: Freegold Mines

MEN'S DIVISION FINALISTS

General Electric
Albany, NY

Boeing
Atlanta, GA

Raytheon Corporation
Boston, MA

U.S. Post Office
Buffalo, NY

CNA Insurance
Chicago, IL

Freegold Mines
Chicago, IL

Texas Instruments
Dallas, TX

Stadt Frankfurt am Main
Frankfurt, Germany

Ford Motor Company
London, U.K.

Federal Express
Long Island, NY

Hughes Aircraft
Los Angeles, CA

Prudential Insurance
Morristown, NJ

Board of Education
New York, NY

Norsk Hydro AS
Oslo, Norway

IBM Corporation
Paramus, NJ

Rohm & Haas
Philadelphia, PA

The Vanguard Group
Princeton, NJ

Xerox Corporation
Rochester, NY

Pacific Telesis
San Francisco, CA

Pfizer Incorporated
Stamford, CT

Martin Marietta Corp
Syracuse, NY

Women's Division Winning Team: Rodale Press

WOMEN'S DIVISION FINALISTS

Albany Medical Center
Albany, NY

Corporate Sports Unlimited
Atlanta, GA

Reebok International Ltd
Boston, MA

National Fuel Gas
Buffalo, NY

Kemper Corporation
Chicago, IL

Texas Instruments
Dallas, TX

Deutsche Bank AG
Frankfurt, Germany

Barclays Bank PLC
London, U.K.

Newsday
Long Island, NY

Walt Disney Co
Los Angeles, CA

Bellcore
Morristown, NJ

Rodale Press
New York, NY

Kreditkassens BIL
Oslo, Norway

A.D.P.
Paramus, NJ

Rohm & Haas
Philadelphia, PA

Wyeth-Ayerst
Princeton, NJ

Eastman Kodak
Rochester, NY

Hewlett Packard
San Francisco, CA

IBM Corporation
Stamford, CT

Blue Cross Blue Shield of CNY
Syracuse, NY

Coed Division Winning Team: NationsBank

COED DIVISION FINALISTS

Siena College
Albany, NY

The Coca-Cola Company
Atlanta, GA

Digital Equipment Corp
Boston, MA

Marine Midland Bank
Buffalo, NY

Northern Trust Company
Chicago, IL

NationsBank
Dallas, TX

Polizei Frankfurt am Main
Frankfurt, Germany

National Westminster Bank
London, U.K.

The Bank of New York
Long Island, NY

Fluor Daniel
Los Angeles, CA

AT&T
Morristown, NJ

NYC Police Department
New York, NY

Radiumhospitalet
Oslo, Norway

United Jersey Bank
Paramus, NJ

Fox Chase Cancer Center
Philadelphia, PA

Martin Marietta Corp
Princeton, NJ

Northern Telecom
Rochester, NY

Pacific Gas & Electric
San Francisco, CA

General Electric
Stamford, CT

Syracuse University
Syracuse, NY

Doral Hotels & Resorts

Élan all natural Low Fat Frozen Yogurt

The New York Times

AmericanAirlines

TIFFANY & CO.

BusinessWeek

SAUCONY

CHEMICAL

© 1994 Chemical Banking Corporation

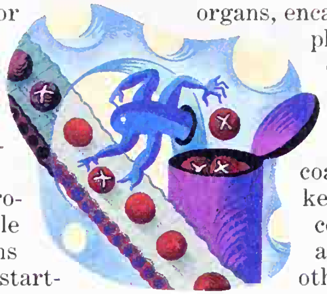
Developments to Watch

EDITED BY EMILY T. SMITH

A CERAMIC BIOSPHERE FOR BENIGN BUGS

GLASS-LIKE CERAMICS, USED in everything from superstrong composites to bone implants, are still full of surprises. Edward J. A. Pope has coaxed from them an entirely new class of what he calls "living" materials that encapsulate live microorganisms in ceramic.

To create his new silica-based materials, Pope uses sol-gel technology, in which ceramics are created through chemical reactions at room temperature. First, he disperses the tiny bugs in a solution containing the chemical precursors of the ceramics, then he adds a catalyst. During the reaction, a gel forms around the microbes, protecting them from the outside world but also allowing them to receive nutrients and function. Pope has housed a yeast fungus this way and kept it alive for more than a year.



The novel materials have many potential uses, says Pope—protecting valuable microorganisms in the lab, for starters, or as factories where microbes produce enzymes for use as drugs or to break down toxic substances. They might even become artificial organs, encasing transplanted tissue cells from a pancreas, liver, or thyroid. The ceramic coating would keep the foreign cells safe from antibodies or other hostile agents. Pope plans to continue working on the materials at MATECH Co., his Westlake Village (Calif.) company.

WILL DRUGS SOON BE DESIGNED ATOM BY ATOM?

CREATING NEW DRUGS MAY someday resemble cruise-misile design: To get the best aerodynamics, weapons engineers model thousands of combinations of wings and fuselages on powerful supercomputers. The same machines can help drug designers modify existing molecules, increasing their ability to reach and kill a target, such as a cancer cell.

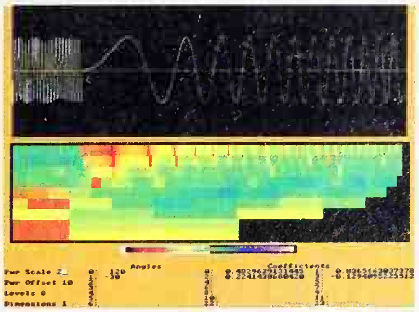
Frederick Hausheer, CEO of San Antonio-based BioNumerik Pharmaceuticals Inc., wants to go further by makng drugs according to the aws of physics, atom by atom. Working with Johns Hopkins Oncology Center, Hausheer uses supercomputers to compute possible interactions of atoms in drug molecules with atoms in the target cells. He says the approach has the potential to cut the time and expense of bringing a drug to clinical trials from 5 years and $20 million to 18 months and $1 million.

The odds are against such short cuts. But last week, supercomputer giant Cray Research gave Hausheer a vote of confidence, lending him one of its fastest machines for five years.

SQUEEZING A FLOOD OF DATA INTO WAVES

WAVELET TRANSFORMATION IS A POWERFUL METHOD FOR compressing and analyzing information. Wavelets work their magic by representing data—including sound and pictures—as waves. These waves can be compactly described in terms of their frequency, energy, and timing. Unfortunately, wavelets remain a black art: Few people understand the complex mathematics behind them, and wavelet software is generally sold in a form that can't be readily taken apart and studied, so it's difficult to modify for optimum efficiency.

Mac A. Cody, an engineer in Richardson, Tex., is out to change that with Tsunami Plus, a library of software for performing wavelet transformations. His software is available in so-called source code in the C programming language, which means it can be easily studied or moved onto other kinds of processors. For instance, he says, an engineer could put the computation-intensive part of the program onto a dedicated, high-speed chip.



SOUND VIEW: *A Tsunami Plus screen*

The picture shows a tutorial screen from Tsunami Plus. At the top is a sound wave. The horizontal bars below it represent the transformation of the sound by the wavelet software, with colors indicating the intensity of the "energy" in different segments of the signal. Cody says he hopes the $499 package from Mac A. Cody Associates will speed the adoption of wavelets by making it easier for nonspecialists to work with them. Wavelet transformations are already being put to use in such varied fields as storing fingerprints and recording heartbeats.

WHY THE ARMY'S NEXT TANK COULD BE PLASTIC

PLASTIC COMPOSITES, WHILE light and inexpensive, have always been harder to produce than metal parts. That's changing. Researchers at Stevens Institute of Technology have designed a plastic-composite nose cone for a shoulder-fired missile for the U. S. Marines that should cost $40 apiece to manufacture vs. $400 for the aluminum one in use now. Next, for the U. S. Army, they plan to design plastic-composite parts that could lower the weight of an M-113 tank to 38 tons, vs. 70 tons now. The key to the Stevens designs is a software package developed at the Hoboken (N. J.) school with more than $20 million in Defense Dept. funding.

The software, Designer's Apprentice, brings together in one Unix workstation all the data and more than 1,000 rules of thumb needed to design plastic parts and choose production methods. The first version was for injection molding. The next is for the trickier process of resin transfer molding, which creates strong, reinforced parts. Stevens may create a private company to commercialize Designer's Apprentice.

PHOTOGRAPH BY MAC A. CODY ASSOCIATES, ILLUSTRATION BY CATHY BLECK

STEEL

THE ODD COUPLE OF STEEL

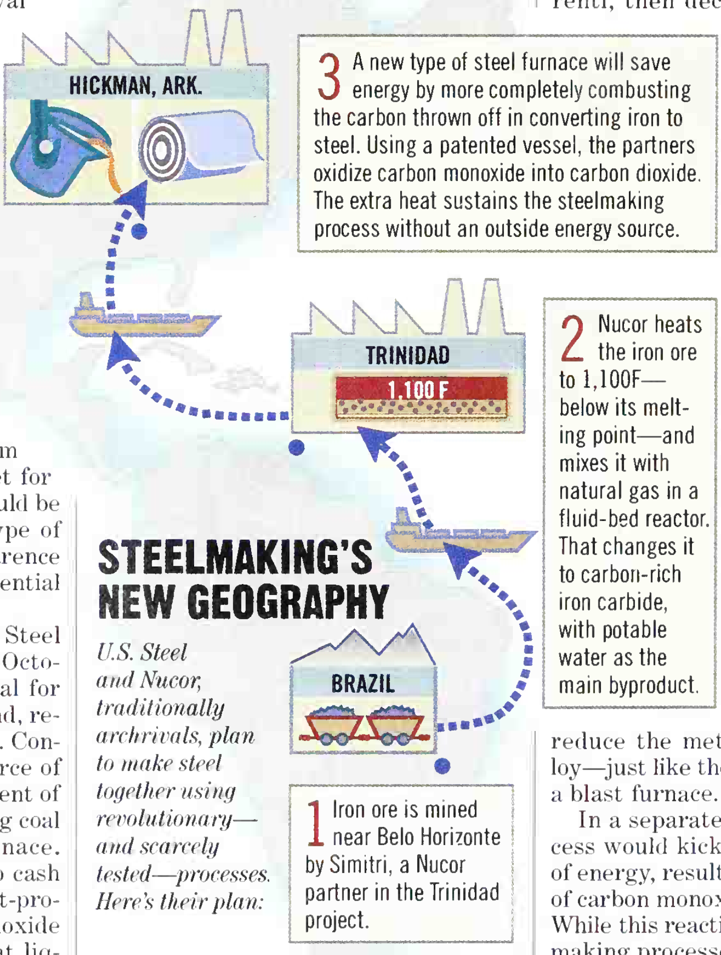
Rivals Nucor and U.S. Steel just may reshape how metal is made

Nucor Chairman F. Kenneth Iverson has missed some bets in his time. In the early 1980s, for example, he spent some $5 million manufacturing steel railroad ties. "They lasted forever, but nobody wanted to buy them," he laughs. But small setbacks such as this are dwarfed by Iverson's winning record on big gambles, especially his triumphant 1989 move to enter the flat-rolled steel business with $350 million in unproven technology.

Now, Iverson is rolling the dice on a far more ambitious venture. By teaming up with longtime rival U.S. Steel Group, a unit of USX Corp., Iverson is hoping to come up with a brand-new way to turn iron ore into steel. The discovery of a direct steelmaking process could revolutionize the steel industry: It could permit integrated companies such as U.S. Steel to boost capacity without also adding dirty, costly coke ovens and blast furnaces, which reduce iron ore to a metallic iron alloy that's then made into steel. At the same time, it would free Nucor Corp. and other minimills from relying on the topsy-turvy market for scrap, their raw material. "This could be a cheaper and highly efficient type of steel manufacturing," says J. Clarence Morrison, metals analyst at Prudential Securities Inc.

CLEAN PROCESS. The Nucor-U.S. Steel joint venture, announced in mid-October, hinges on a new raw material for steel—iron carbide. This compound, researchers say, has double potential. Containing iron and carbon, it's a source of metal as well as a fuel, the equivalent of both the iron pellets and the coking coal that are smelted in a blast furnace. What's more, researchers hope to cash in on a chemical reaction—the heat-producing conversion of carbon monoxide into carbon dioxide—to superheat liquid iron, refining it into steel.

The upshot, says Nucor President John D. Correnti, could be an energy-efficient method for making steel. He estimates it would save Nucor $50 per ton, or 20%. U.S. Steel President Thomas Usher adds that the direct steelmaking, confined within closed furnaces, would be a much cleaner process than today's technology. This could eventually spell relief for steel companies, which are struggling to meet the standards of the 1990 Clean Air Act.



STEELMAKING'S NEW GEOGRAPHY

U.S. Steel and Nucor, traditionally archrivals, plan to make steel together using revolutionary—and scarcely tested—processes. Here's their plan:

1 Iron ore is mined near Belo Horizonte by Simitri, a Nucor partner in the Trinidad project.

2 Nucor heats the iron ore to 1,100F—below its melting point—and mixes it with natural gas in a fluid-bed reactor. That changes it to carbon-rich iron carbide, with potable water as the main byproduct.

3 A new type of steel furnace will save energy by more completely combusting the carbon thrown off in converting iron to steel. Using a patented vessel, the partners oxidize carbon monoxide into carbon dioxide. The extra heat sustains the steelmaking process without an outside energy source.

DATA: NUCOR CORP., BUSINESS WEEK

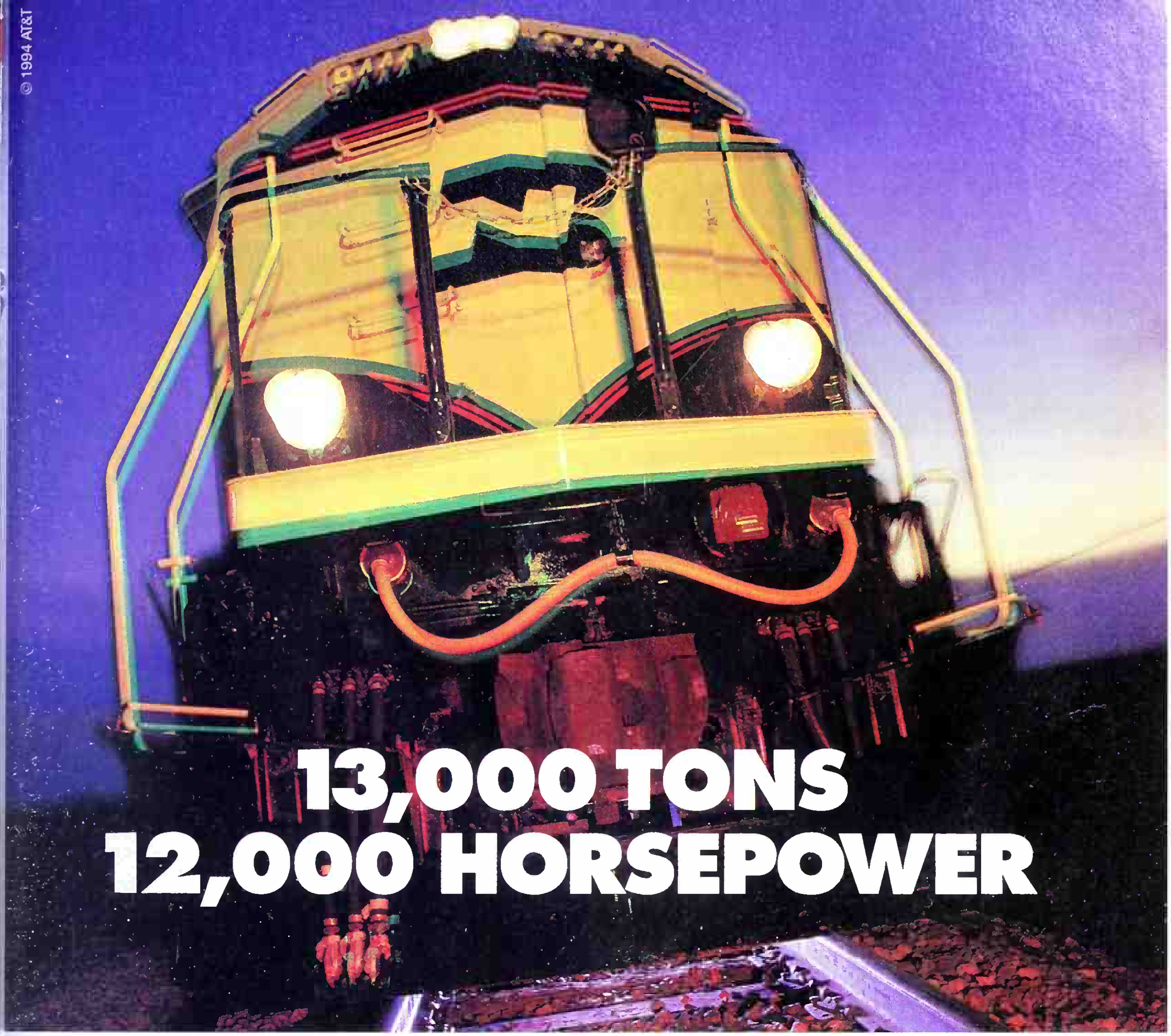
Before cashing in on direct steelmal ing, however, the partners must clear couple of tall hurdles. First, Nucor mus perfect the technology to create iro carbide, a process that's just beginnin on the island of Trinidad. Tougher ye the partners must devise a direct stee making system. By doing so, they hop to leapfrog ahead of Japanese and Ger man researchers, who are pioneerin technology to smelt coal and iron pel lets into liquid iron. Early this year, consortium of U.S. companies led by th American Iron & Steel Institute and th U.S. Energy Dept. abandoned a $60 mil lion direct steelmaking project. Al though the technology worked—smelt ing iron and coal, and then refining i into steel—it took too long and produce inconsistent grades of steel.

DUAL CHAMBERS. Nucor, U.S. Steel, an a third junior partner, industrial ga company Praxair Inc., are betting tha iron carbide can make the difference They will test the process for the nex four months to a year, says Nucor's Cor renti, then decide whether to build $30 million to $40 mil lion demonstratio plant next to a Nuco mill in Arkansas. Cor renti says that plan would produce 50 ton of steel per hour, a much as a midsiz minimill.

The demonstration plant would likely feature a furnace with two closed chambers, one to dissolve th iron carbide into liquid iron, and a second to refine it into steel. In the first stage of the planned process, iron carbide would be mixed with a small quantity of hot liquid steel. The heat would ignite the carbon in the iron carbide, warming the enclosed chamber enough to reduce the metal to a molten iron alloy—just like the metal that pours out of a blast furnace.

In a separate compartment, the process would kick in with its second shot of energy, resulting from the conversion of carbon monoxide into carbon dioxide. While this reaction occurs in many steelmaking processes, it's rarely harnessed to fuel the steelmaking. But Gordon H. Geiger, an inventor working for U.S. Steel on the project, has described a

© 1994 AT&T



All it takes to stop it is one unreliable data circuit.

Which is precisely why Burlington Northern Railroad relies on AT&T Data Communications Services.

After all, BN's entire business rides on being able to deliver freight. On time. Damage-free. Over some 24,000 miles of track through 25 states and two Canadian provinces.

That means their AT&T data network has to carry a critical load. Processing shipment orders. Controlling trains. Ensuring customer deadlines are met. If BN's data network goes down, even for a fraction of a second, their entire business stops in its tracks.

Which is why BN trusts AT&T as their data network provider. AT&T gives them the technical expertise, servicing support and reliability performance they need. Delivered by advanced systems like FASTAR®, which immediately identifies cable cuts and automatically begins rerouting data. All within seconds. So BN's data stays onboard.

To keep your business on track, call 1 800 332-7FAX, Ext. 100. You can speak to a knowledgeable representative or receive faxed information on AT&T's private line and frame-relay data services.

AT&T. For the life of your business.℠

AT&T

steelmaking technology in an enclosed chamber, where the heat, instead of escaping, would fuel the entire process. "If such a furnace can be designed," Geiger said in a speech last year, "no other energy source is needed to take iron charged at 500C to liquid steel."

For the direct-steel project, the Trinidad plant should perform some of the work traditionally handled by a blast furnace. In an integrated steel mill, the oxygen from iron oxide pellets is burned off in the roaring blast furnace. In Trinidad, tiny grains of iron ore known as fines will be placed in a 1,100F fluid bed and treated with methane and hydrogen obtained from Trinidad's plentiful natural gas. The hydrogen from the gas should combine with the ore's oxygen, creating drinkable water—a by-product that Nucor will sell. Meanwhile, the carbon will latch on to the metal, producing iron carbide.

UP THE MISSISSIPPI. To be sure, plenty of doubts surround Nucor's iron carbide plant. Iverson was in such a hurry to produce a substitute for scrap steel that he went ahead two years ago with the $80 million Trinidad plant without building a demonstration plant first. With the Nucor plant working at a scale 50 times larger than test models, no one knows if the yields of iron carbide will be high enough to justify the cost. "It's a big lab experiment," Iverson jokes.

He should know by next month if the plant will meet projections of 330,000 tons per year. If it does, Iverson will quadruple the Trinidad works. The plan is to send shiploads of iron carbide to New Orleans, where it will proceed on barges up the Mississippi.

Waiting at Nucor's Hickman (Ark.) plant will be a team of scientists and engineers from U. S. Steel. It came as a shock to many in the industry that the tight-buttoned steel giant would cast its lot with Nucor's wild bunch. U. S. Steel executives routinely pooh-pooh the quality of Nucor's steel, while Iverson and company paint U. S. Steel as a rigid hierarchy dominated by the United Steelworkers of America. Iverson joked two years ago that if he entered a joint venture with a company like U. S. Steel, "our directors would shoot me."

But when the steelmaker came knocking in search of a direct partner, Iverson and Correnti listened. In some ways, it's a perfect match. U. S. Steel has an advanced research and development department and Geiger's iron-carbide technology. Nucor has the iron carbide—assuming the Trinidad plant works—and experience in commercializing new technologies. "It's a good fit," says Correnti. Now, all these partners have to do is refine a good idea into hard reality.

By Stephen Baker in Pittsburgh

'ENGLISH CANADIANS WON'T LIKE WHAT'S GOING TO HAPPEN'

A talk with Quebec's newly elected Premier, Jacques Parizeau

Quebec Premier Jacques Parizeau is determined to let Quebec citizens vote next year to become an independent nation. In one of his first interviews since winning power, Parizeau spoke with Toronto Bureau Chief William C. Symonds:

Q: *Why should Quebec leave Canada?*

A: We now have two governments [Quebec's and the federal] trying to do exactly the same things with two sets of offices, two sets of programs, and two civil services. There is a cost to this. So more and more people say: "Why don't we get out of the federal system and run our own affairs like any normal group of people?" This [realization] has developed at the same time as the answer to the question: "How do you define yourself—as a Canadian or as a Quebecker?" Those who define themselves as Quebeckers first are about 60%.

MOE DOIRON/SYGMA

> "It is clear we will be members of NAFTA and GATT."
>
> **JACQUES PARIZEAU**
>
> *Premier of Quebec*

Q: *How do you respond to the many English-Canadian economists who warn that a breakup of Canada would have dire economic consequences?*

A: It is awfully hard to become an English-speaking Canadian economist if you haven't published a horror story [about Quebec independence]. And the abuse of such horror stories has diminished their effectiveness.

Q: *Wouldn't a breakup disrupt trade between Quebec and English Canada?*

A: I'm not looking for a new economic agreement with Canada. All I'm saying is that we'll keep it as it is. Granted, English Canadians won't like what's going to happen. But what can they really do? It is clear that we will be members of NAFTA and GATT. There is no way under these rules that Canada can retaliate against Quebec's products.

Q: *But an independent Quebec usin the Canadian dollar wouldn't have an control over monetary policy.*

A: What else is new? We never hav had any impact.

Q: *How can you reassure investors*

A: Most investment is carried out b U.S. corporations that are already her and know Quebec well. And they ar not nervous. Many of them operate in 3 countries around th world. [After our independence,] they'd operate i 31 rather than 30. So

Q: *Would the U.S. be reluctant to recognize an independent Quebec?*

A: Look, I'm sure they'l hesitate. I'm sure Canadians will ask them to delay. That's understandable Therefore, we will nee support from elsewhere But the U. S. will not allow any other country t be the first [to recogniz Quebec]. They'll want t be first, because they ar the dominant power on th continent.

Q: *How important is it that an independent Quebec retain a sizable English-speaking community?*

A: There is a remarkable pool of well-trained people, with business experience, among Anglo-Quebeckers. We would be foolhardy to neglect [them].

Q: *Will you resign if the referendum is defeated in 1995?*

A: I have put a great deal of my life into trying to bring about a sovereign Quebec. I think we'll do it—and I intend to win.

Only from the mind of Minolta... The Watchdog Copier!™

Introducing the CS-Pro Series!
With hidden electronic Watchdogs to unleash CS (Customer Satisfaction). Watchdogs that guard against misfeeding, guard against miscopying and cut malfunctions way back. Plus: Minolta's S.M.A.R.T. System. So clever, it calls the Dealer by itself... to prevent downtime. Press a button, it even orders toner and supplies! In addition, our Automatic 3-hole punch and Booklet Making Mode. All these features and 100% productivity. To give this Watchdog a home, just call **1-800-9-MINOLTA**

There's a Watchdog copier to fit every size company.

Copiers
Cameras
Faxes
Digital Systems
Document Imaging
Camcorders
Binoculars

Only from the mind of Minolta

MINOLTA

©1994 MINOLTA CORPORATION

THE REAL TRUTH ABOUT THE ECONOMY

Are government statistics so much pulp fiction? Take a look

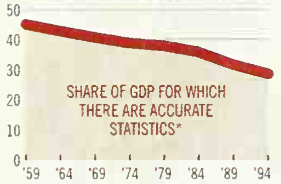
Wondering about yesterday's weather in Tallahassee? No problem, ask the Weather Bureau. Interested in who won last night's ball game? Just check the newspaper. Want to know how the economy did last month? Uh-oh.

The economic statistics that the government issues every week should come with a warning sticker: User beware. In the midst of the greatest information explosion in history, the government is pumping out a stream of statistics that are nothing but myths and misinformation. Most of the surging information economy—including software, telecommunications, and entertainment—is poorly covered by the data. While figures such as a 5.9% unemployment rate or a 3% inflation rate seem to have a reassuring solidity, in fact the connection between the government's statistics and the reality is getting more tenuous every year. Such official measures as gross domestic product (GDP), producer price index (PPI), or capacity utilization say far more about what's happening in old-line manufacturing industries than they do about such leading-edge companies as Microsoft, Disney, MCI, Fidelity, and Intel.

Based on BUSINESS WEEK analysis and recent economic research, it becomes clear that the real economy is vastly different from the one painted by the government's numbers The true rate of inflation is at least a percentage point lower than the official consumer price index, which misses changes in consumer buying habits and gains from product improvements. Business investment in equipment, afte adjusting for depreciation, is a full 30% bigge than the government statistics say, as the dat only captures a fraction of the money companies spend on software and telecommunications equipment. And productivity growth i also twice the official rate, which omits rising productivity in most of the service sector. Taken together, this means that GDP growth i stronger than the numbers show, the nation's productive capacity is a lot higher, and the dangers of inflation are far lower.

NOT WORKING. A true picture of the economy would also show that Americans are right t be worried about jobs these days, despite the low official unemployment rate. Increasingly, the labor market is filled with surplus workers who are not being counted as unemployed The rate of labor force participation—those working or looking for work—has dropped sharply for men since 1989. Estimated conservatively, some 1.1 million more prime-age male

THE ECONOMY IS BECOMING HARDER TO MEASURE



*AGRICULTURE, MINING, MANUFACTURING, TRANSPORTATION, AND UTILITIES

DATA: COMMERCE DEPT., BUSINESS WEEK

Unemployment

THE MYTH

Workers are getting scarce as the unemployment rate drops to only 5.9%.

THE REALITY

Because more than 1.1 million prime-age workers—mainly men—have stopped looking for jobs since 1989, the true unemployment rate is close to 7%.

CLASS OF '94: *"Getting a job is not the issue. Is it an appropriate job?"*

PHOTOGRAPH BY TOMMY THOMPSON/BLACK STAR; CHARTS BY ERIC HOFFMANN/BW

rkers are out of the labor force compared with five years o. Adding those workers back in would push the real unemoyment rate to 6.8%, from its reported 5.9%. And there e at least 500,000 more workers with some college who ve jobs but are underemployed compared to 5 years ago. at's an enormous pool of surplus labor available to fuel the onomy's growth.

The bum numbers are costing the country a bundle. Wall reet, corporate executives, and Washington policymakers ntinue to make bad decisions based on the official—but inrrect—statistics. And the potential for harm is increasing the statistics become ever less accurate.

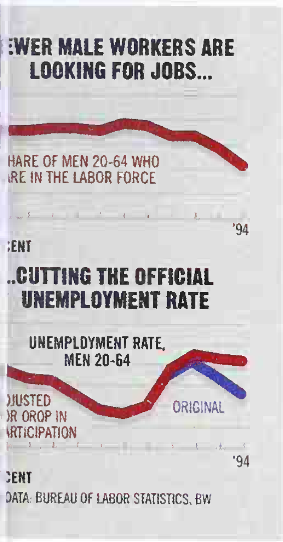
The biggest danger right now is that the government's mbers are scaring the Federal Reserve and bond market gilantes into raising interest rates. If overstated inflation mbers and misleading investment numbers induce the Fed unnecessarily slow growth by 1%, that alone would take alost $70 billion off GDP.

F BY BILLIONS. Bad data hit the economy hard in other ays. Inaccurate readings of the economy's health may lead mpanies to unnecessarily cut back on production or to proce far more than is needed, at an average annual cost of me $5 billion. Because entitlements and income tax bracks are indexed to inflation, a 1% overstatement of the CPI ises the federal budget deficit by an estimated $5 billion each ar. And an overstated CPI will lead workers and business- to demand bigger wage and price increases, which will pose an additional $5 billion drag on the economy. This ings the toll from bad statistics to an average of some $15 llion a year in incorrect business and consumer decisions, acrding to BUSINESS WEEK estimates.

The shortcomings of the economic statistics also leave onomists fumbling with major policy questions. Is real pay lling or rising? Is productivity improving or stagnating? ealth care, trade, welfare reform, income inequality: All ffer from the same lack of accurate information. "You need e data to do real research on what interventions help and hich ones don't," says Zvi Griliches, an economist at Harvard niversity. "The biggest problem is the system itself is not easuring the concepts people care about," adds Michael J. oskin of Stanford University, head of the Council of Econom- Advisers under George Bush. "And that divergence is owing over time."

Paradoxically, aggregate economic statistics are becoming ore and more important even as they become less reliable. used to be that a business could focus on a narrow set of arkets. But as the economy gets more complex and interconected, having good information about other markets and other parts of the country is essential. Businesses base their hiring and investment decisions, in part, on expectations of future sales and costs. Chrysler Corp., for example, tracks the different components of the producer price index to estimate what will happen to its cost of materials.

Consumers, too, worry about future income when deciding how much to buy or save. "People's expectations don't come out of thin air," says Thomas Juster, an economist at the Institute for Social Research at the University of Michigan at Ann Arbor. "Information that relates to job security and inflation-rate prospects has a significant cumulative impact on people's decisions."



DATA: BUREAU OF LABOR STATISTICS, BW

Investment

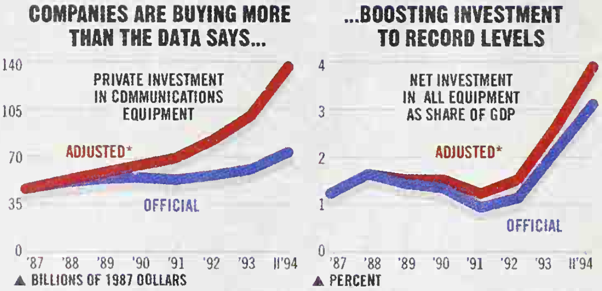
THE MYTH

Business investment is too low to sustain a strong recovery without inflation.

THE REALITY

The official statistics far understate investment in software and telecommunications equipment. Net business investment, correctly measured, is now at a record high 3.9% of GDP.

REAMS OF HIDDEN DATA: *Laying fiber-optic cable*



*FOR DROP IN COMMUNICATIONS EQUIPMENT PRICES

DATA: LABOR DEPT., BW

Take inflation, for example. The CPI is used to set cost-of-living increases for union contracts and Social Security payments, while the producer price index is often used to index commercial contracts. Moreover, corporations and workers often use the published inflation rate as a benchmark for determining what constitutes a fair pay increase, even in the absence of an explicit contract. Some 76% of corporations use the CPI to help determine how much to increase their salary budget, according to a recent survey by Hewitt Associates. "The CPI helps determine people's ideas of what kind of raises that they ought to get," says Larry Ball, an inflation expert at Johns Hopkins University.

As a result, if the official CPI is stuck around 3%, that level of inflation can actually become a self-fulfilling prophecy, since workers want to keep up with inflation. But if the official number reflected the reality of a 2% inflation rate, that might encourage companies and workers to hold down wage and price increases, thus lowering the true rate of inflation. "If there is upward bias in the CPI and you get rid of it," says Ball, "people might be happier with smaller wage increases."

An inaccurate CPI number does other damage, too. Feder-

PHOTOGRAPH BY JAMES NUBILE/JB PICTURES

al Reserve Board Chairman Alan Greenspan has argued that higher inflation slows productivity growth by making it more difficult for businesses to plan ahead. An overstated CPI, by raising the actual inflation rate, could cut one- or two-tenths of a percentage point off of productivity growth. That might not seem like much, but it is worth $5 billion to $10 billion of GDP.

As much as 10% of the ups and downs of industrial production is a reaction to economic statistics that are later revised, according to a recent study by Michael Waldman of Cornell University and Seonghwan Oh of Seoul National University. For example, says Waldman, a series of pessimistic economic data in the first half of 1989 helped persuade businesses and consumers to cut back on spending. The statistics were later revised up—but by then, the damage had been done, costing the economy at least $10 billion in lost production.

"PREHISTORIC." Companies are also concerned with the accuracy of the more detailed statistics that the government publishes about individual industries. Texas Instruments Inc., for example, uses industrial production numbers issued by the Federal Reserve to help project revenues for its various businesses. But Vladi Catto, chief economist for TI, has reservations about these numbers, which are calculated in part by measuring electricity consumption. "That's prehistoric," says Catto.

Catto also worries about the trade statistics, especially since the government no longer classifies exports and imports by whether they are for final sale or just for assembly purposes. So now it's not clear whether chips shipped to Korea will just be plugged into a VCR for sale in Topeka, Kan., or in Seoul. "It's much more difficult to trace exports and imports," says Catto.

The stream of economic statistics, whether accurate or not, helps shape the political climate in which policy is made. Take the debate over the 1988 trade law, which provided U.S. industries with new weapons to protect themselves against foreign competition. At the time, the merchandise trade deficit for 1987 was reported as $171 billion. Since then, revisions and the inclusion of services in the trade numbers have pushed the trade gap for 1987 down to $151 billion. "The debates over the trade bill would have been less vitriolic if people had had the real data," says Boskin.

Certainly, the problems in the numbers are affecting Fed policy. Not because Greenspan is ignorant of the potential

Where the Statistics Dollar Goes

FISCAL YEAR 1994*
MILLIONS OF DOLLARS

AGRICULTURE DEPT.	$294
BUREAU OF LABOR STATISTICS	280
CENSUS BUREAU	276
NATIONAL CENTER FOR EDUCATION STATISTICS	135
ENVIRONMENTAL POLICY ADMINISTRATION	107
ENERGY INFORMATION ADMINISTRATION	89
NATIONAL CENTER FOR HEALTH STATISTICS	88
BUREAU OF ECONOMIC ANALYSIS	44
FUNDING FOR OTHER FEDERAL STATISTICS	1,346
TOTAL FEDERAL FUNDING FOR STATISTICS	2,659
PERCENT OF FEDERAL BUDGET	0.2%

*Estimate DATA OFFICE OF MANAGEMENT & BUDGET

biases: Indeed, he is t
ultimate sophisticate
consumer of econom
statistics. As he recent
testified before Co
gress: "The list of shor
comings in U.S. econo
ic data is depressing
long." Publicly, Gree
span has often said t
CPI probably overstate
inflation, while in privat
he has been very critic
of GDP figures, especial
the quarterly figures. I
stead, the Fed, whe
setting monetary polic
now relies heavily o
anecdotal evidence of i
flation, hiring, and othe
economic trends collect
ed from the 12 region
Fed banks, and on re
ports from industria
service, and financia
companies.

But this dependenc
on anecdotes rather tha
statistics raises tw
problems. First, polic
necessarily gets less pr
cise when less informa
tion is available. Secon
as psychologists and lawyers well know, anecdotes can be biased and colored by the viewpoint of the questioner. If the Fe
is looking for examples of inflation and labor shortages, i
will certainly be able to find them.

But no matter how many anecdotes the Fed says point t
shortages, the evidence is overwhelming that the U.S. is no
suffering from tight labor markets and other bottlenecks
True, the unemployment rate has now fallen to 1988 levels
But the index of help-wanted ads is down 25% compared wit
then, and jobs seem much scarcer. Just ask new college graduates. "Students are working a lot harder at the job search,
says Laurie Paul, director of career services at Drew University in Madison, N.J. "They'll take a little bit less job and hop

Inflation

THE MYTH

Consumer prices are rising at 3% annually and are set to accelerate.

THE REALITY

The CPI is overstated because it fails to capture dramatic improvements in product quality and shifts in consumer buying behavior. The result: True inflation is 2%.

PRODUCTION AT GLAXO: *Prescription prices may be overestimated by 50%*

hey can move up. These students are a lot more realist- now.”

Indeed, a look behind the numbers explains the change in ttitude. After a decade of stability, the labor force participa- ion of men has fallen off sharply, and the erosion is continu- ng this year, despite the apparent surge in new jobs. At the ame time, underemployment is on the rise for workers with ome college or more. In 1988, 46.2% of these educated work- rs held executive or professional jobs. By 1993, the percent- ge holding good jobs had dropped to 43.5%, with the de- line much larger for men than for women. Adds Wayne Vallace, director of the career resource center at the Univer- ity of Florida: “Getting a job is not the issue. The real issue: s it an appropriate job?”

And even the payroll employment numbers, hich have been growing at a rate of about 00,000 a month, are suspect. Out of that growth, bout 50% is coming from what BLS calls the “bias djustment,” which is simply a fixed number add- d to the published number each month to take ac- ount of the fact that the payroll number histor- ally gets revised upward each year. So even if ob creation were to slow sharply, it would not how up in the bias adjustment for months. That's a little unsettling,” admits Katharine braham, BLS commissioner.

ELIABILITY FACTOR. The situation with the CPI is, anything, even worse. By now, almost everyone om Greenspan to the Congressional Budget Of- ce to the BLS agrees that CPI growth is too high. I think the inflation rate is overstated by 1%,” ays Boskin. The reasons for upward bias in the CPI nclude technical problems with the calculation of ne index and sluggishness in picking up changes n consumer shopping behavior. But the biggest roblem with the CPI is that it doesn't reflect the nproved quality of many products. New automo- iles, for example, are far more reliable than they ere a few years ago, yet this increase in qual- y—which pays off in fewer visits to the repair hop—is not accounted for in the CPI.

The producer price index suffers from the same roblem. The BLS reports that the price of such elecommunications equipment as fax machines, ideo-conferencing gear, and modems has gone up n recent years. But that's not the experience of nyone who has gone shopping for these products. djusting for the tremendous gain in power and peed, true prices have actually dropped substan- ially for most types of communications equipment. n the case of pharmaceuticals, the inability of the LS to properly account for generics and new drugs neans the PPI for prescription drugs is overstated y some 50%. And there is no price index for soft- are at a time when software is the single largest onlabor expense for some companies.

Similarly, high-tech investments such as telecommunica- ions equipment and software are either undercounted or ot counted at all in the official investment figures. To put it nother way, the 10 largest software companies have a total narket capitalization of $80 billion—yet, according to the overnment, none of them produces any investment goods.

If the government is undercounting investment, it's not urprising that the capacity-utilization numbers are skewed s well. In the past, companies added to capacity by building ew plants, which the government could easily track. But ow Corporate America is trying to boost capacity by reor- anizing production, something that the official statistics ave no way of measuring. By reducing cycle time and improving manufacturing yields, “in just the first half of this year we ‘created’ an ‘invisible factory’ the size of one of our $400 million fabs—without any new brick and mortar,” says Texas Instruments Chief Financial Officer William A. Aylesworth. “That kind of thing is probably happening throughout the chip industry, and throughout Corporate America.” TI's goal is to free up another factory's worth of capacity in the next year.

The globalization of many industries is also distorting the capacity-utilization figures, since the Federal Reserve's figures include only domestic factories. But increasingly, corporations move production back and forth across national boundaries. Consider GE's Electrical Distribution & Control business in Plainville, Conn., which makes circuit breakers, panel boxes, and other industrial gear. According to President and CEO Lloyd Trotter, back in 1989 his foreign customers were mainly supplied from U.S. factories. But now the percentage has reversed. Exports account for only 20% of overseas sales, while the rest come from foreign factories in places such as Singapore—which are not counted in U.S. capacity.

And what about the country's productivity statistics, which purport to measure how fast output per worker is growing? They are “a horror show,” says Juster of the University of Michigan. “They're widely regarded as the worst kind of numbers that have ever existed.” The government has no good way of measuring output in a whole range of industries, including banking, software, legal services, wholesale trade, and communications—all of which have invested heavily in in-

Capacity Utilization

THE MYTH

U.S. factories are working at some 84% of capacity, close to the point where shortages start to develop and prices start to rise.

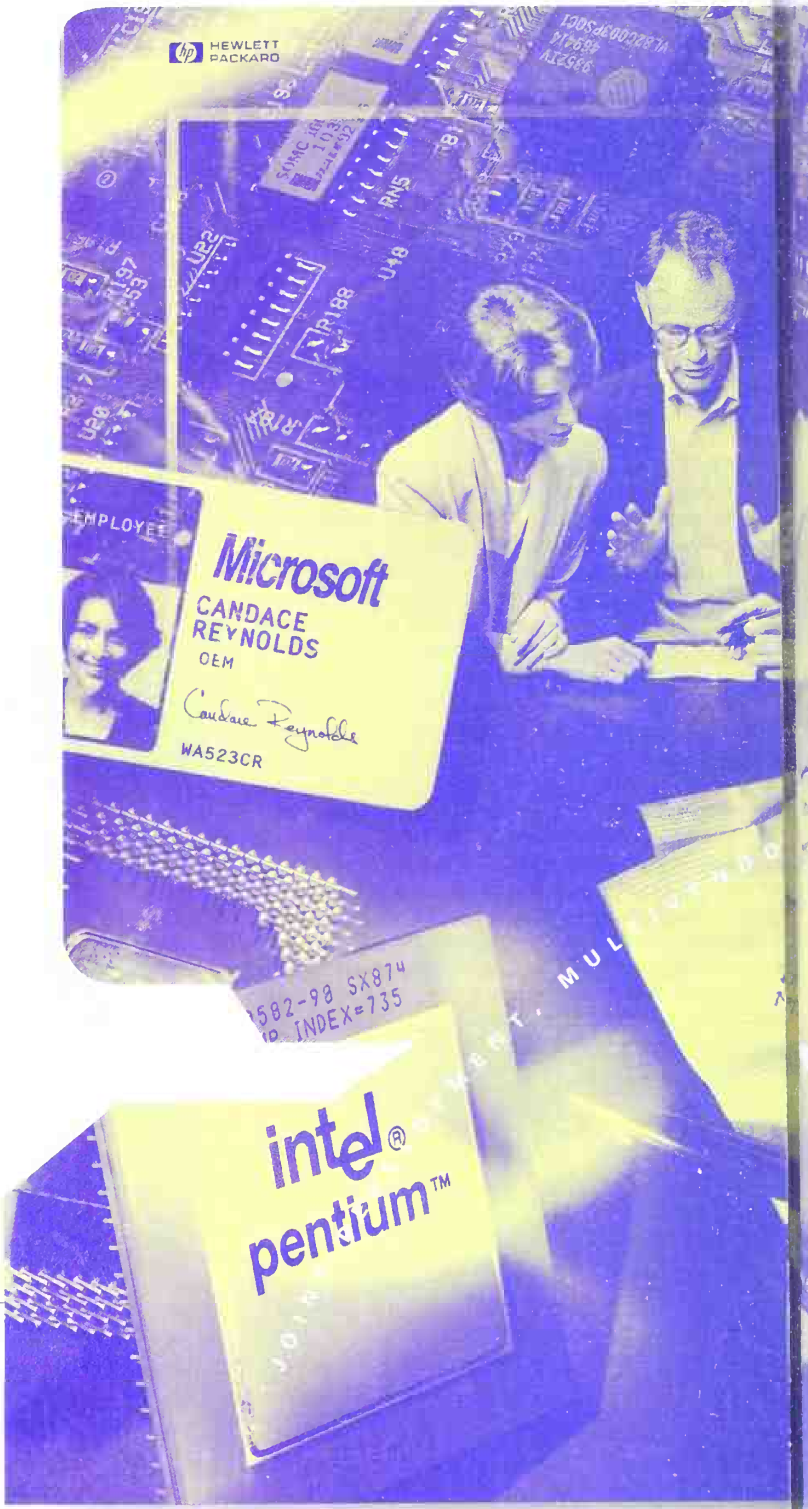
THE REALITY

The numbers are overstated because increased productivity allows manufacturers to get more output without adding new factories. Moreover, the capacity-utilization numbers are based only on domestic production, which makes little sense in an increasingly global world.

THE GLOBAL FACTOR: *Siemens chip production in Munich*

GERD LUDWIG/VISUM

HEWLETT-PACK


HEWLETT PACKARD
EMPLOYEE
Microsoft
CANDACE REYNOLDS
OEM
Candace Reynolds
WA523CR
582-98 SX874
INDEX=735
intel®
pentium™
MUL

HP Vectra VL2 PCs
HP quality in
value-priced PCs, from
$1,049

HP Vectra N2 PCs
High-performance
network-ready
PCs in a slimline
package, from
$1,429

HP Vectra M2 PCs
High-performance
PCs for the connected
office, from
$1,509

HP Vectra XM2 PCs
Exceptional 486
performance for
advanced business
use, from
$2,069

HP Vectra XU PCs
The ultimate PCs
for advanced business
and technical
applications, from
$3,749

HP Vectra Interactive PCs
Integrated multimedia
and communications
solutions for
business, from
$1,559

HP offers a full 3-year
warranty on all PCs,
including 1-year on-site
and 2-year carry-in.*
For more information, call
1-800-322-HPPC, Ext. 8781.

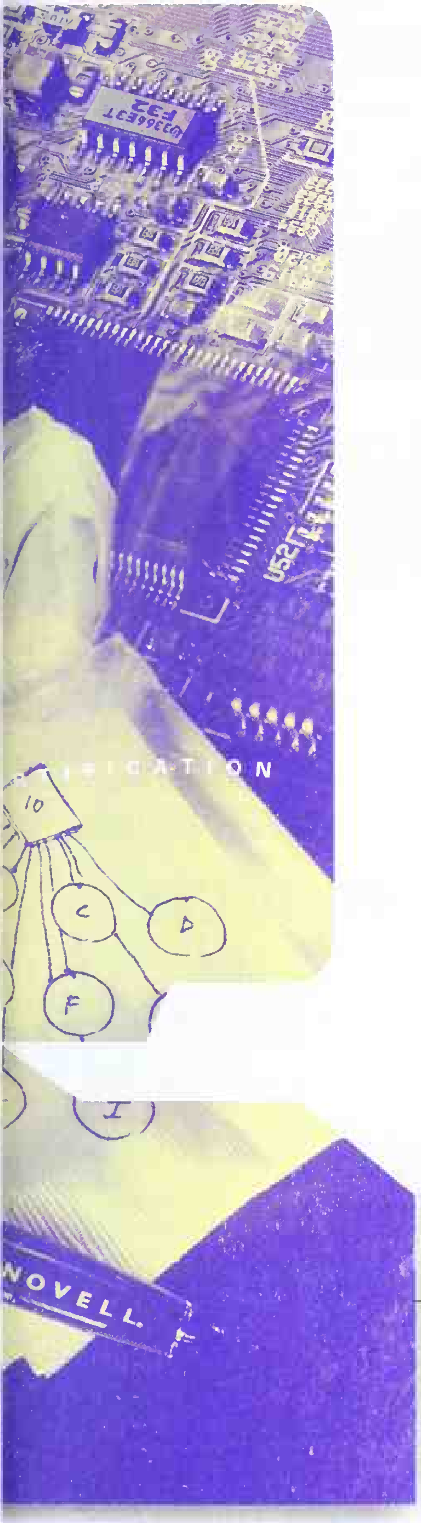
intel inside

MICROSOFT WINDOWS
READY-TO-RUN

yes
It runs with
NetWare

All prices include hard disk drive (VL2-, N2-, M2-, Interactive PCs , XM2-210MB IDE, XU-270MB SCSI-2). Prices do not include monitors. Microsoft and the Windows logo are registered trademarks and Windows is a trademark of Micros

D PCs



You're looking at partnership in a whole new light.

If you have PCs on a network, hardware and software compatibility is undoubtedly one of your biggest concerns. You need to know who's talking to whom.

And you can start by talking to Hewlett-Packard. Together with partners like Intel, Microsoft,® Novell and others, we're developing technology that ensures true compatibility, across the board and across the network. So your PC runs everything it's supposed to, wherever it's supposed to.

Because if it doesn't work in your environment, it doesn't work at all.

HEWLETT® PACKARD

ation Pentium and the Intel Inside logo are U.S. trademarks of Intel Corporation. *For a nominal fee, a 1-year on-site service contract can be upgraded to 3-year on-site service. ©1994 Hewlett-Packard Company PPG410.

formation technology. And without a good number for output, the official productivity numbers for these industries are suspect. Most economists now believe that productivity growth in these industries is substantially understated by the government figures. As a result, overall productivity growth for the economy is understated by "something around the order of one-half to one percentage point a year," says W. Erwin Diewert, an economist at the University of British Columbia.

And the list of problem statistics goes on and on. The Fed no longer relies on M2 as a good indicator of where the economy is going. Nobody knows how much currency is held abroad. Even the savings rate is "terribly unreliable," says David Bradford, an economist at Princeton University. What the U. S. should be interested in, he says, is not savings but the creation of wealth—which the government statistics system is simply not designed to measure.

STOPGAP SOLUTION. To be sure, the primary agencies that generate national statistics have seen a moderate budget increase in recent years. That meant, for example, that the Bureau of Labor Statistics was able to update the monthly survey that generates the unemployment numbers. The BLS also has started collecting its monthly payroll employment figures from companies by letting them punch in the data by phone, which has drastically decreased the number of large revisions. The Census Bureau and Bureau of Economic Analysis were able to add service exports and imports to the trade numbers. And on Oct. 21, the BLS announced that it would revise the CPI starting in January, 1995.

But these initiatives, however necessary, address only a fraction of the problems with the statistics. The agencies do not have the funds needed to deal with an information-based economy. Indeed, they never caught up with the rapid growth of the service sector in the 1970s and 1980s. Even the upcoming CPI revision is only a stopgap solution—it will better track food prices but won't come close to capturing the gains from rapid technological progress. And it's coming far too late. "The CPI should have been redesigned years ago," sa Janet Norwood, long-time commissioner of the BLS and no a fellow at the Urban Institute. "The American people do want to spend money on statistics."

Still, there's a lot that could be done to make the official st tistics more accurate. One easy change would be to realloca

Productivity

THE MYTH

Long-term productivity growth is only a meager 0.8% annually.

THE REALITY

The published number undercounts productivity gains in more than two-thirds of the economy, including financial services, communications, and health care. The actual productivity growth in the economy is twice that number.

ReadyTeller
SECURITY PACIFIC BANK

TELLING NUMBERS: *ATMs in San Francisco*

THE SPAWNING OF A THIRD SECTOR: INFORMATION

From employment to trade, almost all of the government's economic data is based on dividing the economy into two sectors: businesses that produce goods and businesses that provide services. But with the dawn of the Information Economy, this traditional split no longer makes sense. The service sector has become a confusing mishmash of everything from software giants such as Microsoft Corp. to the neighborhood day-care center.

It makes a lot more sense to create a new statistical system designed for the Information Age. It would consist of three economic sectors: goods-producing, services, and information. Services would include only businesses where personal contact with the ultimate consumer is essential—the day-care center is in the service sector, while Microsoft is not. Instead, the software giant would go in the information sector, along with other businesses that provide, move, or manipulate information—including most financial services, communications, and publishing companies such as McGraw-Hill, publisher of this magazine, which are currently counted as manufacturers.

The new classification shows that the big job creators in the economy are in the service industries, not the information sector (table). Yet strong productivity gains are largely in the information sector, not in services. After all, it's hard to imagine huge productivity gains in a barber shop.

Measuring the Information Economy won't be easy. But it would be worthwhile considering the growing role information plays in the U. S. economy.

A New Way To Split The Economy

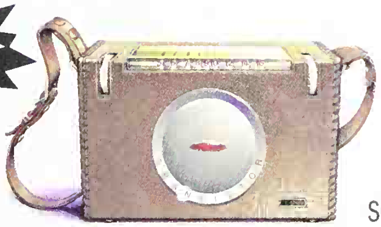
	SHARE OF EMPLOYMENT, 1993	GROWTH IN EMPLOYMENT, 1989-93
GOODS Includes mining, utilities, and most manufacturing	14.7%	–6.5%
SERVICES Includes people-oriented services such as auto repair, banking, and hotels; most health care; state and local government; elementary and secondary education	70.0%	5.2%
INFORMATION Includes information-oriented services such as advertising and entertainment; communications; publishing; software; computers; higher education; medical diagnosis; securities industry	15.3%	3.2%

DATA: BUSINESS WEEK

Innovation is easy.

You simply create the exact opposite of everything people wanted the day before.

Toshiba's Ultra-Mini Transistor Radio, the world's smallest in 1959



Take electronics.

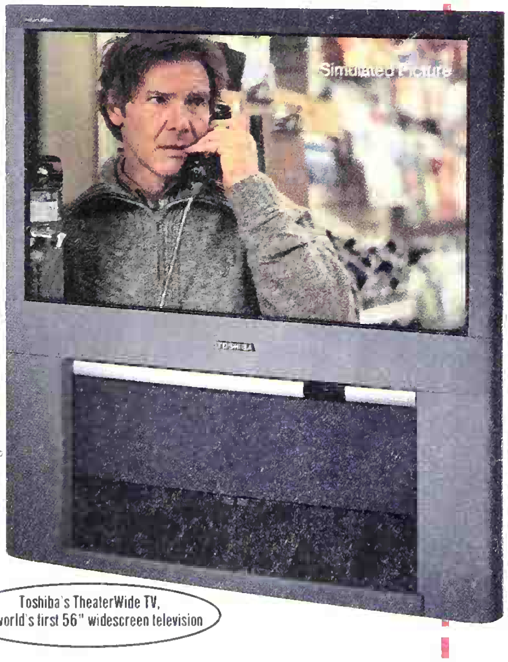
Back in the 1950's, everything was big, so everyone wanted it small. No problem.

In fact, in 1959, we made the world's smallest transistor radio. Then we moved on to teeny-tiny TV's. Six-inch black-and-white. Four-inch black-and-white. Two-inch color that fit in your pocket. You get the idea.

Now, however, innovation being what it is, we're introducing the world's first 56" widescreen TV. We call it Toshiba TheaterWide.™ And by that we mean it's the same shape as the screens they have at the theater where you pay 12 bucks for a ticket and popcorn. Everything about it makes you think you're in a seat with gum stuck under it. It has a picture with superb resolution that's the brightest in the industry. And high-powered Dolby® Pro Logic® sound. All that's missing is the lady in front of you with the big hat.

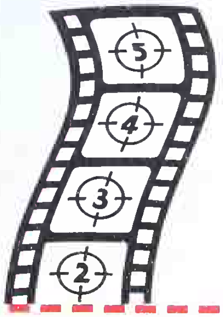
Tomorrow, who knows? We'll probably be making a TheaterWide TV you can wear on your wrist. Or a 360-degree screen that covers all four walls of your living room.

You tell us. And we'll get to work on it. In our business, no job is too big or too small.



Scene from *The Fugitive* courtesy of Warner Bros.

Toshiba's TheaterWide TV, the world's first 56" widescreen television



In Touch with Tomorrow

TOSHIBA

statistics money from the Agriculture Dept., which gets far more than its share. Then the BLS, for example, could update the PPI more quickly. "We don't have a pot of new money for developing new indices in the service sector," says the bureau's Abraham. "If we had a few extra millions we could use it fruitfully."

But ultimately it will take hundreds of millions of dollars to get an accurate picture of today's economy. "It's one thing to collect data from huge factories," says Norwood. "It's another thing to go to a bunch of service establishments, which tend to be much smaller." And the problem is compounded the information economy, where it's hard to even figure o how to value the product.

But it's well worth doing. American companies and wor ers are going through wrenching readjustments as they ge up to compete in the new world economy. Without good st tistics, we don't know whether what we're doing is workin Better economic data will mean better economic policyma ing by government,.better decisions by investors and corp rations and, ultimately, a higher standard of living for ever body—and we'll even be able to measure it.

By Michael J. Mandel in New York, with bureau repor

STATISTICS CAN'T BE DAMN LIES ANY LONGER

Data! Data! Data! I can't make bricks without clay.

—Sherlock Holmes, *The Adventure of the Copper Beeches*

In the poorer countries of the world, investment and commerce are blossoming. From emerging capitalist nations of the former Soviet empire to the developing countries of Latin America and Asia, new opportunities are tantalizing and economies booming.

But by how much? Officially, China's economy has been expanding at an average 12% rate over the past several years. Yet a recent Chinese government investigation uncovered more than 60,000 cases of falsified and mistaken figures. Gross statistical errors were found in a slew of major economic sectors: industrial output, grain yield, farmers' per capita income, capital construction investment, inflation, and birth rates. These mistakes call into question whether Beijing has an accurate picture of just how fast its economy is surging ahead.

MASSAGING DATA. China isn't alone. The official numbers for the Czech Republic's gross domestic product and industrial production portray a weak economy, but strong growth in the country's entrepreneurship belies that picture. Some developing nations have suspiciously permanent 2% unemployment rates, and figures on education and labor skills are frequently unreliable. From Moscow to Caracas, local officials and corporate executives alike twist data to meet bureaucratic objectives or to avoid paying hefty taxes.

Still, statistical shenanigans are becoming much less pervasive than before. In much of the world, there are genuinely impressive efforts under way to improve the quality of economic statistics, often with the advice of outside consultants and international agencies. And for good reason. It takes accurate numbers to institute free-market reforms. When rigid command economies crumble and highly decentralized markets take over, governments suddenly need sound data to run their fiscal and monetary policies, says Jan Svejnar, economist at the University of Pittsburgh and economic adviser to Czech President Vaclav Havel.

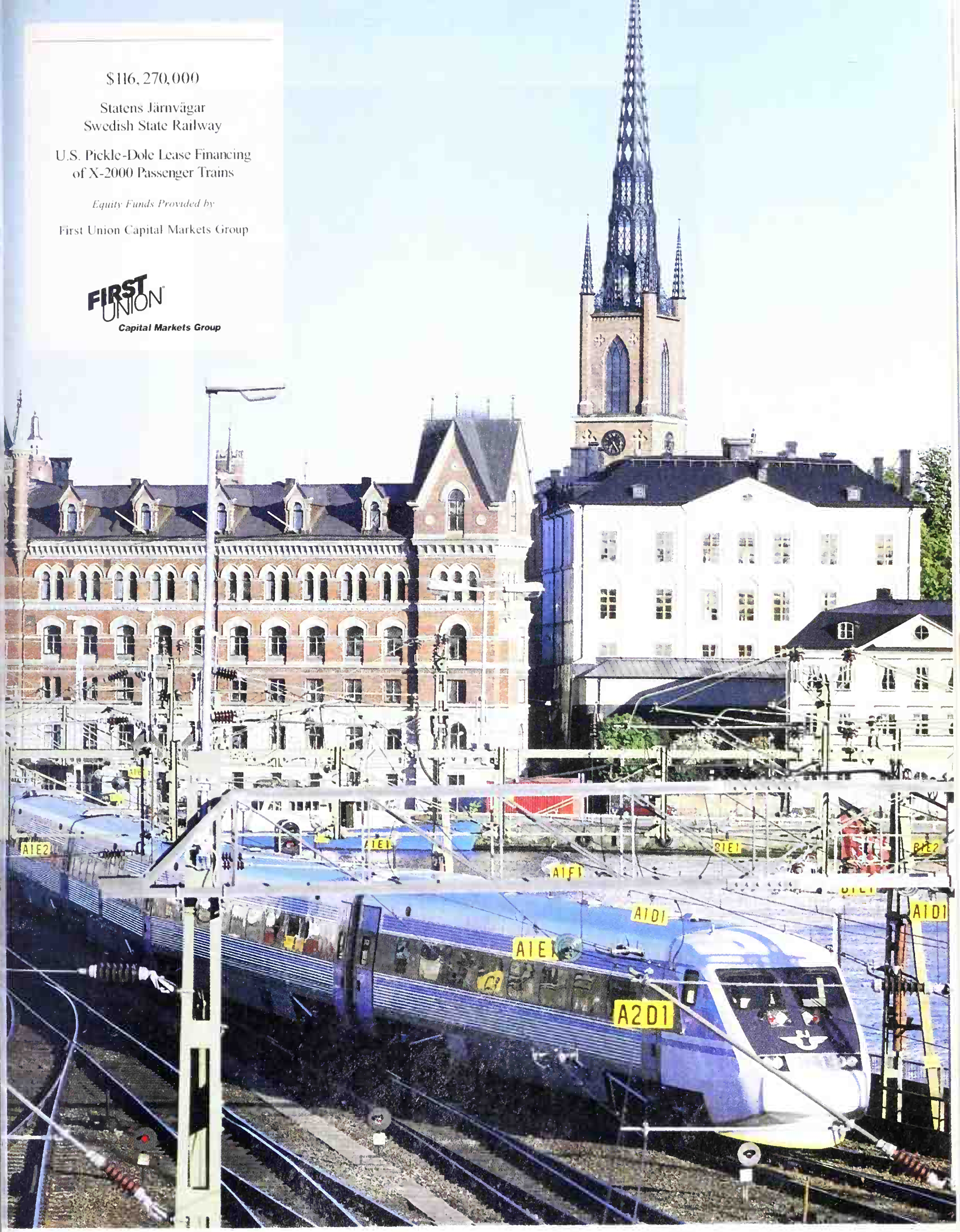
HOW SOUND? *China admits to errors in its construction figures*

And as foreign investors and multinational corporations expand their presence in developing countries, they require better guideposts on wages, prices, and other critical variables before committing millions in equity investments or in new factories. "Countries which develop a reputation for not having reliable statistics may pay a price in the international capital markets," says William Sterling, international economist at Merrill Lynch & Co. Adds Carlos Jarque, president of Mexico's National Institute of Statistics, Geography & Informatics (INEGI): In today's world, "we think a country without statistics can't develop."

Indeed, when free-market technocrats gain power in an emerging capitalist country, one of the first things they do is overhaul data collection. Mexico's President Carlos Salinas de Gortari, for example, made modernizing INEGI a priority when he came to power in late 1988. The institute has gone from 30 personal computers to 4,000, revised much of its methodology, and is busy compiling numbers on previously neglected parts of the economy. A top priority for the Chinese government is improving its data on everything from population to industry. Russia and the East European nations are working on better capturing emerging private-sector activities. Says Rudi Dornbusch, economist at Massachusetts Institute of Technology and BUSINESS WEEK columnist: "In the 19th century, the great effort was to draw up a map of a country. The 20th century equivalent is to get a good set of economic statistics."

Clearly, the stakes are high. Economic statistics are not only a barometer of current conditions. They can play a vital role in increasing the future wealth of nations.

By Christopher Farrell in New York, with Joyce Barnathan in Hong Kong and Elisabeth Malkin in Mexico City



$116,270,000

Statens Järnvägar
Swedish State Railway

U.S. Pickle-Dole Lease Financing
of X-2000 Passenger Trains

Equity Funds Provided by

First Union Capital Markets Group

FIRST UNION
Capital Markets Group

Asset Based Finance • Asset Securitization • Foreign Exchange • International Trade Finance • Leasing • Merger and Acquisition Advisory Services
Mezzanine and Equity Capital • Money Market Investments • Municipal Securities Underwriting • Private Placements • Public Finance
Risk Management Products • Structured Finance • Syndicated Loans • For More Information, Call 1-800-829-0314

This announcement appears as a matter of record only © 1994 First Union Corporation

AT&T • KDD Of Japan • Hongkong Telecom • Singapore Telecom • Unisource Of Europe

A quiet word with AT&T...

WorldSource℠ Services is a service mark licensed exclusively by WorldPartners Company

NITEL OF CANADA • TELECOM NEW ZEALAND INTERNATIONAL • TELSTRA OF AUSTRALIA

could give your company a powerful new global voice.

If the life of your business depends on global communications, you need a partner that can bring global communications to life. Which is precisely why AT&T has joined forces with some global business partners of its own. This global co-operation makes it possible for us to offer AT&T WorldSource℠ Services. These services are designed to meet all of your global communications needs, including offers such as Virtual Network Service, Private Line Service and Frame Relay Service. But more importantly, this global partnership allows us to offer a consistency of service and quality never before achievable. Companies using WorldSource℠ Services have the option of a single point of contact for all aspects of providing, maintaining and billing these services. With end-to-end responsibility and consistent local support worldwide, it's easy to see why we call WorldSource℠ Services a powerful new global voice for your company. Equally easy is what you have to do to find out more. Simply call 1 800 872-2424, Ext. 101. And have a quiet word with AT&T.

WORLDSOURCE℠

Making Your Business World a Single World

AT&T

NASDAQ: AN EMBARRASSMENT OF EMBARRASSMENTS

The Justice Dept.'s probe into possible collusion is just the latest blow

The joke is circulating among institutional investors, but no one is laughing at the Washington headquarters of NASDAQ, the huge electronic trading system for over-the-counter stocks. It goes like this: "Did you hear the one about the new NASDAQ ad slogan? 'NASDAQ. The stock market for the next 100 years—with 25 years off for good behavior.' "

On Oct. 19, the Justice Dept. confirmed that it's looking at whether NASDAQ dealers illegally collude to set stock prices. While NASDAQ adamantly denies any improprieties by its 500 or so brokerage members, for a business that depends on the trust of investors, "this has been devastating," says Richard Y. Roberts, a member of the Securities & Exchange Commission.

GROWING PAINS? The probe, though, is just the latest controversy to hit the embattled NASDAQ. Instead of moving closer to realizing its promise of overtaking the New York Stock Exchange as the premier U. S. stock market, NASDAQ has become mired in a broad array of difficulties.

NASDAQ's troubles range from technical glitches to fundamental questions about the effectiveness of its operations. Last summer, the market was beset by two embarrassing computer outages that shut down the network for a total of 3 hours. Many of NASDAQ's constituencies are dissatisfied: Institutional investors are clamoring for more price information, member firms are upset about rules that limit their trading flexibility, and companies listed on NASDAQ are angry about the Justice probe. Further, sources inside and outside the system question whether management can cope with NASDAQ's explosive growth and stay ahead of technological advances in competing markets. NASDAQ "hasn't kept up very well—but I wonder if anyone could have," says Mary L. Schapiro, a former SEC commissioner and now chairwoman of the Commodity Futures Trading Commission.

THE NASDAQ STO
NASDAQ

CHRIS USHER

EARLY WARNING: *NASDAQ partisans say the flap could have been easily avoided last year*

NASDAQ's growing pains have been particularly virulent. In just two decades NASDAQ has been transformed from a sleepy backwater to a dynamic force in the equity markets. It's owned and operated by the National Association of Securities Dealers, a 56-year-old, self-regulatory organization. Trading has swollen from $153 billion i
4,097 companies a decade ago to mor
than $1.3 trillion in 4,861 listed compa
nies last year, making NASDAQ the sec
ond-largest market in the world, com
peting head to head with the NYSE
Indeed, in the first six months of 199
the volume of shares traded outpace
the Big Board. But the glowing aura o
NASDAQ's Cinderella rise has given wa
to tough scrutiny.

The task of answering hard questions as fallen to Joseph R. Hardiman, a for- ıer top executive at Alex. Brown & ons Inc., the Baltimore securities firm. n the seven years since Hardiman ımped from the ceremonial job of NASD hairman to full-time president, he is redited with upgrading the system af- er the 1987 market crash and stiffening nforcement. But critics within NASD nd on the Street say Hardiman has ailed to assemble a management team ith sufficient depth for the NASDAQ ıarket. "He's saddled with too many leepy career bureaucrats who rose hrough the ranks at NASD," says a ource with close connections with ASDAQ. Hardiman was unavailable for omment. Regarding NASDAQ's man- gement, spokesman Robert J. Firri Jr. ıys: "Our senior management includes ıoughtful and insightful people. That's idely recognized."

Industry and NASD sources blame up- er management for the latest stain on ASDAQ's reputation. The investigation ıto the wide spreads has cast a cloud on ıe public relations department's ad campaign, which promotes NASDAQ's star listings and has helped fuel the market's expansion. Yet efforts by NASD officials to deal with the spread probe at an early stage were thwarted by higher-ups, say NASD sources.

Investors had grumbled for years about the wide spreads. The gaps between the bid and ask price, often a quarter of a point or more, end up in dealers' pockets. The American Stock Exchange sought to capitalize on the unhappiness back in 1990, when it tried to quantify the price investors were paying for NASDAQ's excessive trading costs. The Amex came up with the tidy little sum of $2 billion. In what may have been a major miscalculation, NASDAQ not only dismissed the study out of hand as bunk but provided little corroboration of its position.

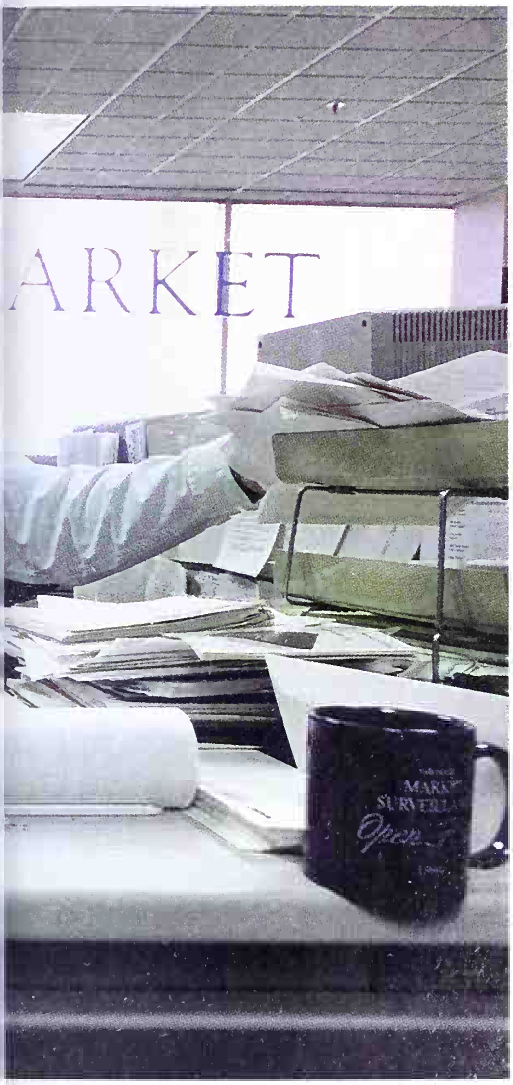
Then, last spring, William Christie and Paul H. Schultz, professors at Vanderbilt University and Ohio State University, respectively, released research showing a suspicious lack of odd eighths—such as 10⅜—for the most active NASDAQ stocks. The evidence, they said, "raises the question of whether NASDAQ dealers implicitly collude to maintain wide spreads."

The studies—due to be published in December in the well-regarded *Journal of Finance*—spurred about two dozen investor suits against dealers, alleging unfair stock pricing. Both the suits and studies got the attention of Justice officials, who are always on the prowl for high-profile antitrust cases. NASD Chief Operating Officer Richard G. Ketchum, a former top SEC official, says the spreads simply reflect supply and demand in a market dominated by thousands of risky stocks that are difficult even for dealers to trade. NASDAQ critics—and competing stock exchanges—contend that wide spreads have persisted even among the biggest and most active stocks, where pricing should be more competitive.

Some independent securities experts agree with Ketchum that Justice will have a tough time proving overt collusion, even though dealers could well maintain similar spreads through tacit understandings. But what irks NASDAQ partisans is that the whole flap could have been averted if it had been confronted early on. Ferri, director of media relations and a former Senate staffer, had lobbied for the market to sponsor an academic study to evaluate the spread issue in mid-1993. Ferri declines comment. But three people close to NASDAQ assert that internal politics and inertia stymied the strategy, even after the most recent damning research was released. Gene L. Finn, NASD's chief economist, submitted a paper to the *Journal of Finance* to rebut the research by Christie and Schultz, but it was turned down for publication.

HOSTILITY. Ketchum claims there are plenty of academic studies that support NASDAQ's benefits to the market. The studies make the case that NASDAQ provides superior liquidity for small-company stocks because of the dealer network. "They probably could have done a better job and didn't, and now they are playing catch-up. They need a lot more work on the PR side," says Leonard R. Hefter, head of OTC trading at Jeffries & Co. and a strong NASDAQ supporter.

A lot more clout, too. NASD sources argue that NASDAQ could have appealed directly to big member firms to slice spreads as a way to avert SEC action or



How To Get NASDAQ Back On Track

NASDAQ was a pioneer in automated securities trading, bringing the antiquated over-the-counter market into the 20th century. But numerous critics now say NASDAQ is faltering and requires a major overhaul.

Shake up management and attract high-profile talent. NASDAQ executives are doing a poor job handling the system's rapid growth.

Develop new technologies. Other markets, especially Instinet, an electronic trade-execution system, are winning away business.

Improve the market's reputation for fairness. Excessively wide trading spreads and other market failings impose costs on investors.

Foster better relations with institutional traders, market makers, and listed companies. They complain NASDAQ doesn't consult with them enough.

Cultivate more respect from Wall Street firms. Many firms consider NASDAQ inferior to the Big Board.

Initiate a more proactive approach in answering critics and promoting its markets' strengths. NASDAQ failed to forestall the Justice Dept. probe.

DATA: BUSINESS WEEK

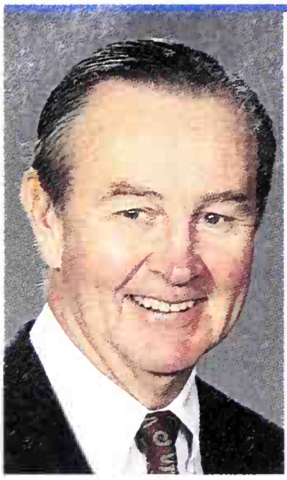
FLORSHEIM

ORPORATE STRUCTURE in America is breaking down.

At least on *Fridays.*

Finally, the dress codes have been broken. So relax. Florsheim has styles for the office any day of the week — even on those casual ones. And because it's Florsheim, you know it's the shoe that works. Call us at 1-800-446-3500 for the Florsheim dealer nearest you.

FLORSHEIM®



JOSEPH HARDIMAN

One critic says the NASD president is "saddled with too many career bureaucrats who rose through the ranks"

legislation. Indeed, following the public release of the latest research, spreads in many large-cap NASDAQ stocks dropped from a quarter to an eighth of a point. But NASDAQ management may not have the stature to appeal directly to the senior management of most big Wall Street houses. At least three big firms have a hostile relationship with NASDAQ management. "If [NASDAQ officials] showed up in the lobby [of any of those firms], security would probably throw them out," one NASDAQ source says. When asked about the virtues of the New York Stock Exchange vs. NASDAQ, the head of one major firm responds: "Morgan Stanley lists on the NYSE. Dean Witter is on the NYSE. Lehman is on the NYSE. PaineWebber is on the NYSE. Why are all those firms listed on the NYSE if the NASD is so great? They must think it's a better market."

"SOES BANDITS." One reason for the disdain may be that market makers don't think they'll get anything in return from NASDAQ. In the past few years, for example, many market makers have complained bitterly about some small firms that make big money at the expense of big firms by jumping on price discrepancies through a mechanism called the Small Order Execution System. SOES was designed to allow small investors to trade directly on an electronic NASDAQ system, and the large firms thought it was abusive. Market makers wanted the "SOES bandits" banned, but the NASD had trouble adopting even modest reforms.

Market makers also gripe that the NASD imposes rules without enough consultation. It barred dealers from ignoring limit orders, in which customers tell brokers they want a trade executed when a stock reaches a specified price. Most observers felt the rule made sense. But dealers were upset not just because the rule could produce narrower spreads but because the NASD unilaterally pushed the rule down dealers' throats.

Big institutional traders are also upset. They say the NASD fails to investigate complaints about failures by market makers to report trades quickly. And institutions in vain have demanded access to internal dealer quotes on a private system called Selectnet, which is used only by dealers. Ketchum concedes that NASDAQ has to communicate better with members and institutional traders.

Not only has NASDAQ failed to grapple successfully with its internal problems, it has been slow to react to competitive threats from the outside. Instinet, an electronic trading system operated by Reuters that enables dealers to trade automatically with each other, now accounts for between 15% and 40% of all NASDAQ trades, depending on whom you talk to. NASDAQ market makers, in contrast, usually rely on the telephone to make trades. NASDAQ needs to develop a system like Instinet, says Harold Bradley, head trader for Twentieth Century Funds, a $27 billion Kansas City mutual fund group.

Even when NASDAQ has the right idea, it sometimes bungles the execution. Three years ago, it launched NASDAQ International System, a trading system that allows investors to tap into the NASDAQ market from London at 3:30 a.m. EST. But it has been a miserable failure. For one thing, NASDAQ delayed, until recently, enacting an "uptick" rule allowing short sales only at a higher price than the proceeding trade. An uptick rule would have allowed foreigners to trade NYSE stocks because the NYSE allows short sales by foreigners outside the exchange only on an uptick. That little glitch has stymied development of NASDAQ International, which only has one market maker and no trading volume. NASDAQ also has fallen behind in signing up foreign listings. The NYSE has 84% of the dollar volume of foreign trading while NASDAQ o has 14%.

NASDAQ's most immediate probl though, is dealing with the impact the Justice probe. Even normally do companies listed on NASDAQ are see ing. Company executives are angry t they'll have to answer to sharehold and directors about the investigati Ketchum says that NASDAQ has recei calls from only a half-dozen small com nies, none of which have threatene leave NASDAQ. But a Wall Street exe tive says that "very extensive disc sions" have been under way for so time between the NYSE and several NASDAQ companies about switching. top-tier issuers are worried that " investigation casts doubt on the q ity of their markets," he says.

DECIMAL ERA. NASDAQ also may feel wrath of the SEC, which oversees NASD's regulatory function. In Janu the SEC issued a market study aimed tightening trading practices, includin move to trading in decimals rather t increments of 12.5¢, which would narr spreads. And now the SEC, which sou es say is "embarrassed" by the Just probe, may go further. SEC Chairman thur Levitt Jr. is scheduled to hold a s meeting on NASDAQ on Oct. 28. Comm sion sources add that the agency is c ducting its own inquiry of possible tra ing violations at NASDAQ. Ketchum sa he's not aware of any SEC review.

RICHARD KETCHUM

The COO maintains that wide bid and ask price spreads simply reflect supply and demand in a market dominated by risky stocks

Whatever the outcome of the Justi Dept's investigation, it already is spu ring some changes. The deluge of pu licity is forcing market makers to r think how they do business. Sprea already are narrowing. And mo changes are likely. But NASDAQ w have to overcome a very troubled pr sent to maintain its once convinci claim on the role of the "stock mark for the next 100 years."

By Michael Schroeder in Washingt

HE EARNINGS BOOM HAT CAN'T BUDGE INVESTORS

hey're ignoring the best profit environment in two decades

ew people watch corporate profits as closely as Ben Zacks of Zacks Investment Research, which tracks rnings forecasts on some 4,000 comnies and compares them with actual sults. And the Chicagoan certainly es what he's seeing ese days. Since the ird-quarter earnings arted rolling in a w weeks ago, the mbers, says Zacks, ave been spectacur." Not only are ofits weighing in .3% higher than last ar but, even more teworthy, 56% of e companies reportg logged profits that re higher than exected—twice the rcentage of companies that let investrs down.

Corporate Profits Are Surging...

Third-quarter profit growth for 4,000 companies	27.3%
Companies with higher than expected earnings	56%
Companies with lower than expected earnings	28%
Companies meeting earnings forecasts	16%

* ESTIMATES

DATA: ZACKS INVESTMENT RESEARCH

Such a surge in profits should be givg the stock market a big lift, since mpanies that ring up earnings surises tend to repeat such behavior for veral quarters, if not longer. "Fourtharter earnings should be spectacu, too," says Carmine J. Grigoli, chief S. portfolio strategist for Nomura esearch Institute Ltd. And even if e economy does slow somewhat next ar, companies have so streamlined eir operations that earnings will still k sharp. "This is the best environent for corporate profits in two cades," says Grigoli.

AFFLED." Yet, the stock market is ruggling. During October, the Dow nes industrial average is barely in e black, and the broader Standard & or's 500-stock index is about even. e reason: Just days after earnings ports started to hit the Street, intert rates resumed their yearlong climb. Oct. 24, the yield on the benchmark ng-term U.S. Treasury bond hit 8%, s highest level in more than two ars. Short-term interest rates are w at three-year highs.

Higher rates are never a positive for ocks, but they don't necessarily have be a depressant, especially when ofits are so surprisingly robust. "I'm ffled by the market's reaction to earnings," says Michelle R. Clayman, chief investment officer at New Amsterdam Partners, a New York money-management firm. Clayman suspects investors are dismissing the earnings as peak profits for the economic cycle and looking toward a recession in 1996—an outlook that she does not share.

Profit watchers say there are solid reasons for the boomlet on the bottom line: stronger revenue growth, lower overhead, healthier balance sheets, and much-improved productivity. In addition, the weaker U.S. dollar makes American goods cheaper and more competitive. In addition, profits earned in other currencies become more valuable when translated back into dollars.

Important contributors to the profit boom are producers of raw materials and intermediate goods—such as paper, copper, and steel—which, for the first time in seven years, have been able to raise prices and make them stick. Not surprisingly, 67% of basic-material companies and 61% of the industrial concerns reporting thus far have delivered earnings that have been better than expected, according to Zacks.

Ironically, that is one reason the bond market is declining and interest rates are rising. If companies are prospering by raising prices, won't that eventually trigger inflation? So far, those price increases have not found their way to the consumer—and inflation at the consumer's level remains tepid. But many on Wall Street believe the strong profits will lead to higher inflation and prompt the Federal Reserve to continue to hike interest rates.

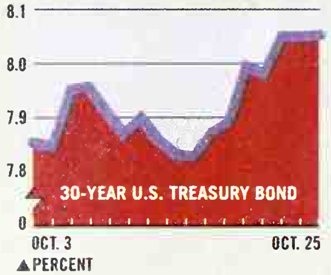
The alternative view of the profit picture is more sanguine: U.S. companies know how to make money in the 1990s. They're increasing productivity, forcing unit labor costs down. "We've figured out how to make the same number of widgets with 30% fewer workers, and that's key to inflation," says H. "Woody" Brock, president of Strategic Economic Decisions, a financial consulting firm in Menlo Park, Calif. "If you're watching commodity prices, you're looking at the wrong thing. Materials are only 12.5% of costs."

SHORT DROP. If Brock's analysis is right, interest rates should ease—and give equity investors a reason to rally. To get stocks rolling again, it's not necessary to retrace the more than two-percentage-point rise in long-term yields over the past 12 months. John B. Neff, who runs the $11.6 billion Vanguard/Windsor Fund, thinks long-term rates need only drop to the 7.25% neighborhood to get stocks back on track. "There's not a lot of excesses in the economy and thus no need for a recession," says Neff. "There's no reason we can't have good, solid, moderate growth for another three years."

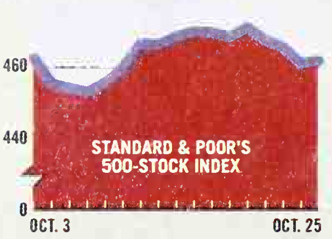
An easing of interest rates can't come soon enough for investors such as Rodney L. Linafelter of Berger Associates, who runs the $2.2 billion Berger 100 Fund. The Berger staff concentrates on ferreting out companies that have good earnings prospects, and indeed, the average earnings-per-share growth for the companies in the fund so far this year is 60%. Yet because the market is still thinking about rates and not earnings, the fund is down more than 5%. "Institutions and the investing public are vastly underestimating the earnings power of Corporate America," says Linafelter. In a little less threatening interest-rate environment, they're more likely to appreciate it.

By Jeffrey M. Laderman in New York

...But So Are Interest Rates...



...So Stocks Can't Make Headway



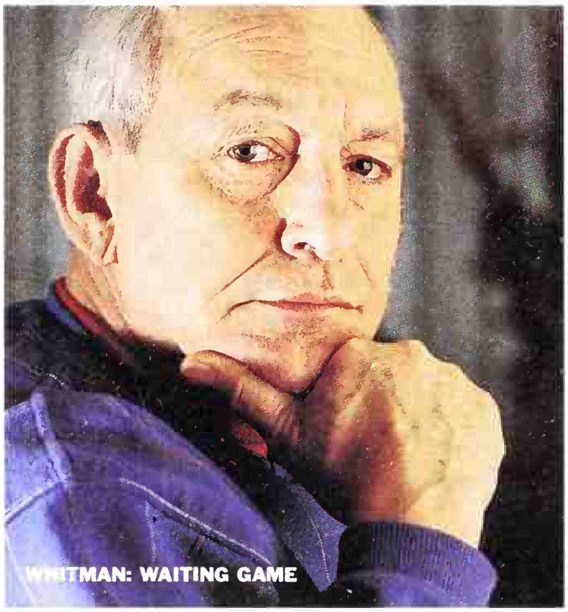
DATA: BLOOMBERG FINANCIAL MARKETS

CHARTS BY ERIC HOFFMANN/BW

SECURITIES FIRMS

PIPER JAFFRAY: A STEAL OR A SINKING STAR?

Whitman's big gamble on the brokerage looks like a long shot



Vulture investor Martin J. Whitman is positively gleeful. What misfortune is making this big-game value hunter so happy? The same event causing thousands of others so much grief: the derivatives debacle at Piper Capital Management Inc., an arm of Minneapolis-based Piper Jaffray Cos., the venerable regional brokerage. As the sharp upturn in interest rates brought huge losses to some Piper bond funds, the firm's stock plunged—and Whitman stepped in, spending about $9.5 million to amass a 6.3% stake. At an average price of $12 per share, "we got an absolute steal," he crows.

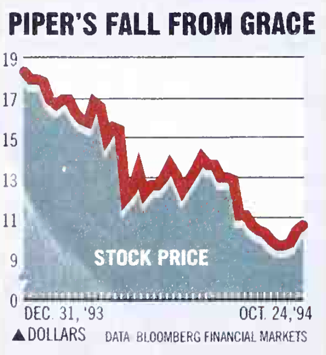
But is Whitman getting less than he bargained for? While Piper's stock has inched up after sinking to 9⅝ on Oct. 7—almost half of its 52-week high of 18½—a number of investment pros say the stock has further to fall. Fourth-quarter earnings coming out in mid-November (Piper's fiscal year ends Sept. 30), are expected to reflect the turmoil surrounding the firm. And there's a huge uncertainty in the wings: whether Piper will be held liable in lawsuits claiming that investors were misled about the nature of some of its bond funds. The Securities & Exchange Commission has made inquiries concerning information that was given to shareholders of the firm's government-bond fund.

HIGH STAKES Even if the firm settles investor lawsuits for as little as 12¢ on the dollar, shareholder equity could be halved

BAD CALL. Piper's woes stem from risky bets on interest rates made by its bond-fund manager, Worth Bruntjen. Bruntjen had stocked the numerous funds he manages with complex, leveraged securities that base their value on the prepayment patterns of mortgages. When interest rates moved up, homeowners stopped refinancing and prepayments slowed. That meant that many of the securities had far longer lives than anticipated, exposing the fund to more interest-rate risk and lessening the securities' value. A number of the funds lost more than 25% of their value, or several hundreds of millions of dollars.

Whitman, however, believes the losses may be overstated. "We think the vast majority of the problem is temporary market loss and very little permanent impairment of capital," he says. "But even if it isn't, Piper is a fantastic buy," he adds, because of superior management and a solid franchise. Analyst Michael Flanagan of Lipper Analytical Securities Corp. also believes that Piper is a good long-term value for investors who are willing to weather short-term risk.

PIPER'S FALL FROM GRACE



DATA: BLOOMBERG FINANCIAL MARKETS

But Piper has its Cassandras. Ro- ert Markman, president of Markmn Capital Management in Minneapol, fears that the worst may not be past r investors in Piper bond funds. If r- demptions accelerate, the percentage f derivatives in the Institutional Gove- ment Income Portfolio could move hig- er, he says. That's because Bruntjen likely to sell the most liquid holdings- treasuries—leaving the majority of t fund in derivatives. And if rates cont- ue to rise, the fund could see furth declines in net asset value.

FALSE ADVERTISING? Just as worriso are the lawsuits piling up claiming t funds were misrepresented as conse- vative investments. True, the prospect for the funds disclosed that derivativ could be used. But the prospectus al stated that the average life of securiti was expected to be three to five year. As of mid-September, the Institution Government Income Portfolio had a d- ration, or interest-rate sensitivity, 14.6 years. (Piper would not comme on the lawsuits.) The stakes are hig: If estimates of $700 million in losses a accurate, Piper's $179 million in shar- holders' equity could be halved if t firm settles with investors for as little 12¢ on the dollar.

Fans of Piper stress its long record having one of the best returns on equ ty in the industry. Chief Executive A dison L. Piper poin out that fiscal year 19 looks as though it w be Piper's second-be revenue year. B Markman says 19 numbers are irrelevar when analyzing th challenges facing Piper in 1995. His wo ries: Municipalities will shy away fro using Piper for underwriting, instit tions will look elsewhere for the ma agement of assets, and brokers wi jump ship.

There's no doubt that buying a stak in Piper involves a big gamble. B Whitman, who is inves ing with a five-year tim horizon, remains u fazed by the challeng facing the firm. If mo bad news spooks Piper stockholders into sellin notes Whitman, all th better: "We're on th prowl for more stock he says. The way thing look, Whitman may ver well get his wish.

By Suzanne Woolle in New York

PHOTOGRAPH BY PETER GREGOIRE, CHART BY ALAN BASEDEN/BW

When Sprint Business took our customers off hold, business snowballed.

India Hatch
President
Taos Valley Resort Assn.

To handle the blizzard of reservation calls during the busy season, Taos Valley Resorts had to ask many potential customers to hang on. Unfortunately, too many simply hung up.

Sprint Business created a real solution: Enhanced 800℠ Service instantly transferred calls to Taos operators at other sites, so customers got through quickly. And reservations jumped 30%.

We've also helped put their marketing communications in peak condition with SprintFAX®. At the push of a button, they now send timely promotions and snow updates to more than 200 newspapers and travel agents simultaneously. It gives Taos Valley Resorts a real edge over the competition.

No matter what business you're in, Sprint Business can help you turn communications technology into a powerful business tool. One that can help make you more profitable. And isn't that why you're in business in the first place?

Find out how we can help your business do more business. Call 1-800-598-5000.

REAL BUSINESS	REAL PROBLEM	REAL SOLUTION	REAL RESULTS
Taos Valley Resort Association	Sales lost due to busy reservation lines	Calls re-routed instantly to available operators	30% more reservations boosted profits

Sprint®
Business

©1994 Sprint Communications Company L.P.

BY GENE G. MARCIAL

SUITORS' CHOICE: CHOICE DRUG

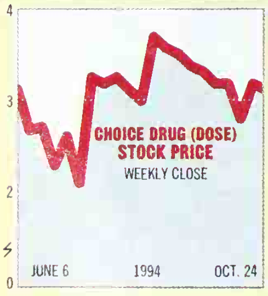
What could a loss-ridden small company hope to accomplish in just seven days? In the case of Choice Drug Systems, plenty: It ousted management and installed a new one along with a reconstituted board. Then it announced quarterly operating earnings that showed the company back in the black for the first time in two years—and settled a $3.4 million government complaint involving Medicare reimbursement claims.

Result: People who have gotten wind of the lightning-speed moves since Oct. 17 at Choice Drug have snapped up shares, now trading at 3½ a share.

"I think the stock is poised for a big runup," says Ray Wood, an analyst at Anderson & Strudwick. Choice provides drugs and related pharmaceutical services to nursing homes, HMOs, and correctional institutions. It also is in the mail-order-drug business and manages hospital pharmacies.

But there is more to the story than just a plain turnaround. "I know for a fact that at least one big pharmaceutical company wants to acquire Choice and initiated talks to do so," says a New York money manager. And another health-care company, he says, wants to buy a 25% stake and then possibly do a merger later on. Choice Drug's new chairman, president, and CEO, Frank Mandelbaum, declined comment.

ON THE MEND



EARNINGS PER SHARE
1996 Est.
40¢-50¢
1995 Est.
4¢
1994
-14¢
1993
-26¢
1992
31¢

FISCAL YEARS END FEB.

DATA: BLOOMBERG FINANCIAL MARKETS, BUSINESS WEEK

The money manager notes that Merck, Eli Lily, and Beverly Enterprises acquired companies in the drug distribution business at 1.2 to 1.3 times sales. Based on such valuation, Choice is worth about 8 a share. He expects that a deal—or word about either a buyout or purchase of a big equity stake—will more than likely be announced sometime over the next three months.

HOW THE STOCK STACKS UP

	DOSE	RUSSELL 2000
P/E RATIO	10.8	18.4
YIELD	0	1.5%
PRICE CHANGE, JAN. 1-OCT. 25	13%	-3.1%

DATA: BLOOMBERG FINANCIAL MARKETS

Analyst Wood agrees that Choice is a sitting buyout target because of its currently depressed stock price. Despite sales of about $55 million, Choice has a market capitalization of just $18 million, based on its 6 million shares outstanding. The company's snapback, he says, adds to its allure. Choice Drug will be the subject of a takeover, he concludes, because of the unabated consolidation in the industry.

ORBITAL ISN'T LOST IN SPACE

Investment manager Joan Lappin has latched onto a stock that's in orbit. She purchased a load of shares of Orbital Sciences, which got government approval on Oct. 24 to launch a satellite for worldwide paging services. That means, says Lappin, that Orbital can now jump-start a satellite system that will offer cheap two-way paging and messaging services at any point on the globe.

Orbital is a space-technology company that, among other things, makes low-earth orbit launch systems and instruments placed aboard satellites, as well as space-based digital communications systems. Currently, its biggest customers are the U. S. Air Force and NASA. But with the recent government clearance, more commercial customers will come up, Lappin says. Already, the company's order backlog has jumped from $190 million to $310 million this year, she notes.

"The story about Orbital is fantastic," says Prudential Securities' Gary Reich, a veteran aerospace industry analyst. The company, he says, is an "emerging giant" in aerospace, space-based communications, and ecological monitoring. Although not for the faint-of-heart, Reich says, the stock, trading at 18, should hit 50 in a year. By the very nature of its business, Orbital is speculative because launch vehicles have been known to explode at times. And satellites, he adds, can get lost in the cosmos. Orbital is already makin money, notes Reich. Earnings will jum to 70¢ next year, he says, and to $1.2 in 1996. That's up from 1994's estima ed 33¢ and 1993's 34¢.

A SWEET PILL AT CIMA LABS

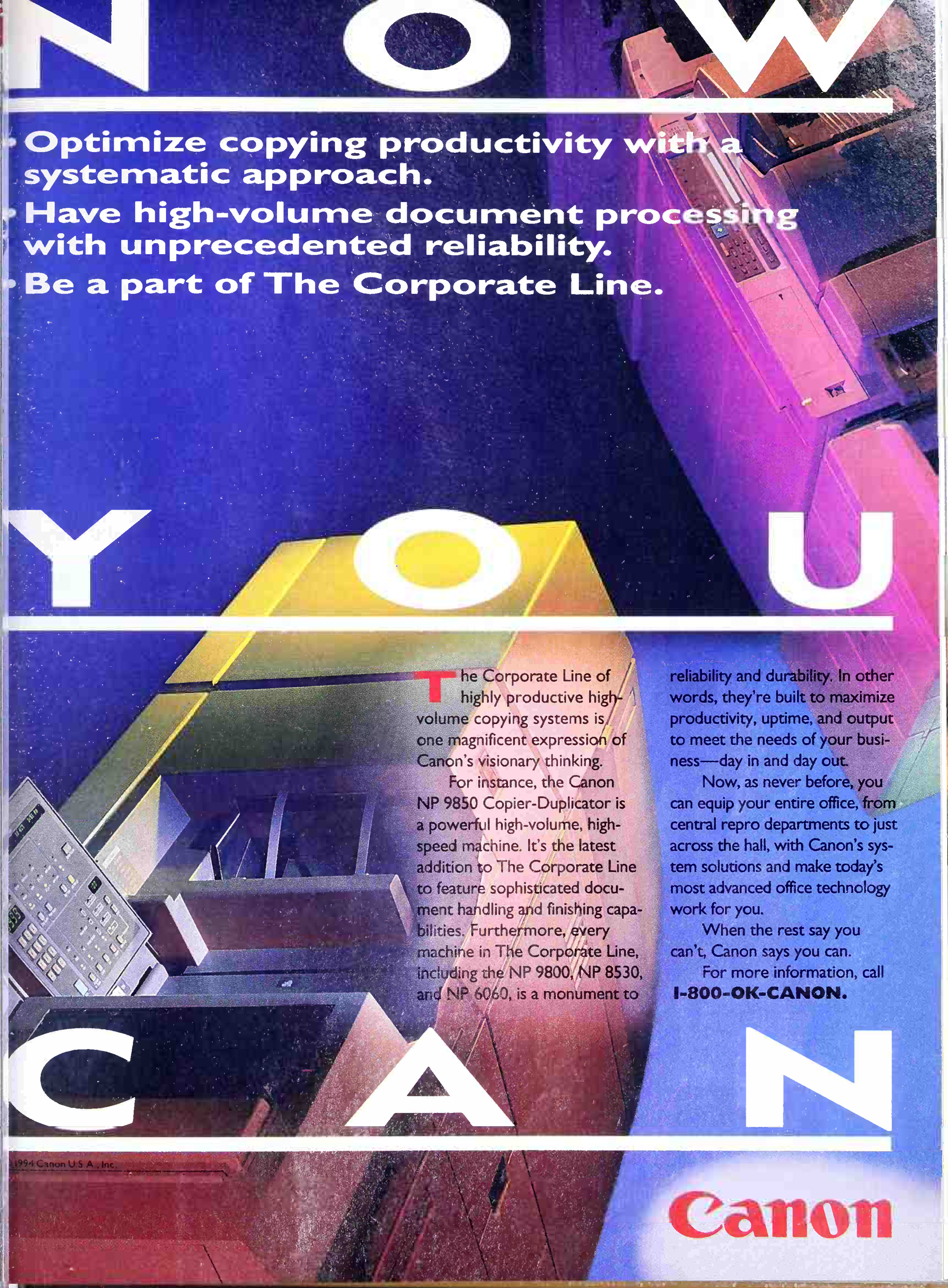
It was a "cold" summer for health-care stocks when CIMA Labs went public on July 28, recalls one New York money manager who bought in at 19. The stock, alas, is still at 19, even though CIMA's patented drug-delivery technology, named OraSolv, has attracted some big-time licensing partners, including Glaxo, Merck, Pfizer, and Sterling Winthrop.

So some pros believe that investors will warm up before long to CIMA because of the growing appeal of OraSolv—a quick-dissolve tablet that contains microencapsulated drug ingredients. Some of the major institutions that bought in at the initial offering—including Neuberger & Berman, Invesco Group, and Scudder Stevens & Clark—agree and are holding fast to the stock.

Apart from OraSolv, which analysts say will attract wide usage by the biggies in the drug-making industry, "CIMA is a very attractive takeover target," says one Boston fund manager. Here's why: It is targeting OraSolv to nonprescription medicines. Many types of drugs can use OraSolv, which triggers a mild effervescent reaction in the mouth. The tablet disintegrates quickly, releasing tiny flavor-coated particles of whatever drug the pill carries into the saliva.

OraSolv "will be a big hit with the major drugmakers," says the fund manager. Glaxo, for instance, has a licensing pact for the prescription-to-over-the-counter switch of an OraSolv formulation for at least one of its products, Zantac, whose patent expires next year. Zantac is Glaxo's largest-selling drug.

As more drug makers make use of OraSolv for their products, "CIMA's stock will rocket," says the investment pro, who thinks earnings will start to jell in two years. He sees 15¢ a share on sales of $20 million in 1996, when he predicts the stock will double—or even triple. By 1987, he expects earnings of $1.15 on sales of $45 million. "It's a long-term play but a sure shot," he says.



- Optimize copying productivity with a systematic approach.
- Have high-volume document processing with unprecedented reliability.
- Be a part of The Corporate Line.

The Corporate Line of highly productive high-volume copying systems is one magnificent expression of Canon's visionary thinking.

For instance, the Canon NP 9850 Copier-Duplicator is a powerful high-volume, high-speed machine. It's the latest addition to The Corporate Line to feature sophisticated document handling and finishing capabilities. Furthermore, every machine in The Corporate Line, including the NP 9800, NP 8530, and NP 6060, is a monument to reliability and durability. In other words, they're built to maximize productivity, uptime, and output to meet the needs of your business—day in and day out.

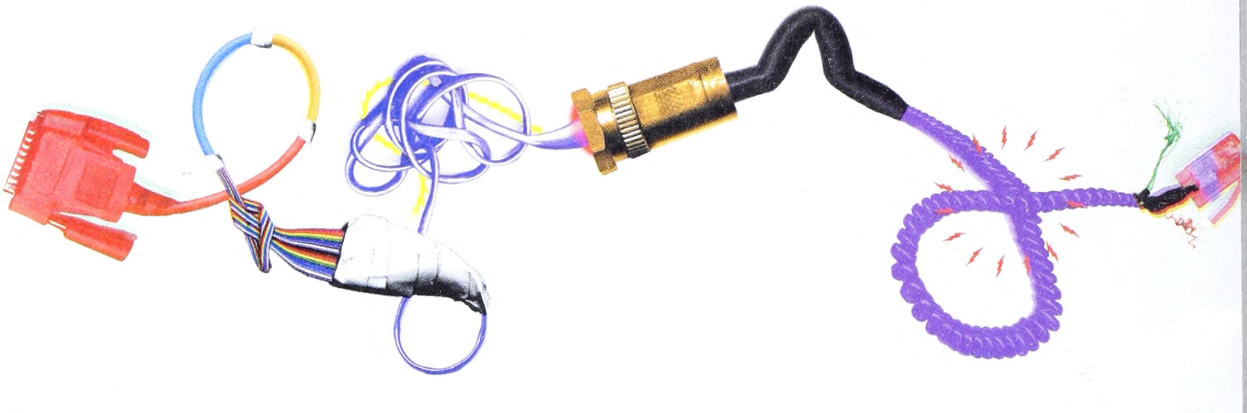
Now, as never before, you can equip your entire office, from central repro departments to just across the hall, with Canon's system solutions and make today's most advanced office technology work for you.

When the rest say you can't, Canon says you can.

For more information, call **1-800-OK-CANON.**

©1994 Canon U.S.A., Inc.

Some companies say they're joining forces to make international network communications simple.



We'd like to set the record straight.

There's nothing simple about having a communications network that's patched together by a collection of different companies from around the globe, each with their own technologies and their own way of doing things. Common sense suggests it would be better to have *one* global company responsible for managing your network. And that's exactly what you get with the IBM Global Network. Others may offer a "single point of contact"—but if you ask for something like global E-mail, they're likely to tell you their affiliates in Buenos Aires or Budapest aren't on line yet. Assuming they even *have* affiliates in those places. But the IBM Global Network has 5,000 network professionals and provides access to more than 90 countries. Now. So you can get a head start on the high-speed networking that'll make it seem like everyone in your corporation is working in the same office. Questions? Call us in Europe at 33-1-4905-9879. In Asia at 81 3 5644 2225. In the U.S. and Canada at 1 800 455-5056. From Latin America call the U.S. at 813 878-5403. And you'll get some straight answers about international network communications.

One global network
has all the advantages

More local support
from 5,000 networking
specialists worldwide

Total outsourcing
and management of
SNA, multi-protocol
and emerging ATM-
based networks

Advanced
LAN internetworking
for client/server
computing

Efficient
global messaging
with EDI, E-Mail
and the Internet

The IBM Global Network

IBM®

INFORMATION SERVICES

IT'S GETTING CROWDED ON LINE

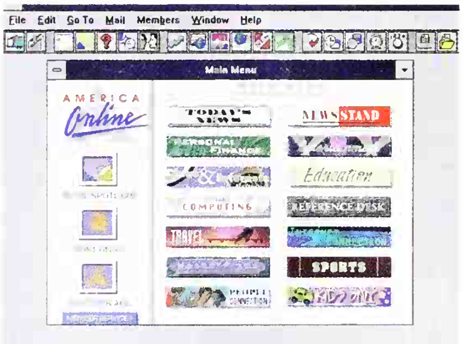
CompuServe, Prodigy, and America Online get ready to face aggressive newcomers such as Microsoft

By the end of the year, some 2.3 million American families are expected to bring home a new personal computer. This will make the 1994 holiday season the most joyous ever for PC makers. It should also warm the hearts of executives at CompuServe, Prodigy, and America Online, because recorded on the hard drives of most of those PCs will be software for logging into on-line services. It's a new twist on the gift that keeps on giving: Thousands of new subscribers will pay month after month to browse news, engage in on-line chats, shop, and swap E-mail.

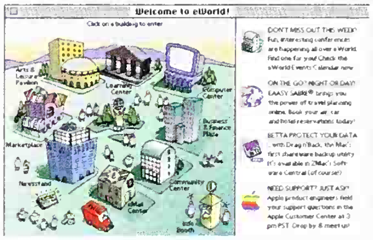
But a happy holiday may be followed by a sobering new year. While the big three of consumer on-line services have done the spadework to cultivate the market and are beginning to enjoy the rewards, none has a truly dominant position. CompuServe, the venerable pioneer, has nearly 2.4 million subscribers worldwide, but most of them are professional or business accounts. Prodigy, a joint venture of IBM and Sears, Roebuck & Co., has 2 million subscribers but is still running up losses. And while AOL has doubled to over 1 million subscribers this year, it's still a distant third.

"TOO EXPENSIVE." Now, all three are scrambling—cutting prices, adding features, dressing up their appearance, and generally getting ready for a rougher road ahead. Why? Only 20% of the U. S. households that have PCs use on-line services, estimates Odyssey, a San Francisco market researcher. "The playing field is open to competition," says

Odyssey President Nick Donatie
And the competition is coming,
time. Next year, PC industry superp
er Microsoft Corp. is expected to laun
its first on-line service, which is bei
developed under the code name Marv
The company isn't saying much, but o
software executive who has seen a pro
type says: "Marvel is going to be ve
competitive." Because it's written for t
powerful new Microsoft Windows 95 o
erating system, which should be out ne
year, Marvel will let consumers dow
load a file while continuing to brows
for example. And on-line rivals fear Mi
crosoft will undercut them on price. "G
nerically speaking, on-line services a
probably too expensive today," says N
than Myhrvold, senior vice-president
Microsoft's Advanced Technology Grou
"Assuming we do something, our pric
will reflect that view."
Microsoft also has a potentially ov


File Edit Go To Mail Members Window Help
Main Menu
AMERICA Online
TODAY'S NEWS
NEWSSTAND
PERSONAL FINANCE
Education
COMPUTING
REFERENCE DESK
TRAVEL
SPORTS
PEOPLE CONNECTION

AMERICA ONLINE
Its new multimedia software uses digitized photos and sound files, and AOL is continuing to add content and publications.


Welcome to eWorld!
Click on a building to enter
Arts & Leisure Pavilion
Learning Center
Computer Center
Business & Finance Plaza
Marketplace
Newsstand
Community Center
eMail Center
Info Booth

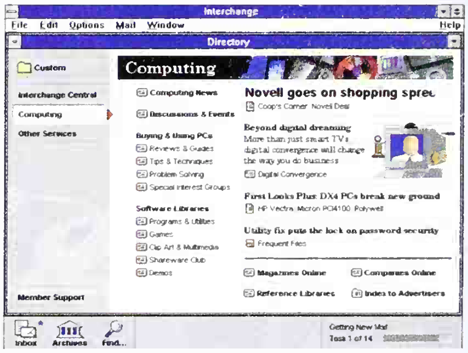
DON'T MISS OUT THIS WEEK! Fun, interesting conferences are happening all over eWorld. Find one for you! Check the eWorld Events Calendar now.

ON THE GO? NIGHT OR DAY! EAASY SABRE® brings you the power of travel planning online. Book your air, car and hotel reservations today!

BETTA PROTECT YOUR DATA ...with Drag'n'Back, the Mac's first shareware backup utility. It's available in ZMac's Software Central (of course!)

NEED SUPPORT? JUST ASK! Apple product engineers field your support questions in the Apple Customer Center at 3 pm PST. Drop by & meet us!

eWORLD
This cityscape look has won rave reviews—but few subscribers. An IBM-compatible version may help.


Interchange
File Edit Options Mail Window Help
Directory
Custom
Interchange Central
Computing
Other Services
Member Support
Computing
Computing News
Discussions & Events
Buying & Using PCs
Reviews & Guides
Tips & Techniques
Problem Solving
Special Interest Groups
Software Libraries
Programs & Utilities
Games
Clip Art & Multimedia
Shareware Club
Demos
Magazines Online
Companies Online
Reference Libraries
Index to Advertisers
Inbox
Archives
Find...

Novell goes on shopping spree
Coop's Corner: Novell Deal

Beyond digital dreaming
More than just smart TVs, digital convergence will change the way you do business
Digital Convergence

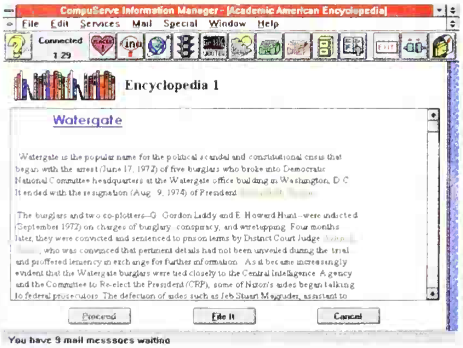
First Looks Plus: DX4 PCs break new ground
HP Vectra, Micron P0100, Polywell

Utility fix puts the lock on password security
Frequent Fixes

Getting New Mail
Toss 1 of 14

ZIFF-DAVIS INTERCHANGE
The aim is to let publishers display all the text and graphics from their printed products. Word of mouth has been strong.

COMPUSERVE
It has spiffed up its act with improved graphics and "hyperlinks," which let users jump to another part of the service by clicking on a highlighted word.


CompuServe Information Manager - [Academic American Encyclopedia]
File Edit Services Mail Special Window Help
Connected 1:29
Encyclopedia 1
Watergate
Proceed
File It
Cancel

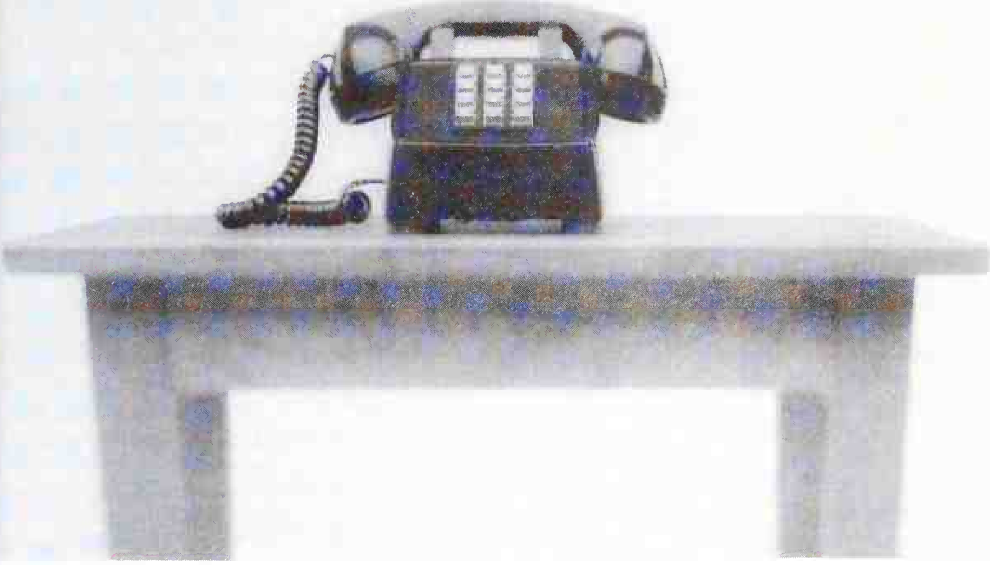
Watergate is the popular name for the political scandal and constitutional crisis that began with the arrest (June 17, 1972) of five burglars who broke into Democratic National Committee headquarters at the Watergate office building in Washington, D.C. It ended with the resignation (Aug. 9, 1974) of President Richard M. Nixon.

The burglars and two co-plotters—G. Gordon Liddy and E. Howard Hunt—were indicted (September 1972) on charges of burglary, conspiracy, and wiretapping. Four months later, they were convicted and sentenced to prison terms by District Court Judge John J. Sirica, who was convinced that pertinent details had not been unveiled during the trial and proffered leniency in exchange for further information. As it became increasingly evident that the Watergate burglars were tied closely to the Central Intelligence Agency and the Committee to Re-elect the President (CRP), some of Nixon's aides began talking to federal prosecutors. The defection of aides such as Jeb Stuart Magruder, assistant to

You have 9 mail messages waiting

Here it is.

Absolutely everything you need for your next big meeting.



The Westin
Hotel,
Copley Place

Boston

The Westin
Hotel

Chicago

The Westin
Canal Place

New Orleans

The Westin
St. Francis

San Francisco

T teleconferencing] Pick up any telephone in The Westin and you can simulta-
converse with people in up to 15 different locations around the world. Which means you
ven have to leave your room to conduct your next big meeting, much less turn off the TV.
roud to offer AT&T In-room Long Distance Service for your AT&T Calling Card, AT&T
al Card and operator-assisted calls: for reservations call your travel consultant or (800) 228-3000.

AT&T
In-Room
Long
Distance
Service

Helping you
along the way.℠

WESTIN
HOTELS & RESORTS®

whelming advantage: It can build Marvel into Windows 95. In fact, software developers say some test copies already have a Marvel button. Some 6 million PC owners are expected to adopt Windows 95 in the first year, and rivals fear they'll automatically use Marvel. "Distribution channels and the advantages [Microsoft] has there are something to be concerned about," says Barry Berkov, vice-president of CompuServe Information Service, based in Columbus, Ohio. "We'll be out there with others to push for a level playing field," he says.

Microsoft isn't the only new player. Ziff-Davis Publishing Co. is getting ready to launch Interchange, an on-line service under development for more than two years. Ziff, which publishes a string of computer publications, including *PC Magazine*, is focusing on delivering magazines on line, a hot growth area for the three leaders lately. Its initial partners include Digital Ink, a subsidiary of Washington Post Co., and Cowles Media Co.

THE NET THREAT. Unlike the other services, says Michael Kollowich, president of Ziff-Davis Interactive, Interchange from the outset will let publishers display all the text and graphics from their printed products. Word of mouth for Interchange has been so strong that the company already has requests from 77,000 people to sign up for it.

Interchange could become a major player quickly, depending on what happens to the parent company. The Ziff family has put the entire company up for sale, but the nascent on-line service could be sold separately. "Interchange itself is a very sought-after business," says Kollowich. One possible bidder is billionaire Paul Allen, a co-founder of Microsoft. Previously, Allen had sought a major stake in AOL but was stuck at 24.9% by the company's poison-pill antitakeover provision. He has since sold all his AOL holdings, and his multimedia publishing startup, Starwave Corp., is already working with Interchange to develop a sports-oriented section of the service. Kollowich's only comment: "Interchange will be in new hands shortly."

Another force to contend with could be Apple Computer Inc. The PC maker launched its eWorld service last June. But despite rave reviews for its entertaining and accessible cityscape metaphor for navigating the network, the system has not generated much traffic and only has about 50,000 subscribers. One big hang-up is that it only works with Apple Macintosh computers. But by yearend, every new Mac will have eWorld software built in, and next year, Apple plans a version for IBM-compatible PCs.

Of course, the biggest threat to the on-line empires is the Internet, a quasi-public network of computer networks reaching 20 million people worldwide. Hundreds of thousands of people are joining every month, and scores of start-ups are creating software and services to make the Net almost as easy to use as its commercial cousins.

Feeling the heat, the commercial services are scurrying to expand their connections to the Internet beyond basic E-mail. They're adding access to the Internet's bulletin boards, on-line libraries, and World Wide Web—a subnetwork of computers that can dole out information in slick, graphical "pages."

So the big three keep retooling. Last month, Prodigy announced a new basic service: $9.95 a month for five hours of use. That's the same offer AOL makes. For the old $14.95 price, subscribers get unlimited use of any service except the newly added chat lines, the Eaasy Sabre airline-reservation system, and daytime access to Dow Jones News Service. This month, Prodigy plans to offer the service to Canadians as well as a World Wide Web site for Internet users. By mid-1995, the company says it will deliver software to take full advantage of Windows graphics.

Meanwhile, AOL has announced its own price cut. As of Jan. 1, the company will slash hourly fees—what a customer pays after exhausting the five-hour monthly limit—by 16%, to $2.95 per hour. And to attract owners of new multimedia PCs, AOL on Oct. 24 began shipping new software that uses photos and sounds to guide cybernauts around the system. The company, based in Vienna, Va., is also adding more content and publications such as BUSINESS WEEK.

Even CompuServe, the grandfather of all on-line services, is spiffing up its act. The 15-year-old service has a new software release with "hyperlinks" that let subscribers click on a highlighte word to jump to another part of the se vice. In addition, it is adding magazine including *Forbes* and a bunch of Tin Inc. publications. It also is producing multimedia CD-ROM to teach consume the basics of CompuServe and sign the up for the service. The disk will com bundled with some multimedia compu ers and upgrade kits.

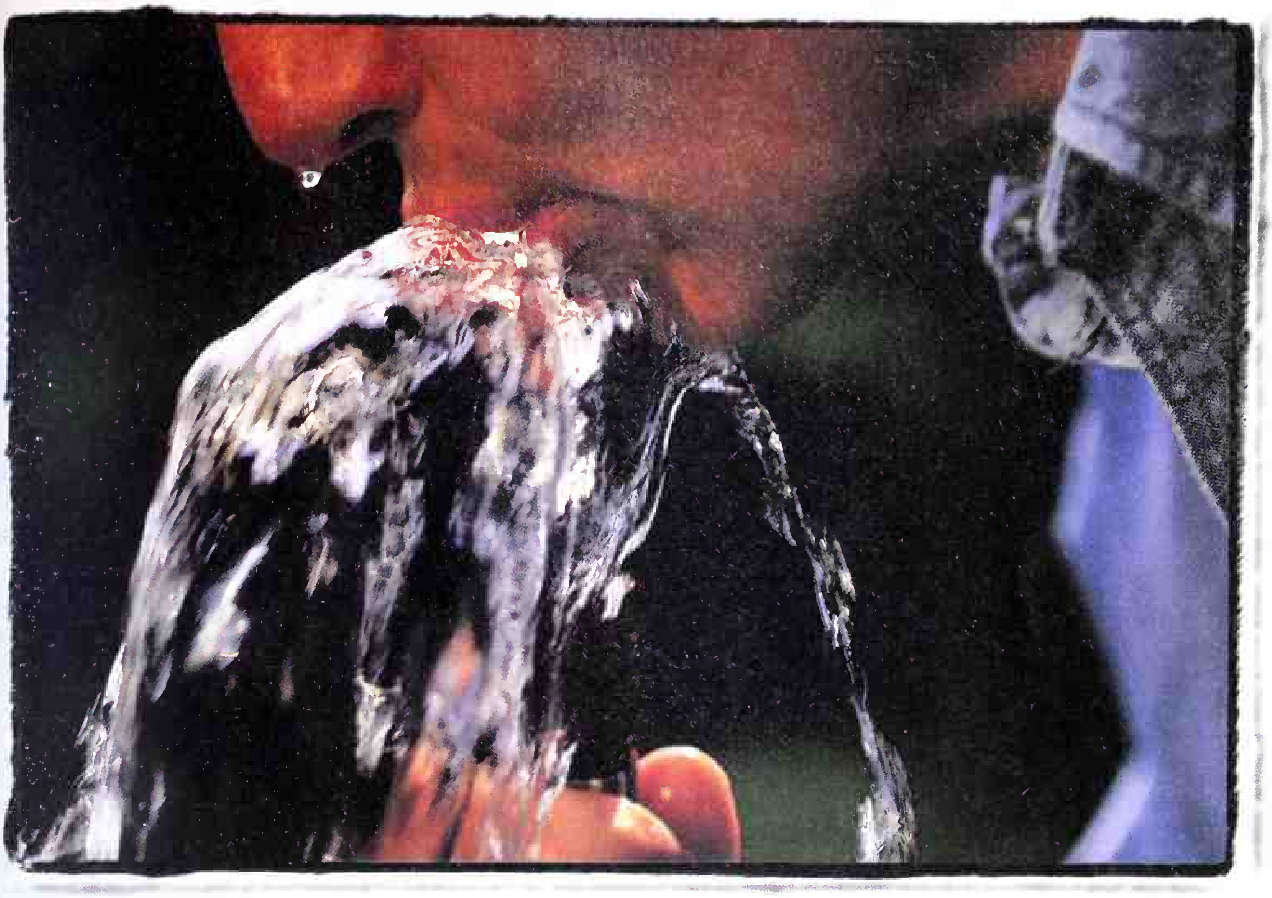
All these efforts should make cybe space a friendlier place for consumer But with the new rivals looming, it ma never again feel homey for the big thre

By Paul M. Eng in New York, wit bureau reports

The On-line Scoreboard

COMPANY	STRATEGY/FEATURES
AMERICA ONLINE	Has scheduled a 16% price cut for Jan. 1 to make the service more competitive. Strategic alliances with media companies have helped to double its membership base.
APPLE eWORLD	Its radically different interface uses buildings to create the atmosphere of a virtual town. So far, there's not much content behind the pretty face, and it's limited to the smaller Macintosh audience.
COMPUSERVE	Will try to leverage its huge database of information and vast international network to woo new subscribers.
ZIFF-DAVIS INTERCHANGE	Ziff is a household name among PC owners who read its magazines. In development for the past two years, Interchange is expected to go live by yearend.
MICROSOFT MARVEL	The much-rumored service that will supposedly come as part of the new Windows 95 operating system next year. Analysts speculate the service will start small, offering mostly product support.
PRODIGY	Has cut prices and added features such as real-time "chat" and magazines such as *Newsweek*. A new interface closer to the "look and feel" of the Windows operating system is due out by next year.

DATA: COMPANY REPORTS, BUSINESS WEEK



A lot of people don't think twice about their clean water supply. We must be doing something right.

Did you know there's not one more drop of water on Earth today than when it came into being? And while that's a lot of water, only 3% of it is fresh. Take away what's locked in icecaps and glaciers and you're down to less than 1%. Not exactly an unlimited supply, considering everything you need it for. Not to mention what's necessary for irrigation and industry.

But before you start stockpiling, there are some good reasons to feel confident about your clean water supply. Like what we're doing. In towns across the country, we make it possible to treat wastewater to the point it can be returned to waterways cleaner than the waterways themselves. We purify the drinking water for over a half million people. And for industries that need it, we even ultra-purify water.

Altogether, we treat or purify over 370 million gallons of water every day. We may not be able to make more water. But we make more of it clean.

What business do we have saying we help the environment? That is our business.

Wheelabrator Technologies
A WMX Technologies Company

© 1994 WMX Technologies, Inc.

FOR AD RATES AND INFORMATION
PHONE: (312) 337-3090
FAX: (312) 337-5633 OR WRITE:

BUSINESS WEEK MARKETPLACE

BUSINESS WEEK MARKET-PLACE
100 EAST OHIO STREET SUITE 632
CHICAGO, ILLINOIS 60611

Telecommunications Products

Two Cellular Phones – One Number –

Order this handheld MOTOROLA phone and we will put it on the same number as your existing cellular phone!

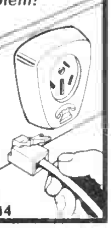
No second bill, no second number to give out!

Only $495 Programmed to your existing cellular number!

Spy Supply, Inc.
1212 Boylston St. #120
Chestnut Hill, MA 02167

(305) 340-0579 • (617) 327-7272

Travel Abroad with a PC & fax/modem?



Recognize this problem?

TeleAdapt provides solutions which enables you to connect & communicate from ***anywhere*** in the world

Contact us now for more information!

USA Tel: 408-370-5105
Fax: 408-370-5110
CompuServe ID: 72623,706
UK Tel: +44 (0)81 421 4444

PicturePhone Direct

FREE VIDEO CONFERENCING CATALOG

Call (800) 521-5454

Health/Nutrition

Customized Vitamins

We measure your antioxidants, vitamins, minerals, and energy-giving amino acids–over 150 tests to analyze your disease risk. Based on your results, we design an optimal supplement program to maximize your health and energy levels. Formerly available only to professional athletes.

Get the only complete nutritional supplement program that is designed for your unique biochemical needs.

CALL TODAY FOR MORE INFORMATION
EMCS 1-800-466-EMCS
Ergogenic & Metabolic Consulting Services
5000 Peachtree Ind.Blvd., Norcross, GA 30071

Contact Lenses

CONTACTS AT LOWEST PRICES!

- Same Day Shipment Via Federal Express
- All Major Brands And Prescriptions
- All Lenses 100% Guaranteed

For a FREE Catalog Call
1·800·571·LENS
INTERNATIONAL ORDERS:
(305) 422-8181

LENS EXPRESS

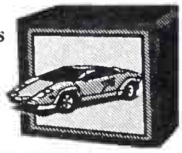
"I Don't Trust These Baby Blues To Just Anyone"

Doctor's Prescription Required

350 S.W. 12th Avenue Deerfield Beach, Flori

Computer Equipment

CUSTOM COMPUTER SCREEN SAVERS



Turn your favorite photos into screen savers. Makes a great gift. For *only* $25.00.

Please specify for PC/MAC Computers

Send photos to:

ONTAR Corporation
9 Village Way North Andover, MA 01845
TEL. 508-689-9622 FAX 508-681-4585

MC/VISA Accepted

HEWLETT-PACKARD

Buy–Sell–Trade

LaserJet	ColorPro
DeskJet	Draft Pro
RuggedWriter	Draft/Master
Electrostatic Plotters	DesignJet

HP 9000 Workstations and Vectras also available.

Ted Dasher & Associates
4117 Second Ave., S. Birmingham, AL 35222
Phone: 205/591-4747 Fax: 205/591-1108
800/638-4833

PC/Telecommunications

DON'T LET THIS HAPPEN TO YOU!

Breakage and Theft Insurance

One policy insures all your portable equipment: laptop computers, cellular phones, beepers, cameras, presentation devices and dictation machines. As low as $75/year for $5,000 coverage. Call 24 hrs. for application.

1-800-432-5901
Data Security Insurance

Telecommunications Services

Wholesale Long Distance

Domestic $.08 to $.16 per min
800 rates $.08 to $.17 per min

Flat Int'l Rates 24 x 7
U.K. $.38/min, Japan $.58/min
Hng Kg $.63/min, Frnc $.52/min
Call 800/800-3773

Unlimited Free E-Mail & Internet

when you Save $$$ with our low cost fiber-optic long distance phone service,
Domestic 9-14.5 cents per min.
Call UK for $.29 Japan $.39 Canada $.22
From IDT the 8th Largest Int'l Carrier

Call: 1-800-FREE-MAIL

Direct Marketing/Mailing Lists

SALES LEADS

The hottest 15,000 people in high technology are in the ***Microquest Directory***. Find the top 100 execs at leading companies like Microsoft, Intel, Apple, Compaq, IBM, HP, and more...

For free information, call:
Microquest Information Tools
(415) 479-4723

SALES LEADS & MAILING LISTS

- 10 Million Businesses
- 90 Million Households

"Never Pay Retail Prices For Mailing Lists"

WHOLESALE LIST MARKETING
1-800/800-5940
P.O. Box 24151
OMAHA, NE 68124

Videos

TomKat
PRODUCTIONS

The TEN COMMANDMENTS OF NETWORKING

Who do you know?
Who knows you?

POWER NETWORKING secrets from the master, Sandy Vilas. ONLY $39.95

VISA & MasterCard Accepted

(800) 580-0857

Trade Shows/Exhibitions

WINDOW OF AMERICA - BEIJING EXPO APRIL/1995

A COMPLETE MARKETING PACKAGE FOR US PROD. & TECH.

6 day exhibit / 1 yr. showcase / Chinese gov't (SSTCC) co-sponsor / Meet Chinese counterpart in show / Interpreter / Catalog / Travel / +more / Your strategic move to China / Guide Business Group **800/965-0570 Ph** 818/965-5540 Fax

WE HAVE THE EXPERTISE TO GUIDE YOU THRU CULTURAL BARRIERS

Education/Instruction

—*a*—
COLLEGE DEGR
will enhance your career poten

Earn your no-classroom, *fully-accredited* degr
Business, Nursing, or Liberal Arts using Moo
successfully refined study program. • Earn cre
toward your degree from *The University of the St*
New York/Regents College • With our materials
will tackle the necessary exams with confidence
ease • Apply for our *interest-free financing*

FOR FREE INFORMATION OR A TRANSCR
EVALUATION, CALL OR WRITE TODAY!

Moore Educational
PUBLISHERS
3202 Belmont Blvd., Nashville, TN, 37212-60
(615)383-5633 • FAX (615)383-6559
1-800-737-2222

SPEAK BETTER

Complete audio programs for
- VOICE IMPROVEMEN
- ACCENT REDUCTIO

by David Alan Stern, PhD
$29.95 each
1-800-753-1016

JAPANESE RUSSIAN
or any of 81 Languages
FREE CATALOG

Audio Language & Knowledge Institute,
1202 Lexington Avenue Suite 272-BV
New York, NY 10128

800 722 6394
212 343 1203

University Degrees

Approved Self Paced Home Stu
Associate Bachelors Masters Doct
Business Admin, Public Admin, He
Care Admin, Human Resources, Finan
International Business, Tech Mgmt, L
Paralegal, Psychology. Call for broch
(800)477-2254 (24 hrs)
Southern California University
for Professional Studies
1840 E. 17 St-BW, Santa Ana, CA 927

• FREE VIDEO

EXTERNAL DEGREES
BA/BS MS/MBA PhD/JD
Credit for work./life exp. • Accredite
(800) 444-8569 (24 hrs.)
LASALLE UNIVERSITY
Dept. 569 Mandeville, LA 70470-40

MBA by Distance Learnin

- No Bachelor's degree required.
- Major British university
- Chosen by The Economist Intelligenc
  Unit as one of the world's best MBA

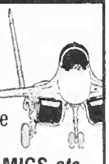
HERIOT-WATT UNIVERSITY
North American Distributor
1780 Shattuck,Suite 2, Berkeley CA 9470
1-800-MBA-0707, Ext. 20

Travel

Peter Hughes Diving INC

The World Standard for
VE-ABOARD EXCELLENCE
800-932-6237
LAU - BELIZE - TURKS & CAICOS

Y A MiG IN MOSCOW



eak the sound barrier
a MiG-21. Climb to
edge of space in
MiG-25.
perience the incredible
slide in the MiG-29.
u need not be a pilot. **MIGS etc.**
ers a variety of planes and flight
ckages. Packages start at $5500.
ll for a free brochure.

MIGS
MIGS etc., Inc.
800 MIGS ETC (USA)
813 923-0607

Art/Collectibles

GALERIE D' SPORT
PRESENTING WEARABLE
SPORTS FINE ART
e clothing for people who love the game
hirts, Sweatshirts & Jackets of the highest
lity depicting visions of sport by some of
most respected artists in the country.
For Free catalog call
alerie d' Sport 1-800/299-3399
Fax: 714/457-9106

Business Services

RESEARCH REPORTS

19,850 academic topics available!
Send $2.00 for the 290-page catalog.
Custom-written reports also available.
RESEARCH ASSISTANCE
11322 Idaho Ave., #206BF,
Los Angeles, CA 90025
Toll Free Hotline: 800-351-0222
(California: 310-477-8226)

Exclusive
Real Estate Trends!
ailable for **first time,** twice yearly
ort. 1994-1995 senior-level hiring trends,
ecasts. Prepared by Ferguson Partners.
nd $195 (checks only) for midyear
ort NOW, year-end report to come:
Marks Communications
420 Frontage Road
Northfield, IL 60093
For Info: 708/446-8155

Financial Services

CAPITAL AVAILABLE

Attention: Public and Private Companies. NASDAQ member firm has mega sales force and millions available for successful growth companies. We also offer an opportunity to raise funds through private and/or public offerings. Our recent new issue is one of the three most successful of '94. All inquiries kept strictly confidential.

Send responses to:
P.O. Box 3892
Hollandale, FL 33008-3892

BUSINESS OWNERS
We will pay your bills by
negotiating with your creditors.
Save 40% to 80%
1-800-560-9555 (call 24hrs/7days)
We settle business disputes
OUT OF COURT
NO RESULTS - NO COSTS
Free information

"Destiny" Makes Business Sense
"Simple & Powerful" - PC Magazine
Expert Business Plan Writing,
Financial Analysis Software,
Setup Budgets, Forecast,
Manage Cash Flow
Money Back Guarantee, Toll free 800/366-5111
Order Today! or Contact your dealer

Investment Services

INVESTMENT LOSSES?

Get back your money even if you knew or agreed to risks!
Free recorded information
1-800/345-6800 Ext. 18

Growling bear eating your investments?

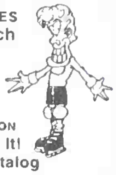
Protect yourself. Read
the *Agressive Investor*

Three months	$ 55
One year	$ 195

The Agressive Investor
P.O. Box 4011
Cerritos, CA 90703-4011

Sports Equipment

IN-LINE SKATING ACCESSORIES
LOW DISCOUNT PRICES
All Wheels $3.99 Each



- Wheels
- Bearings
- Safety Equipment
- Helmets

THE WHEEL FEDERATION
You Name It We Got It!
1-800/488-7144 free catalog

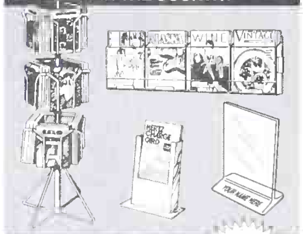
Sales Promotion/Display Products

12"x18"
Corrugated Plastic Signs

As Low As **99¢ each**
Signs of Imagination
800-MOOSE90
Low Cost Screenprinted Signs & Displays

Literature Displays

SIEGEL DISPLAY PRODUCTS *LARGEST SELECTION IN THE COUNTRY*



SIEGEL DISPLAY PRODUCTS
800-538-6583
Free 52 PAGE CATALOG

Business Opportunities

$10,000+ PER MONTH
Potential
Earnings Collecting
Judicial Judgments Locally.
Free Information 24 hours
Call 1-206/863-7827

TELECOMMUNICATIONS

OWN PART OF AN SMR TELECOMMUNICATIONS WEST COAST NETWORK PRESENTLY UNDER CONSTRUCTION IN CALIFORNIA & NEVADA
$10,000 risk capital required
IRA & Self-directed pension plan qualified
Cova Communications
800 723 1338, FAX 407 844 5844

Corporate Gifts

PROMO GEAR

YOUR LOGO HERE

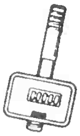
IMPRINTED PORCELAIN MUGS
AS LOW AS **99¢** EACH QTY. 1008
AS LOW AS **$189** EACH
IMPRINTED SOLAR CALCULATORS
1-800-936-5646
LOGOGEAR USA
FAX: (415) 579-5534 • FREE BROCHURE

WHY PAY MORE???
FACTORY DIRECT!!!
Free Set-up, Die, Artwork, Shipping

Embroidered Caps as low as	**$3.55**
Embroidered Jackets as low as	**$26.50**
Embroidered Polo Shirts as low as	**$13.90**
Patches 3" as low as	**$ 0.37**
Lapel Pins 3/4" as low as	**$ 0.55**

800/775-7722
for free catalog
Best Greetings, Inc.

Businessman's Pedometer
(Ultra Small Step Counters)
Doubles as a Tie-Clasp
Wear on a necktie !
$39.95 Plus $3.00 S/H
Send Check or M.O. to :
BITS, P.O. Box 1331,
Brentwood, TN 37024



CORPORATE SQUEEZE

NEW!

YOUR LOGO HERE

Your logo will definitely be seen and squeezed when it is imprinted on these popular latex stress balls! An ideal corporate gift or trade show giveaway, it gets your corporate message right in the hands of the decision makers.

AS LOW AS $3.55 QTY. – 500 **FREE SETUP CHARGE**

Special Offer!
For a limited time only you can order as few as 48 balls with your one color logo for as little as $6.95 each! A $12.95 retail value.

1-800-936-5646
LOGOGEAR USA
FAX: (415) 579-5534 • FREE BROCHURE

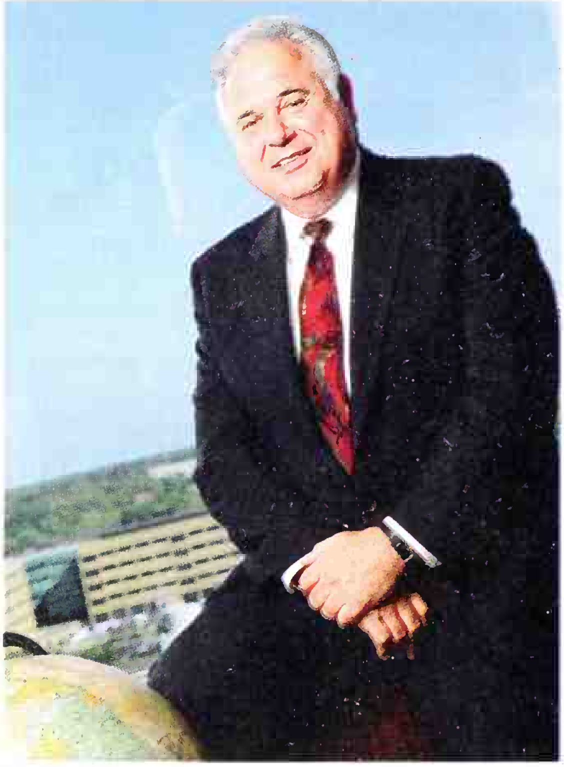
STRATEGIES

THE DROUGHT IS OVER AT 3M

The labs are producing more hits, and sales are rising

A few years ago, 3M Co. was looking haggard. The recession and stiff price competition were taking a heavy toll on the diversified manufacturer, based in St. Paul, Minn. Worst of all, the downturn highlighted disturbing flaws in the company's research and development process. It turned out that the creative juices that had transformed 3M into a paragon of innovation and the inventor of everything from ubiquitous yellow Post-it notes to surgical staples just weren't producing new products fast enough. After seeing sales rise 60% in the second half of the 1980s, the 3M growth machine ground to a halt. Annual sales growth averaged an anemic 2% from 1991 to 1993.

It's a humbling experience that 3M CEO L. D. DeSimone vows not to repeat. Under his leadership, 3M has undertaken a revolution in product development. It has slashed the time it takes to introduce new products by up to half, to less than three years in many cases. DeSimone is also shifting 3M's vast technological resources away from basic research and toward nitty-gritty product development. One of its biggest consumer hits of late: the Never Rust Wool Soap Pad, made of recycled plastic bottles (page 141). "We're driving even harder at what is the soul of this place: innovation," declares DeSimone, 58 and CEO since 1991.


SPEEDSTER: *DeSimone rushes products to market*

That drive is showing results. On Oct. 24, the company announced that third-quarter profits climbed 8%, to $341 million, as 3M's revenue increased 10%, to $3.8 billion. For the entire year, Merrill Lynch Capital Markets analyst Robert P. Curran figures net income could rise 5.5%, to $1.3 billion, on sales of $14.9 billion, up 7% (chart).

TEAMWORK. As DeSimone notes, innovation has always been the soul of 3M, which markets some 60,000 different products. Rivals have long marveled at how the company's R&D staff would spend months, sometimes years, building a storehouse of technology before seriously thinking about product development. As long as the economy was humming, 3M wasn't too concerned about its slow research process. But when the recession began hammering revenue, 3M's chief knew the company had to start pumping out products faster and more cheaply to compete. "We had to do more," says DeSimone, who joined 3M in 1958 as a manufacturing engineer.

DeSimone decided to inject a dose of competitive urgency into 3M's R&D efforts. As other manufacturers have done, he encouraged closer teamwork among researchers and marketers to speed new-product introductions. DeSimone also ordered his staff to pay closer attention to customers. More significant, he pushed to commercialize more of the company's existing technology. He ordered his R&D staffers to scour 3M's library of scientific knowledge to find potential new products.

In 1992, for example, 3M started manufacturing a special film for laptop computer screens that enhances brightness while conserving energy. The company first developed the film, made of microscopic prisms that reflect light long distances, for decorative signs on buildings in the mid-1980s. Then in 1991, 3M decided to adapt its so-called light pipe technology to computer screens after computer makers complained that bright screens were draining batteries

3M Looks to Innovative Products...

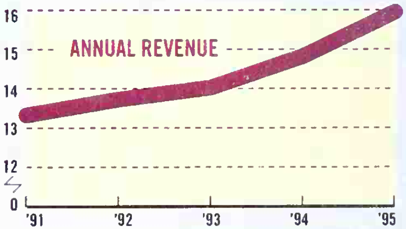
NEVER RUST WOOL SOAP PAD Made of recycled plastic bottles, pad uses environmentally safe nonphosphorous soap. Introduced in late 1992, product has helped 3M claim over 16% of the scouring-pad market.

O-CEL-O STAY FRESH SPONGE Introduced in mid-1994, sponge contains agent that stops bacteria before they reproduce and cause sponge odor.

BRIGHTNESS ENHANCEMENT FILM Thin plastic sheet built into screens improves the brightness of portable computer displays. Introduced last year, the film cuts energy required to light the display, helping extend battery life.

COATED ABRASIVES The company has introduced a new line of abrasives that have a uniform surface that lasts longer and produces a higher quality finish.

...To Help Ignite Sales



▲BILLIONS OF DOLLARS

DATA: COMPANY REPORTS, MERRILL LYNCH CAPITAL MARKETS, BW

PHOTOGRAPH BY PER BREIEHAGEN. CHART BY ALAN BASEDEN

hanks in part to 3M's film, the battery
e of laptops made by Compaq and Ap-
e has been extended to 4 hours from
½ hours. 3M won't disclose sales fig-
es for the high-tech film.

DeSimone is urging his R&D teams to
pply 3M's proprietary technology wher-
er they think it can work—no matter
ow prosaic the product. He reckons
ich an approach will lead to more com-
etitive products—and ones that will
tch premium prices. That's certainly
een the case for the Never Rust Wool
oap Pad, and its cousin, the Never
ratch, which have made a big splash in
e stodgy $300 million market. 3M went
work developing the pads in the ear-
1990s, after focus groups told the
mpany they would pay a little extra
r a soap pad that didn't rust or fray.
eople didn't like getting stuck by steel
ool," says Moe S. Nozari, vice-presi-
ent of 3M's consumer products divi-
on. Nozari pulled together research-
s from both the tape and abrasives
visions to work on the problem. Re-
earchers at the home-care lab suggest-
l using pads made of fibers from recy-
ed plastic bottles.

OUGHER RIVALS. For the 52 weeks end-
l Oct. 14, 3M's scouring pad and sponge
les rose 18.8%, to $50.8 million, giving
a 16.2% share of the market, according
Information Resources Inc. That's just
y of Clorox Co.'s market leader S. O. S.
rand, whose sales dropped 5%, to $52
illion. Best of all, 3M sells a box of eight
ap pads for about $1.80, compared to
ughly $2 for a box of 10 S. O. S. pads.
hat's more than a 12% premium for each
ever Rust pad. Thanks to the Never
cratch soap pad and other entries, such
the O-Cel-O Stay Fresh Sponge, sales
new products introduced in the cur-
ent year could total $1.3 billion in 1994,
p 122% over 1992.

Even with its recent new-product suc-
esses, it's doubtful 3M will ever dupli-
ate the giddy growth it enjoyed in the
980s. The competition is intensifying.
M's computer diskettes are under price
ressure from Sony Corp.'s products. The
mpany's photography film unit is also
eling the heat from Eastman Kodak
o. Still, DeSimone isn't letting up.
oughly 50% of 3M's sales come from
ternational markets. And DeSimone
ants to enlarge that share by pushing
e company into new markets in the Pa-
ific Rim, excluding Japan, where sales
uld hit $3 billion by the year 2000, up
om $750 million today. DeSimone also
xpects to maintain his research budget
t more than $1 billion this year. After all,
eSimone figures the road to better
roducts starts with innovation. He'll
ust have to make sure that 3M's R&D
achine stays in the fast lane.

By Kevin Kelly in St. Paul, Minn.

IT REALLY CAN PAY TO CLEAN UP YOUR ACT

When scientists at 3M Co. began working on the Never Rust Wool Soap Pad in the early 1990s, they faced a slew of challenges. Naturally, they wanted a product that worked well and appealed to consumers. Just as important: It had to be environmentally friendly. The pad's rising sales seem to indicate that the researchers met their first two goals. And they didn't do badly on the third one either. The pad is made of recycled plastic bottles and uses a nonphosphorous soap that won't pollute rivers and streams.

RECYCLING 3M PLASTIC

Such ecological sensitivity may seem out of place at one of the nation's industrial giants. But the environment is a big concern at 3M. All together, the company devoted over 15% of its $1 billion R&D budget to environmentally related research last year—and for compelling bottom-line reasons. For starters, environmentally safe products appeal to consumers these days: Never Rust's benign ingredients are clearly marked on the package. And reducing waste from manufacturing cuts pollution—and 3M's costs.

It's that kind of environmental consciousness that has won 3M a reputation as a corporate leader in pollution control and recycling. 3M has a "strong commitment to doing the right thing," says Barbara Haas, director of the National Wildlife Federation's Corporate Conservation Council.

The company first paid close attention to the environment in the mid-1970s as regulators began tightening controls on pollutants. Before long, 3M found that programs to combat pollution could also cut down on chemical byproducts and other waste. In 1975, the company launched a program, called Pollution Prevention Pays, that solicits employee suggestions on how to cut waste and recycle materials. So far, 3Mers have generated 4,100 ideas that have eliminated 1.3 billion pounds of pollutants and saved the company more than $710 million.

NICE GUYS

3M has found that eliminating waste is a money-saver—and a plus for PR, too

The program has also been extended to 3M plants worldwide, even in regions where ecological issues are far less prominent. In 1992, for example, a dozen employees at the company's factory in Manila came up with the idea of making toilet-bowl brushes from the leftover plastic fibers used in making Scotch-Brite cleaning cloths.

More recently, 3M has decided to emphasize its environmental correctness in its marketing pitch to consumers. The Never Rust Soap pad was a start. In the future, 3M product developers will have to consider certain environmental standards as part of a broader "green marketing" strategy.

Of course, the company isn't run by a bunch of tree-huggers. Many of 3M's recent programs to control pollution at its plants were launched in anticipation of tighter regulatory mandates. And the company carefully weighs the potential costs and benefits of its recycling programs. Still, 3M is demonstrating that paying attention to the environment isn't just a regulatory burden. It can make good business sense as well.

By Kevin Kelly in St. Paul, Minn.

PHOTOGRAPH BY DOUG KNUTSON

STRATEGIES

CAN ORYX ENERGY CAP ITS GUSHER OF RED INK?

After a four-year struggle, its debt remains stuck at $1.7 billion

As a case study of how bad timing can cripple a company, it's hard to top the recent saga of Oryx Energy Co. The largest independent oil producer in the U.S. when it was spun off from refiner Sun Co. in 1988, Oryx seemed full of promise. Packed with experienced management and the financial muscle to develop far-flung wells, it earned a reputation as an aggressive player in a field not known for timidity.

So after Saddam Hussein's 1990 invasion of Kuwait sent oil prices—and oil stocks—soaring, CEO Robert P. Hauptfuhrer barely blinked when the trust representing Sun's founding Pew family announced plans to sell most of its 27% stake in Oryx. Hauptfuhrer figured his high-flying company could afford the $1 billion block—even at $54 a share, an all-time high. Never mind Oryx' recent $1.1 billion purchase of British Petroleum Co. oil fields. Although the deals pushed debt to $3.2 billion, Hauptfuhrer wagered that rising crude prices and divestitures would cut it to a manageable $1.5 billion.

"PATHETIC." But the bet didn't pan out, and the Dallas-based company has never recovered. Oil stocks sank almost as fast as Saddam's military fortunes, driving Oryx shares down 68%, to $17, within two years. And as volatile crude prices dove as low as $13 a barrel earlier this year, Oryx continued to stagger under its debt. It has made constant efforts to raise cash and restructure operations—including a layoff of 40% of employees in one day in 1990, a $19-per-share stock offering in 1992, and furious cost-cutting. But Oryx' financial plight has worsened, and in October, as its stock slid to $14, the 63-year-old CEO resigned.

Even in the battered oil patch, Oryx' poor showing stands out. Says CEO Raymond Plank of independent Apache Corp.: "Their timing was bad, and there but for the grace of God go many oilmen." But critics say Oryx' problems go far deeper. "They're totally pathetic," says Alan D. Gaines of New York-based brokerage Gaines, Berland Inc., who for three years has given Hauptfuhrer his "Jack Kevorkian award" as the executive most likely to aid a corporate suicide. "Lots of people thought oil prices would rise, but how many bet the ranch?"

Hauptfuhrer dismisses the criticism from Gaines, who has shorted Oryx stock, arguing that he was "interested in doing what was of biggest benefit to the corporation." But while rivals such as Apache are prospering despite low oil prices, Oryx' restructuring has largely been ineffective. Although Hauptfuhrer cut employees from 4,200 to 1,100 since 1988 and sold more than $1 billion in oi properties, a turnaround remains distant. Revenues, at $1.08 billion in 1993 have been hacked in half since 1990 earnings have slid from $225 million to a loss of $100 million. And despite eliminating the dividend, freezing salaries and cutting the exploration budget by 20% this year, Oryx lost $180 million in 1994's first half.

With debt stuck at $1.7 billion for the past two years and low oil prices hurting cash flow, last summer both Standard & Poor's and Moody's Investors Service downgraded Oryx' debt. "Despite all their initiatives, it just wasn't enough," says Robert A. Weiss, [illegible] energy analyst.

The question now is whether Oryx can reverse its slide. Insiders say the pressure for improvement is coming from Oryx' mild-mannered board, which did not push for Hauptfuhrer's ouster. Instead, the blue-blooded Philadelphian—who worked his way to president of Sun Co. after marrying the chairman's daughter—says he moved up a retirement planned for early next year.

The board has turned the job of reviving Oryx up to 30-year company veteran Robert L. Keiser, a low-key operations man who remains well respected.

KEISER: STRAINING TO FIND MORE COSTS TO CUT

The Long Slide At Oryx

NOVEMBER, 1988 Sun exploration unit spun off to create Oryx. Debt tops $1 billion.

AUGUST, 1990 Oryx buys back $1 billion in stock from Pew family trust as shares reach $54, an all-time high. Debt hits $3.2 billion.

SUMMER, 1991 Falling oil prices force Oryx to sell asse and lay off 40% of employee to cut debt to $2.3 billion.

FALL, 1993 Plummeting cru prices force more cost-cuttin as Oryx struggles to raise cash. Debt is $1.7 billion.

FALL, 1994 S&P and Moody's downgrade debt. CEO Robert Hauptfuhrer swaps promising North Sea fields for current pro duction, but after stock slides to $14, Hauptfuhrer resigns.

Gain Practical Solutions to Today's Business Challenges

***Business Week* is proud to present an on-the-road series of seminars for senior-level executives who want to learn how to achieve high performance by linking technology to their business visions.**

The 1994 Business Roundtables:
Meeting the Business Performance Challenge

This engaging series brings attendees face-to-face with key business leaders and political figures in their regions. Learn how technology can improve company performance in sales, marketing, finance, and customer management and how specific regional factors can influence your business strategies. The roundtables will be held at the following locations across the country:

Detroit - September 19, 1994
Omni International Hotel
Featuring: Mayor Dennis Archer

Denver - September 21, 1994
Loews Giorgio Hotel
Featuring: Mayor Wellington Webb

Houston - September 23, 1994
The Houstonian Hotel
Featuring: Mayor Bob Lanier

Boston - October 24, 1994
The Copley Plaza
Featuring: Mayor Thomas Menino

Philadelphia - October 26, 1994
The Rittenhouse
Featuring: Mayor Edward Rendell

Atlanta - October 28, 1994
Stouffer Waverly Hotel
Featuring: Mayor William Campbell

San Diego - November 10, 1994
La Costa Resort & Spa
Featuring: Mayor Susan Golding

Don't miss this opportunity to make important connections with influential executives and political leaders in your region, while gaining practical solutions to today's business challenges.

Sprint. Business

REAL Solutions.

o register for these Business Week Roundtables, call the usiness Week registrar: for Detroit, Houston, Philadelphia, San Diego - (800) 265-4314, for Denver, Boston, Atlanta - (800) 265-4316; fax your response to 12) 512-6281, or mail this coupon to:

nn McKenna
USINESS WEEK
XECUTIVE PROGRAMS
221 Avenue of the Americas, 36th floor
ew York, NY 10020

BusinessWeek
XECUTIVE
ROGRAMS

pyright 1994 McGraw-Hill, Inc.

NAME ______________________ TITLE ______________________

COMPANY ______________________

ADDRESS ______________________

CITY ______________________ STATE ________ ZIP ________

TELEPHONE ______________________ FACSIMILE ______________________

The Roundtable I wish to attend is being held in: *(please check one)*

☐ ATLANTA ☐ BOSTON ☐ DENVER ☐ DETROIT
☐ HOUSTON ☐ PHILADELPHIA ☐ SAN DIEGO

EXTRAORDINARY
OVERNIGHT

You're in New York for business. We are, too. With sleek, distinguished rooms that include two phone lines plus modem port, fax, and voice mail. With immediate, special services that range from meeting accommodations to secretarial assistance. With the kind of vision that encompasses uptime, downtime, and ontime. And the superb Restaurant Charlotte. Where extraordinary deals are made daily.

EXTRAORDINARY VISION

HM

Hotel Macklowe

145 West 44th Street · New York, NY 10036 · 212.768.4400
In the U.S. and Canada, call toll-free 1.800.457.4000
In the U.K., call toll-free 0.800.55.65.55

er's strategy won't be a big change:
le paring debt to $1.5 billion, Kei-
will continue to shift from costly de-
pment projects into operating wells
boost cash flow.

far, that's the one part of Oryx'
tegy that's working. Though it once
sted heavily in long-term fields re-
ing heavy development spending, it
w shifting to ongoing wells where it
increase production. In September,
xample, it swapped promising long-
fields in the North Sea with Con-
Inc. in exchange for nearby fields
ady pumping oil. The move saves
million in development costs and
s Oryx immediate cash flow. The
pany has also sold a slew of small,
ficient wells around the globe.

SALE? Still, things are likely to stay
h. A disappointing dry hole in Indo-
a could lead to a bigger loss than
ected in the third quarter. And with
obvious cost-cutting already done,
ser is pressed to pinpoint further
ngs. "Every cost has more room for
ng," he says. "Anyone who doesn't
k so isn't looking hard enough."

laybe so. But with only $10 million in
on its balance sheet, Oryx has little
gin for error. If prices don't improve,
ill probably have to sell more fields,
such sales hurt long-term prospects.
eady, Oryx' reserves have dropped
since 1990, and its reserve replace-
t rate—the rate at which oil compa-
replenish their reserves—has fal-
from 119% to 97%, well below the
% industry average. Competitors
rly smell blood: Oryx now receives
ghly 15 unsolicited offers a month to
fields. Though Keiser insists Oryx
t running a fire sale, other problems
n: It may owe its employee stock-
ership plan $17 million for lost value
to the debt downgradings.

ltimately, Keiser may have to seek
itor or face a forced takeover if Oryx
k continues to tumble. "There are
t of companies out there in a buy-
et-bought mode," says W. B. Cline,
oil consultant with Gaffney Cline &
ociates Inc. in Dallas. With reserves
worth three times its stock price,
yx is on everyone's list."

hief Financial Officer Edward W.
neypenney insists the company is not
sale—and the massive debt keeps
ost any buyer at bay. "The best anti-
eover weapon they've got is the
t," agrees Apache's Plank, a take-
r specialist who has evaluated Oryx'
ncials. Adds Douglas Miller, presi-
t of rival Coda Energy Inc.: "This is
a takeover candidate. It'll drift un-
someone comes who can manage it
perly." Or until someone figures out
to take back that one bad bet.

By Peter Burrows in Dallas

FOOTBALL

MEET THE NFL'S NEWEST QUARTERBACK

Sara Levinson's job: Turn teens and toddlers into gridiron fans

"I WANT MY NFL"? *Levinson left a top gig at MTV*

When Sara Levinson and her assistant, Kelly Junior, walked down the hall at National Football League headquarters on Park Avenue in New York City recently, heads turned. The new president of NFL Properties Inc., the merchandising arm of the NFL, was decked out in black leather Bermuda shorts. Junior wore a blue leather suit. "Everyone was looking at the two of us," says the 44-year-old Levinson. "I said, 'Didn't you guys get the leather memo? Today is Leather Day.' They were all looking in their in boxes for 'the leather memo.' "

Such brashness and wit might be just what the NFL, that 75-year-old temple of testosterone, needs as it tries to score with a generation of channel surfers while holding on to its core Joe Sixpack crowd. The properties division, which this year will rake in royalties on $3 billion in retail sales of licensed merchandise alone, is key to that goal. And Levinson, who helped turn MTV Network from a fad into a household word and the No. 1 cable-TV channel, will be calling the plays.

SHARED TARGETS. NFL Properties needed a strong quarterback. League President Neil R. Austrian, who had worked with Levinson at Showtime Network Inc., lured her from the presidency of MTV after the abrupt departure of John Flood. Flood had made an undisclosed personal investment in Dallas-based trading-card company ProSet Press Ltd., which had an exclusive license to make official NFL cards. The conflict of interest led to Flood's dismissal. His tenure had been a short one in any case: He moved into the top spot at NFL Properties after John Bello, who sought but was denied the reins at NFL Enterprises, walked out to seek "broader business horizons."

With that embarrassment and confusion behind it, NFL Properties finds itself playing a tougher game vs. the other major sports. Major League Baseball, the National Basketball Assn., and now the National Hockey League all have aggressive, lucrative properties arms that are waging a battle for fan dollars on many fronts. A shared target of these

FUTURE SCHLOCK

It isn't just trading cards, caps, and T-shirts anymore. The sports-properties world is changing fast as the big leagues grope for new sources of revenue.

MLB	Looking for an on-line partner for *Baseball Daily* stats and information service to start next year; Microsoft Complete Baseball, multimedia reference on CD/ROM
NBA	*NBA Weekly*, Japanese version of the NBC series *NBA Inside Stuff*, made its bow in April; Microsoft Complete Basketball
NFL	Pro Bowl polling on Prodigy; "Throwbacks" line of vintage-style teamwear
NHL	NHL/Muppets cross-licensed merchandise will be heavily promoted this holiday season; CD/ROM games and encyclopedia in the works

DATA: BUSINESS WEEK

> "The fans want to be heard, to be weighed in. They want to get their hands on this game in other ways besides wearing the team jersey"

hawkers of sweats and gewgaws: the young and free-spending.

One way to lure the folks who wear their Vikings caps backward is with cutting-edge technology, from CD-ROM games to on-line services. Microsoft Complete Baseball CD-ROM is already on store shelves, and Microsoft Complete Basketball will make its debut in November. The National Hockey League lockout hasn't halted work on CD-ROM games and an interactive encyclopedia for its newfound youthful audience. National Basketball Assn. Commissioner David J. Stern clips technology news about everything from fiber optics to home-shopping networks, looking for gizmos that might click for hoops. All the sports have moved far beyond the team-jersey, helmet-umbrella, and Christmas-tree-ornament crowd. "The twentysomethings and below are so technologically facile," says Levinson. "If you can get them in early, then the commitment stays."

Right now Levinson is planning the most comprehensive survey ever of sports fans. "MTV was always described as 'if it was a person, you'd always want to go to their party—but you'd never want to take them as a date,'" says Levinson. The league's on-line fan club may help her gain a similar level of understanding of the 30 NFL teams and the league as a whole. Says Charles B. Fruit, senior vice-president for media at Coca-Cola Co. and a longtime Levinson-watcher: "She knows the care and feeding of a global brand. [The NFL] has to be one big brand with 30 flavors."

This year for the first time, NFL fans can cast Pro Bowl votes on Prodigy. Levinson sees the on-line service becoming a real-time bulletin board for Monday-morning quarterbacks. She also sees it as a market-research gold mine of everything from fans' opinions of league rules to their taste in merchandise. "The fans want to be heard, to be weighed in," says Levinson. "They want to get their hands on this game in other ways besides wearing the team jersey and watching the game on TV."

Don't think that Levinson is simply out to MTV-ize the NFL, though. That's a task the press saddled her with in a fit of wishful thinking, she believes. "Never during the entire interview process was it said that we need to make [the NFL] hipper, younger. You don't want to tinker with success," she says. She would rather explore new ways to bring
the hard-core fan closer to the g
with such promotions as a chance to
the team bus or maybe even get in
huddle. Levinson plans more gimm
tied in with the 30 local franchises. "
could do something team by team,"
says. "These are local business

"GIANTS HEAVEN." Her 3-year-old
Avery is already a huge fan. She t
him to the Redskins-Giants game at
ants Stadium, where he kept his r
pressed to the window of the Comm
sioner's Box. Says his proud mot
"I'm teaching him the drill. Whenev
commercial for *Little Giants* comes
he screams and yells." Avery's bedr
is about to be decorated with stuff f
one of Properties' hottest lines:
Home—everything from wastebas
to wallpaper, sheets to lamp sha
phones to helmet TVs. "It's like you
and went to Giants heaven," says L
inson. If she has her way, the next g
eration of gridiron fans will feel jus
dyed-in-the-licensed-wool.

By Ruth Coxeter in New York,
Chris Roush in New Haven

RUMBLE ON THE SIDELINES

Forget about remembering the playbook. It's who's wearing what that gets confusing on the Dallas Cowboys sideline. Running back Emmitt Smith wears hats and jackets from Starter Corp. But an equipment manager hands quarterback Troy Aikman a Logo 7 cap when he comes off the field. And wide receiver Michael Irvin dons a Sports Specialties cap when he sits on the bench. The rest of the Cowboys wear Apex One gear.

It's enough to rattle John Madden. It's also big business, helping to bring in an estimated $500 million in retail sales. That's why NFL Properties Inc. stepped in this year to place new controls on sideline garb. And that, in turn, has caused an all-out war among companies to sign marquee players. "This is the new battlefield," says John Horan, editor of *Sporting Goods Intelligence*, an industry newsletter.

Once dominated by New Haven-based Starter, the NFL sidelines are now open to competition, which the league revved up in June. "More competition is good for everyone," says Mark Holtzman, vice-president for club and retail marketing at NFL Properties Inc. He says the changes were made to gain more control over the sidelines scene. So NFL Properties split team jackets among Indianapolis-based Logo 7, Starter, and Apex One in Piscataway, N.J. It split hats between AJD Cap Corp. in Richmond, Va., and Nike Inc. subsidiary Sports Specialties in Irvine, Calif. But Logo 7, Starter, and Apex were given exemptions that allowed them to cut separate hat deals with star players.

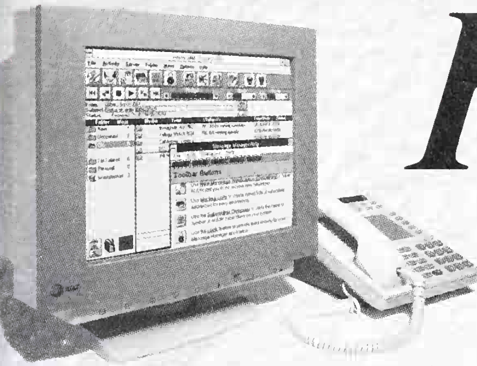
With a limited number of players available, the companies immediately started a bidding war. Some stars, including Dallas QB Aikman, signed deals for as much as $50,000 just to
wear a particular hat on the sideline
Starter says its sales haven't been hurt by the teamwear realignment. Logo 7 and Apex have seen a jump in revenue of about $100 million.

SALARIED CAP: *Cowboy Aikman*

Any play can fall apart, however. Joe Montana, quarterback of four Super
Bowl winners, doffed a ne
Sports Specialties hat on
the sidelines during a gam
in September. He liked it
so much that he has contin
ued to wear it. Trouble is, the hat is just hitting stores now. Meanwhile, fans have been asking for it—and buying rival hatmakers' caps when they get the new
that Joe's chapeau isn't available. Says Timothy E. Mitchell, Sports Specialties' marketing manager: "He's wearing a hat we really don't want him to wear yet."

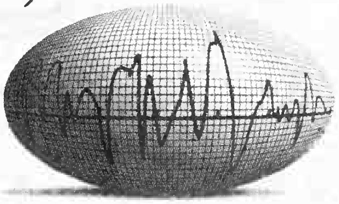
By Chris Roush in New Have

See and respond to multi-media messages from your desktop.

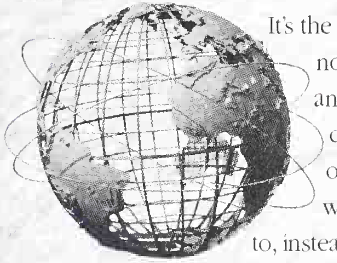


How do you take 30 orders, fax 30 receipts, and work with 3 foreign offices before you wake up?

Use voice response to let customers help themselves.



Do business anytime, anywhere with a global network.



It's the new office. But it's not what you think. It's an office without walls or desks. Without the rules of time or place. It lets you work the way you *want* to, instead of how you have to.

It can all happen, with AT&T's INTUITY™ Multi-Media Solutions. An ever-expanding communications framework that plugs you into all the latest technology as it happens.

INTUITY Solutions let you market to your customers in innovative ways. Free you from routine tasks. Open your office to the rest of the world. And to the future.

AT&T can do all these things for you today. And with the integration of fax, interactive voice, data and video, you'll be able to do things you never imagined.

Call AT&T Global Business Communications Systems at **1 800 325-7466, ext. 531**. Find out how INTUITY AUDIX® Solutions and INTUITY CONVERSANT® Systems can help set you free.

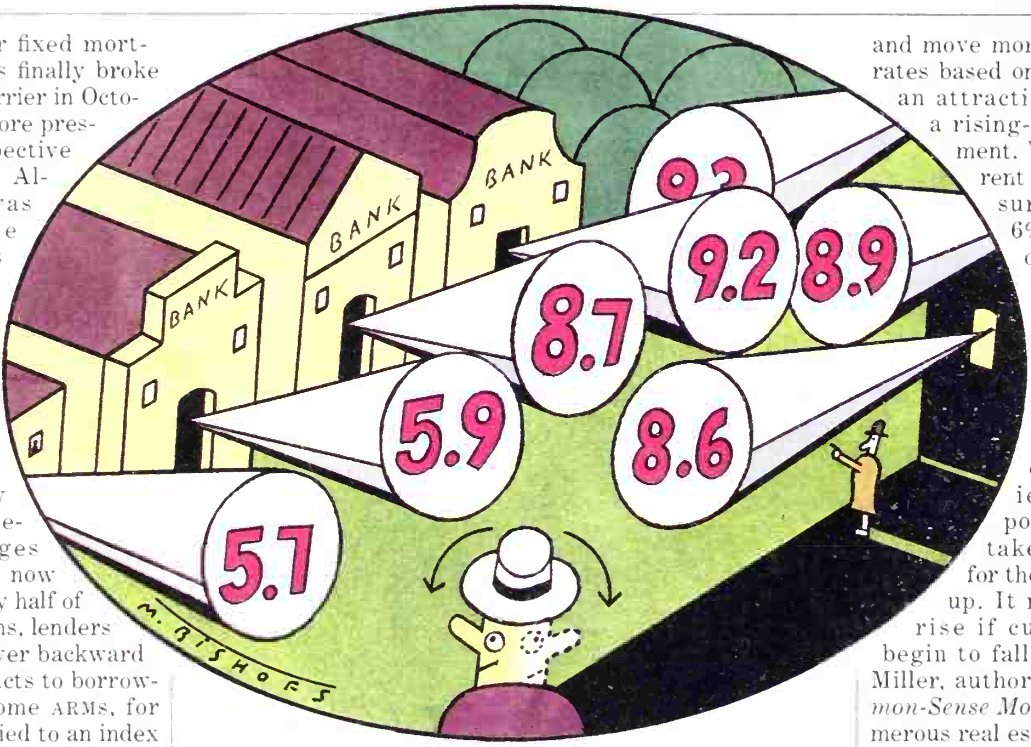
AT&T. Where innovation leads.

AT&T

© 1994 AT&T

EDITED BY AMY DUNKIN

MAPPING THE RIGHT PATH THROUGH THE MORTGAGE MAZE

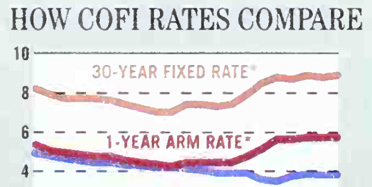


MORTGAGES "COFI" rates, tied to how much banks pay depositors, are gaining favor

Thirty-year fixed mortgage rates finally broke the 9% barrier in October, putting more pressure on prospective home buyers. Although 9% was low in the 1980s, rates haven't been this high since March, 1992. But the number of loan options has never been higher. Especially with adjustable-rate mortgages (ARMS), which now make up nearly half of new-home loans, lenders are bending over backward to tailor products to borrowers' needs. Some ARMS, for example, are tied to an index that changes slowly, making them a better deal when rates are rising. Others let you lock in for long periods of time before adjusting, thus offering lower rates than 30-year mortgages while protecting against future rate increases.

SLOW MOVERS. When shopping for the best loan fit, it's important to consider how long you plan to stay in your home. If you're settling down for the long haul, 30-year mortgages aren't exorbitant and may still be your best bet. But if you think you're going to stick around for 10 years or less, look for an ARM that will stay fixed that long. In general, mortgage brokers who work with numerous lenders provide an efficient means of finding generous loan terms. Also, savings and loans, savings banks, and credit unions offer the lowest rates, including the best below-market teaser rates for the first year of an ARM.

One product that's gaining more attention as rates climb is the one-month ARM linked to the Federal Home Loan Bank's 11th District Cost of Funds Index (COFI). Most mortgage rates are based on indexes linked to Treasury averages, but COFI loans are tied to an index that reflects how much banks in the Southwest pay their depositors, and "banks will keep those rates as low as possible," says Paul Havemann, vice-president of HSH Associates in Butler, N.J., which tracks mortgage information.



*MONTHLY AVERAGES BASED ON RATES OFFERED BY 2,000 LENDERS
DATA: HSH ASSOCIATES

COFI rates fluctuate less and move more slowly th rates based on Treasurie an attractive feature a rising-rate envir ment. While the c rent one-year Tr sury average 6%, the COF only 3.9%. while the o year Treas moved much as points wh rates spik in 1980, COFI only v ied by points. "It w take a long ti for the COFI to ca up. It may not ev rise if current rat begin to fall," says Pe Miller, author of *The Co mon-Sense Mortgage* and merous real estate books.

HOPPING HYBRIDS. Altho your rate could fluctuate e ry month, "the difference be very small," says Mar ret Scott, president of Mo gage Advisory Services New York broker. She thi COFIs are a better deal th one-year ARMs because wh you look past the initial r to the real cost of the lo they offer "the best fully dexed rate." That is, wh you add the lender's profi 2.75% to the 6% one-ye Treasury index, the real r on the one-year ARM is c rently almost 9%—not m cheaper than a 30-year fix Meanwhile, the fully inde COFI ARM would be or 6.75%.

Though rare, some C loans can be found that s fixed for six months and casionally even a year, but starting rate is much hig than loans that adjust mon

'or example, Klamath
; Federal Savings in Kla-
ı, Ore., has a one-year
at 8⅛% with no points.
; COFIs start at a tempt-
!% to 4% for the first
e months, then jump
t three points to cover
ender's profit margin.
ough COFIs move up
'ly, they're usually
)ed at 11% to 12%.
, they lag the market
n rates are falling.
)rrowers commonly
the option of making a
l payment and defer-
additional amounts
ed by rate fluctuations.
biggest danger in choos-
his setup is that you can
nto a negative amortiza-
situation if you're not
ful. When rates rise, the
ional interest is added to
loan principal. So you
up paying off more than
original loan amount.
; Scott recommends pay-
he corresponding amount
terest and principal each
th. Better yet, says Mill-
et a COFI that doesn't al-
negative amortization.
e you're at it, ask for a
that lets you convert to a
l rate within five years.
e common on the West
st, COFIs are starting to
iply in the Northeast and
heast. If no banks in your
offer them, mortgage
ers usually do.
lso flourishing as rates
up are hybrid loans that
fixed for a set number of
s and then become ad-
able. You can get them
the fixed portion lasting
1 to 10 years. Of course
longer the fixed period,
higher the rate. The national average for loans that stay fixed for 10 years before becoming one-year adjustables is 8.32%, vs. 7.93% for loans that stay fixed for five years, vs. 7.57% for those remaining fixed for three years. Some lenders are even offering hybrid loans that adjust every six months after the fixed period. Chemical Bank's Residential Mortgage Corp. has a three-year hybrid that starts at 8% for three years and then switches to a six-month adjustable. That compares with an initial 8⅝% for a loan that adjusts every three years.

Watch out: When they become adjustable, hybrids can jump as much as five points. So only pick these loans if you're likely to move or be able to pay them off before the fixed period ends, says Stephen Brobeck, executive director of the Consumer Federation of America. Also make sure that the hybrid you get is a 30-year commitment. Some lenders reserve the right to not renew the loan if rates exceed a certain amount.

NOTHING DOWN. David Reed of mortgage broker Morfacts in San Diego says he is seeing an increasing number of buy-down loans. These are 30-year fixed mortgages that allow you to pay less for a few years. For example, if you got a 9% fixed-rate mortgage, you would pay 7% for the first year, 8% for the second year, and 9% from the third year on. These loans aren't giving you a discount. You will pay the difference on the lower rates via points or with a slightly higher fixed rate. The advantage, says Reed, is that the lower initial rate makes it easier for people to qualify, and the points are tax-deductible.

Buyers who might not otherwise be able to afford a downpayment might seek out a zero-downpayment 30-year loan. North American Mortgage, based in Santa Rosa, Calif. (707 546-3310), allows parents to guarantee 10% of a child's mortgage in place of a downpayment, using the equity in their home or other assets as collateral. Merrill Lynch (800 854-7154) will waive the downpayment if the parents guarantee 30% of the mortgage with cash and securities in a brokerage account.

John Koch, chairman of the mortgage finance committee of the Savings & Community Bankers of America, says many thrifts are offering no-cost, no-points loans, where upfront closing costs and points are covered by adding 25 basis points to the rate. A typical closing cost at his bank, Charter One in Cleveland, would run $1,000 on an $80,000 loan. "If a borrower pays 0.25% more a year and intends to move in four years, he or she is ahead of the game," he says. But beware of prepayment penalties.

Some thrifts, such as Home Federal Savings in Lakewood, Ohio, are offering ARMs that have a 1% cap each time they adjust rather than 2%. The rate starts at 7.5% and can go up a maximum of 3% over the life of the loan, but the mortgage must be paid off in 12 years.

"ENORMOUS CONTROL." Sifting through these options can be mind-boggling, but remember, too, this is the biggest purchase many people ever make. Start with getting a sense of the rates available in your area. These are printed regularly in local newspapers. HSH can provide a listing of all the lenders in your region and their rates for $20 (800 873-2837).

Call more than one bank or broker and play off one against the other to get the best deal. "Borrowers have to realize they have enormous control over this process," says Peter Miller. "Lenders have to compete for your dollars." You would be wise to get a copy of your credit rating to anticipate any problems that might come up in qualifying for a loan. TRW will give you one free copy a year (800 392-1122).

Bear in mind that the lowest rate doesn't always mean the cheapest loan. Each point you must pay may add about an eighth of a point to the effective rate on a 30-year mortgage. And if there's negative amortization, you can wind up shelling out much more than you intended in the long run. But even as rates drift up, you can ferret out favorable terms if you're fore-ARMed. *Pam Black*

REGIONAL BELOW-AVERAGE MORTGAGE RATES

1-MONTH ARM

2.75% 1.5 POINTS	Dale Mortgage Bankers Corp., Conn.
3.25% 1 POINT	Coast Federal Bank FSB, Calif.
3.75% 1.5 POINTS	Savings Of America, Fla.

DATA: HSH ASSOCIATES

1-YEAR ARM

4.13% 2 POINTS	New Jersey Savings, N.J.
4.75% 2 POINTS	Mortgage Consultants, Calif.
5.125% 0 POINTS	First Federal S&L, Mo.
4.5% 2 POINTS	PNC Mortgage, N.C.

7-YEAR HYBRID

7.125% 1 POINT	Columbia Savings, N.J.
8.5% 1 POINT	Bank One, Denver
7.75% 0 POINTS	Northern Financial, Mich.
7.375% 2 POINTS	eat Southern Mortgage, N.C.

30-YEAR FIXED

8.375% 2 POINTS	West Essex Savings, N.J.
8.375% 2 POINTS	First Savings of Renton, Wash.
8.52% 2 POINTS	Thid Federal S&L, Ohio
8.375% 2 POINTS	Great Southern Mortgage, N.C.

SMART MONEY

LIFE POLICIES THAT PAY THE DEATH TAX

If your heirs may not be able to afford the estate taxes on the family homestead or business—and you don't want them to have to liquidate their inheritance—the life-insurance industry has a solution. It's called variable survivorship life, and it's a hot product these days. In the past year, the number of companies offering it has grown from two to seven, including The Equitable, Allmerica Financial, Merrill Lynch, and John Hancock. And this is just the "first wave," predicts Roger Blease, a product analyst at A. M. Best & Co., which rates insurance companies.

Variable survivorship melds two types of insurance: variable universal life and survivorship, also known as second-to-die. The policies cover two people and pay out after the death of the second, so not only is it cheaper than individual coverage but it is a great tool for couples who want to provide their children with cash to pay taxes. Although estates pass tax-free between spouses, other heirs are liable for roughly 55% federal tax (plus more in some states) on the portion of combined estates that exceeds $1.2 million. As part of a properly structured plan, often using irrevocable trusts to keep proceeds out of the estate and to ensure that Mom and Dad's wishes are followed, life-insurance payouts can be free of both income and estate tax.

FLEXIBILITY. The variable universal-life part allows policyholders to oversee the cash value as they would their investment portfolio, choosing among professionally managed subaccounts made up of stocks, bonds, and money-market instruments. Some companies also offer real estate or international funds. Traditional survivorship life policies accumulate cash value only within the insurer's general account, normally a conservative bond-based mix guaranteed to grow at a rate of 4% or 5%. With variable insurance, policyholders can take on more risk—and likely achieve greater long-term results.

Since it is "universal," you get great flexibility over when and how much to pay in premiums. If your investments fare well, the cash value will accumulate tax-deferred, and you will have more money to withdraw or borrow against. You also might be able to stop premium payments sooner or increase the death benefit, depending on the kind of policy you choose. With John Hancock's Variable Estate Protection, introduced in May, policyholders can elect to increase the death benefit as the cash value builds up. That way, the policy's face value can keep up with growth in your estate, assuring that there would be enough funds available to cover taxes, says Elise Coburn, Hancock's variable-life product manager.

There's another advantage to variable life. With fixed accounts, you are technically a creditor of the insurance company, and if it becomes insolvent, you could lose access to the cash value, says Joel Isaacson, a New York City financial planner. Variable accounts, however, are separate from the insurer's general account, so access shouldn't be a problem if the company gets into financial trouble. Since survivorship policies may be in force for 30 or 40 years—and you can't predict how companies will fare that far into the future—Isaacson feels more comfortable putting clients into variable policies.

But what about the risk that your investment choices will go sour? Many policies guarantee a death benefit, so you won't lose coverage as long as you pay enough in premiums. For that gua tee, Hancock requires y pay a minimum of 85% of target premium, so you flexibility as to when and much you pay. Although may have to pay more to the guarantee and it is no lowed in all states, Blease ommends you choose t policies if available.

HOMEWORK. You can ma investment risk by diver ing, so it is importan choose a policy with sev subaccounts , says Lester vier, a vice-president at E table Life Assurance which offers 13 fund cho He also recommends loo for policies with good t records and liberal liqui and transfer rules.

To compare costs, ask agent to illustrate how policy would work gi varying rates of return. If invest mainly in equities, might be able to gross 1 year on average, but should subtract about 2 reflect management exp es of the underlying fu Other fees vary and may clude sales and adminis tive charges.

Despite the managem fees, "for most people, ha equity exposure will work better" than fixed poli says Isaacson. Adding an ment of market risk to a insurance policy isn't everybody. But if you lik steer your investments hate the thought of let your cash value languish fixed account, variable su vorship life may be just you—and your heirs— been waiting for. *Amey S*

HOW A VARIABLE SURVIVORSHIP POLICY MIGHT WORK

For a 60-year-old nonsmoking couple in excellent health in New York State

AGE	TOTAL PREMIUMS PAID*	CASH VALUE**	DEATH BENEFIT
60	$38,891	$25,774	$3 million
70	388,910	454,212	3 million
80	777,820	1,161,143	3 million
90	1,166,730	2,044,579	3 million

* Assumes premium of $38,891 a year, although great flexibility is allowed in payments

** Assumes an 8% rate of return on policy's subaccounts (6.49% net of expenses)

DATA: EQUITABLE VARIABLE LIFE INSURANCE CO.

WORTH NOTING

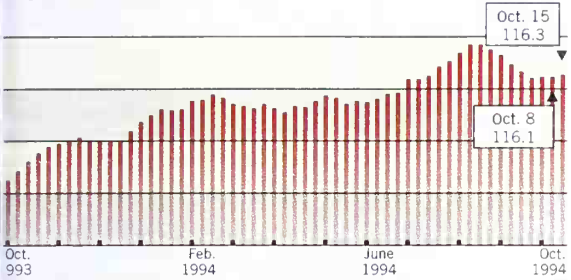
■ **LOOK BEFORE YOU LEASE.** Consumer advocates say that many leased vehicles are valued at more than the manufacturer's suggested price and that the effective interest rate on the lease and contract terms such as e ly termination penalties often are hidden. If you want arm yourself before shopping for auto leases, write for the two-page "Reality Checklist" and a tip sheet on ne gotiating from the Consumer Task Force for Automot Issues, Box 7648, Atlanta, Ga., 30357-0648. Include a s addressed envelope and a $1 check to Reality Checklis for postage.

usiness Week Index

ODUCTION INDEX

hange from last week: 0.2%
hange from last year: 7.7%

1992=100 (four-week moving average)



production index rose slightly in the week ending Oct. 15. Seasonally adjust- itput of coal, paper, paperboard, and rail-freight traffic increased, while steel, trucks, electric power, crude-oil refining, and lumber production fell. Before ation of the four-week moving average, the index rose to 116.9 from 115.4. ndex has been updated to reflect 1992 weightings of its components. Weekly nonthly history is available from BUSINESS WEEK.

BW production index copyright 1994 by McGraw-Hill Inc.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (10/22) thous. of net tons	1,947	1,908#	2.5
AUTOS (10/22) units	131,905	140,017r#	-4.0
TRUCKS (10/22) units	120,042	120,235r#	5.3
ELECTRIC POWER (10/22) millions of kilowatt-hrs.	56,077	54,830#	2.9
CRUDE-OIL REFINING (10/22) thous. of bbl./day	13,541	13,605#	-0.3
COAL (10/15) thous. of net tons	20,520#	18,651	6.2
PAPERBOARD (10/15) thous. of tons	858.3#	875.7r	3.7
PAPER (10/15) thous. of tons	827.0#	813.0r	6.2
LUMBER (10/15) millions of ft.	480.2#	481.3	-1.0
RAIL FREIGHT (10/15) billions of ton-miles	25.1#	24.5	6.8

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

ADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
INESS WEEK LEADING INDEX* (10/15)	246.20	247.38r	7.8
CK PRICES (10/21) S&P 500	467.73	465.43	0.4
PORATE BOND YIELD, Aaa (10/21)	8.54%	8.50%	28.8
ISTRIAL MATERIALS PRICES (10/21)	107.5	107.3	13.9
INESS FAILURES (10/14)	254	296	-27.2
. ESTATE LOANS (10/12) billions	$444.1	$443.4r	6.0
EY SUPPLY, M2 (10/10) billions	$3,555.5	$3,559.2r	1.5
IAL CLAIMS, UNEMPLOYMENT (10/8) thous.	329	319	-4.4

ces: Center for International Business Cycle Research (CIBCR), Standard & ;, Moody's, *Journal of Commerce* (index: 1980=100), Dun & Bradstreet (failures ge companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ess failures and real estate loans. *Copyright 1994 by CIBCR.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (10/26) $/troy oz.	388.900	391.100	4.7
STEEL SCRAP (10/25) #1 heavy, $/ton	133.50	133.50	1.5
COPPER (10/22) ¢/lb.	122.1	120.7	44.4
ALUMINUM (10/22) ¢/lb.	85.0	81.3	65.0
COTTON (10/22) strict low middling 1-1/16 in., ¢/lb.	67.28	67.14	21.2
OIL (10/25) $/bbl.	17.49	17.39	-3.9

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

EREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
ERAL FUNDS (10/25)	4.67%	4.71%	2.97%
MERCIAL PAPER (10/25) 3-month	5.55	5.44	3.28
TIFICATES OF DEPOSIT (10/26) 3-month	5.56	5.45	3.29
D MORTGAGE (10/21) 30 year	9.01	9.08	6.83
USTABLE MORTGAGE (10/21) one year	5.87	5.98	4.09

ces: Federal Reserve, HSH Associates

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (10/26)	97.01	97.15	108.28
GERMAN MARK (10/26)	1.50	1.50	1.67
BRITISH POUND (10/26)	1.63	1.62	1.49
FRENCH FRANC (10/26)	5.12	5.15	5.87
ITALIAN LIRA (10/26)	1527.5	1532.0	1629.0
CANADIAN DOLLAR (10/26)	1.35	1.36	1.32
MEXICAN PESO (10/26)[3]	3.431	3.420	3.120

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

---

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense ment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

ONAL INCOME

lay, Oct. 31, 8:30 a.m. ▶ Personal in- probably increased by 0.6% in Sep- er, according to the median forecast of omists surveyed by MMS International, a of McGraw-Hill Inc. The solid gain is ested by rising weekly pay and jobs for ionth. Income rose 0.4% in August. hy retail sales suggest that consumer ding likely advanced by 0.4% in Sep- er, after jumping 0.9% in August.

STRUCTION SPENDING

day, Nov. 1, 8:30 a.m. ▶ The MMS omists expect that outlays for construc- projects likely rebounded by 0.5% in ember, helped by higher housing starts. Spending was flat in July and fell 0.2% in August.

NAPM SURVEY

Tuesday, Nov. 1, 10 a.m. ▶ The National Association of Purchasing Management's business index was probably little changed in October, at 58.5%, from September's 58.2%.

LEADING INDICATORS

Wednesday, Nov. 2, 8:30 a.m. ▶ The index of leading indicators likely edged up 0.1% in September. The index rose 0.6% in August.

FACTORY INVENTORIES

Wednesday, Nov. 2, 10 a.m. ▶ Manufacturers' inventories were probably flat in September, after rising just 0.1% in August. That's suggested by the weakness in factory output in September.

NEW HOME SALES

Thursday, Nov. 3, 10 a.m. ▶ New single-family homes likely sold at an annual rate of 675,000 in September, up from August's 703,000 pace.

EMPLOYMENT

Friday, Nov. 4, 8:30 a.m. ▶ The MMS survey forecasts that nonfarm payrolls rose by 240,000 in October, about the same sturdy gain as in September. The jobless rate likely stayed at September's low 5.9%, a rate considered close to full employment.

YOU'VE JUST MISSED THE FIRST SIGN OF BREAST CANCER IF YOU DIDN'T SEE THAT SMALL DOT IN THE UPPER LEFT HAND CORNER. Because it can start that small inside your breast. That's why a yearly mammogram is a must, especially if you're over 50. Doctors agree that as you get older, the risk of breast cancer is higher. But with early detection, you increase your chance of successful treatment. Even though you may have missed the first sign of breast cancer, a mammogram won't. For information, please call the American Cancer Society at **1-800-ACS-2345**.

A MAMMOGRAM.
EARLY DETECTION IS THE BEST PROTECTION.

Ad Council
A Public Service of This Publication
MASSACHUSETTS DIVISION
AMERICAN CANCER SOCIETY

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A
AJD Cap **144**
Allmerica Financial **148**
A.M. Best **148**
America Online **134**
Apache **142**
Apex One **144**
Apollo Partners **42**
Apple Computer **15, 134, 140**
Armstrong **38**
AT&T **34**
Atlanta Braves **38**
Audi **48**

B
Banco de México **26**
Bell Atlantic **34**
Berger Associates **127**
Berger 100 Fund **127**
BioNumerik Pharmaceuticals **105**
B.J. Greenwald Associates **33**
British Petroleum **142**
Brooke Group **42**

C
Canon **15**
Charter One **146**
Chase Manhattan **33**
Chemical Bank **146**
China International Capital **50**
China National Investment & Guarantee **50**
Chrysler **28, 40, 110**
Clarke Consulting **10**
Clorox **140**
Coca-Cola **143**
Coda Energy **142**
College Retirement Equities Fund **42**
Comcast **34**
ComDisco **58**
Compaq **140**
CompuServe **134**
Conoco **142**
Continental Airlines **32, 48**
Control Data **33**
Coopers & Lybrand **33**
Cowles Media **134**
Cox Enterprises **34**
Cray Research **105**
CS First Boston **32**

D
Daewoo **4**
Dallas Cowboys **144**
Danube Knitwear **48**
Dean Witter Reynolds **24**
Deere **38**
Deloitte & Touche **33**
Delta Air Lines **32, 42, 136**
Digital Ink **134**
Dow Jones **134**
DRI Europe **48**

E
Eastern Air Lines **38**
Eastman Kodak **58, 140**
EDS **58**
E.F. Hutton **4**
Eli Lilly **36, 42**
Equitable Life Assurance **148**
Ernst & Young **31**

F
Falcon Cable **34**
Federal Express **42**
Fiat **4, 48**
Fidelity Investments **110**
First Financial Management **42**
Ford **4, 28**

G
Gaffney Cline & Associates **142**
Gaines Berland **142**
GE **48, 58**
GM **28, 48, 110**
Goldman Sachs **33, 48, 50**
Gordon Bethune **32**
Government of Singapore Investment **50**

H
Hewitt Associates **110**
Hewlett-Packard **15**
HKR International **50**
Home Federal Savings **146**
Home Shopping Network **34**
HSH Associates **146**
Hugo Boss **48**
Hyundai **55**

I
IBM **42, 58, 134**
Information Resources **140**
Intel **110**
Investors Financial Group **4**
ISI **24**

J
John Hancock **148**
Johnson & Johnson **36**
Johnson Associates **42**

K
Klamath First Federal Savings **146**
Kroger **56**

L
Lehman Brothers **42**
Logo 7 **144**

M
Mac A. Cody Associates **105**
Major League Baseball **38, 143**
MATECH **105**
McGraw-Hill **149**
MCI **34, 42, 110**
McKesson **42**
McKinsey **33**
Medco Containment Services **36**
Merck **33, 36**
Merrill Lynch **50, 118, 140, 146, 148**
Microsoft **15, 58, 110, 114, 134**
Mingly **50**
MMS International **149**
Moody's Investors Service **142**
Morfacts **146**
Morgan Stanley **50**
Mortgage Advisory Services **146**
MTV **143**

N
NatWest Securities **34**
NBA **143**
New Amsterdam Partners **127**
New Valley **42**
New York Giants **143**
NFL **143, 144**
NHL **143**
Nike **144**
Nissan **4**
Nomura Research Institute **127**
Nomura Securities International **24**
North American Mortgage **146**
Nucor **106**

O
Odyssey **134**
Okidata **15**
Oracle **42**
Oryx Energy **142**
Osram Sylvania **58**

P
PCS **42**
People's Construction Bank of China **50**
Pfizer **36**
Philips Lighting **58**
Pittston **38**
Pleas **48**
Powerfood **56**
Procter & Gamble **6**
Prodigy **134, 143**
ProSet Press **143**
Prudential Insurance **33**
Prudential Securities **4, 106**

Q
Quaker Oats **42, 56**
QVC **34**

R
Ricoh **15**
Royal Crown Cola **42**

S
Salomon Brothers **50**
Sanders Morris & Mundy **4**
Savings & Communi
Bankers of America
Schiesser Eminence
Seagram **42**
Sears **134**
Segal **36**
Showtime **143**
Siemens **48**
Smith Barney Shearson **4**
SmithKline Beecha
Smith New Court Fa East **50**
Snapple Beverage **4**
Sony **140**
Southwest Airlines **3**
Sports Specialties **1**
Sprint **34**
Standard & Poor's **3 33, 142**
Starter **144**
Starwave **134**
Strategic Economic Decisions **127**
Sun **142**

T
Tele-Communication
TeleCable **34**
Texas Instruments **1**
Thomson **48**
3M **140, 141**
Time **134**
Timex **15**
Toyota **4**
TRW **146**
Tungsram **48**
Twentieth Century Funds **122**

U
Union Bank of Switzerland **24**
Unocal **4**
Upjohn **36**
USAir **32, 42**
U.S. Steel **106**
USX **106**

V
Vanguard/Windsor Fund **127**
Volkswagen **48**

W
Walt Disney **110**
Washington Post **13**
Washington Redski **143**
Waterford Wedgwoo
Wendy's Internation
Western Union **42**

X
Xerox **56**

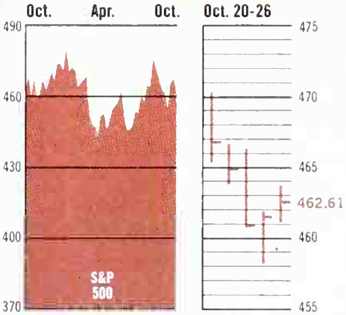
Z
Zacks Investment Research **127**
Ziff-Davis **134**

vestment Figures of the Week

ENTARY

hit a brick wall, despite sur-
y strong third-quarter earn-
ie reason: surging interest
nd fears of more to come. Es-
disturbing to the bond vigi-
was that Fed Vice-Chairman
inder in a television interview
d tightening so far this year
ed to slow the economy. Still,
seems muted, and the price
is no higher than it was a
o. The technical indicators
n this page all read positive.
tes retreat a bit, the market
ally rally.

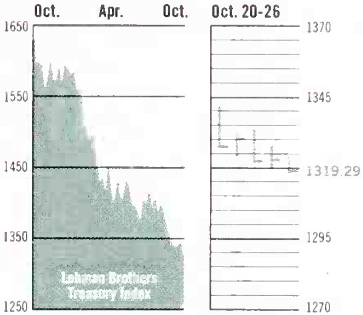
STOCKS



52-week change
−0.4%

1-week change
−1.6%

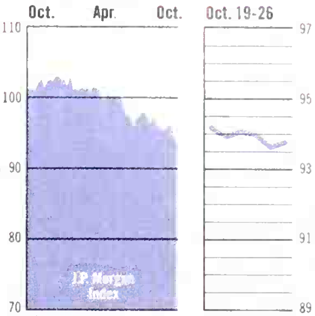
BONDS



52-week change
−18.8%

1-week change
−1.6%

THE DOLLAR



52-week change
−7.2%

1-week change
−0.4%

KET ANALYSIS

OCKS	Latest	% change Week	52-week
NES INDUSTRIALS	3848.2	−2.2	5.0
COMPANIES (S&P MidCap Index)	172.7	−1.7	−0.8
OMPANIES (Russell 2000)	250.8	−1.6	−2.0
PANIES (Russell 3000)	265.5	−1.6	−1.1

N STOCKS	Latest	% change (local currency) Week	52-week
(FINANCIAL TIMES 100)	2999.9	−2.0	−4.9
NIKKEI INDEX)	19,746.4	−0.6	−0.5
O (TSE COMPOSITE)	4260.0	−1.4	1.5

FUNDAMENTALS	Latest	Week Ago	Year ago
90-DAY TREASURY BILL YIELD	5.10%	5.02%	3.15%
30-YEAR TREASURY BOND YIELD	8.06%	7.89%	6.00%
S&P 500 DIVIDEND YIELD	2.81%	2.75%	2.69%
S&P 500 PRICE/EARNINGS RATIO	17.5	18.3	22.2

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	460.4	460.6	Positive
Stocks above 200-day moving average	33.0%	38.0%	Positive
Speculative sentiment: Put/call ratio	0.75	0.70 r	Positive
Insider sentiment: Vickers sell/buy ratio	1.45	1.39	Positive

BLOOMBERG FINANCIAL MARKETS

USTRY GROUPS

VEEK LEADERS	% change 4-week	52-week	Strongest stock in group	% change 4-week	52-week	Price
PUTER SYSTEMS	8.8	47.5	APPLE COMPUTER	25.6	40.9	$42\frac{5}{8}$
NO GAS DRILLING	7.9	−12.1	HELMERICH & PAYNE	15.1	−1.2	$30\frac{1}{2}$
CHAINS	7.7	5.6	RITE AID	11.5	41.5	23
RUMENTATION	6.4	24.6	HEWLETT-PACKARD	7.2	29.6	93
EHOLD PRODUCTS	5.8	12.1	COLGATE-PALMOLIVE	6.9	4.6	$59\frac{3}{4}$

VEEK LAGGARDS	% change 4-week	52-week	Weakest stock in group	% change 4-week	52-week	Price
L	−8.8	11.2	BETHLEHEM STEEL	−14.6	9.0	$18\frac{1}{4}$
ITAL MANAGEMENT	−8.5	34.7	COMMUNITY PSYCHIATRIC CENTERS	−30.1	−31.3	$9\frac{7}{8}$
JFACTURED HOUSING	−8.3	−3.4	FLEETWOOD ENTERPRISES	−10.0	−5.5	$21\frac{1}{2}$
R CONTAINERS	−7.7	34.6	STONE CONTAINER	−12.0	137.3	$17\frac{1}{2}$
JRE TIME	−7.4	8.2	OUTBOARD MARINE	−18.9	9.2	$19\frac{3}{8}$

UAL FUNDS

MORNINGSTAR INC

RS

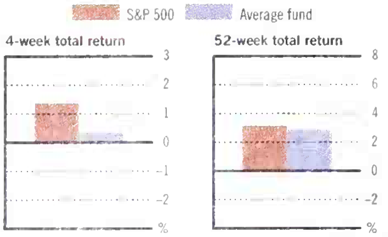
ek total return	%
HT EQUIFUND-NORDIC	7.2
NCE TECHNOLOGY A	6.9
LITY SELECT DEVELOPING COMM.	6.5

k total return	%
NGTON STRATEGIC INVESTMENTS	62.6
IVESTMENT LATIN AMERICAN EQUITY	41.2
GOMERY GROWTH	41.0

LAGGARDS

Four-week total return	%
STEADMAN ASSOCIATED	−7.7
STEADMAN AMERICAN INDUSTRY	−7.6
WRIGHT EQUIFUND-HONG KONG	−6.4

52-week total return	%
MONITREND GOLD	−42.9
STEADMAN OCEANOGRAPHIC TECHNOLOGY	−33.6
AMERICAN HERITAGE	−32.1



ATIVE PORTFOLIOS

DRI/McGRAW-HILL

mounts represent the
value of $10,000
d one year ago
portfolio

tages indicate
total returns

Foreign stocks	Gold	Money market fund	U.S. stocks	Treasury bonds
$11,742	$10,560	$10,209	$10,153	$8,671
−1.01%	−0.14%	+0.06%	−1.31%	−1.79%

on this page are as of market close Wednesday, Oct. 26, 1994, unless otherwise in- Industry groups include S&P 500 companies only; performance and share prices are as of market close Oct. 25. Mutual fund returns are as of Oct. 21. Relative portfolios are valued as of Oct. 25. A more detailed explanation of this page is available on request. r=revised

NUMBERS THAT CRUNCH THE ECONOMY

What if the real U. S. rate of inflation was 33% lower, business investment was 30% higher, and productivity growth was twice as high as people believe? The policy consequences would be awesome.

Get ready to be awed. A close examination by BUSINESS WEEK of the government's national economic statistics indicates that the numbers are seriously wrong (page 110). The consumer price index, gross domestic product, capacity-utilization number, you name it, may be sending out wrong signals to the major consumers of government statistics—the Federal Reserve, bond traders, corporations, and tens of millions of small-business owners and consumers.

It may well be, for example, that there is more capacity in the economy than acknowledged, allowing for higher growth without inflation. That is the most likely interpretation of the numbers. But no one knows. It is possible that just the opposite is the case—that GDP is actually growing so fast that the economy is burning hotter and closer to igniting inflation. We don't really know and we should.

How can the numbers be so far off? Easy. The economy is undergoing a rapid transformation that is not being picked up by traditional statistical techniques. Telecommunications, software, financial services, and entertainment, the stuff of the new information economy, are all poorly measured.

Even at a time of fiscal restraint, it's worth committing financial resources to improve the quality of economic statistics in the U. S. Making it easier and cheaper for corporations to report their numbers every month or every quarter would help. Pumping funds into the Bureau of Labor Statistics and Commerce Dept., which collect most data, would have the biggest impact. No one knows this better than Fed Chairman Alan Greenspan, who must tack against inflationary winds without knowing how strong they are blowing. That's why he favors spending the money needed to gather accurate stats. Washington—take note.

PLAYING JEKYLL AND HYDE WITH BUSINESS

When the Clinton Administration took office, it pledged to be different and give government a pro-market, New Democratic look. Business leaders of course feared that, behind the rhetoric, the Clintonites would turn out to be traditional Dems who lasso anything that moves with red tape.

After two years in office, who's right? The answer is . . . both sides. The Clinton Administration is a split personality, a Dr. Jekyll and Mr. Hyde, when it comes to business. The good Dr. Jekyll favors markets and competitiveness, but the monstrous Mr. Hyde tries to strangle everything with regulation.

Take health and safety, Hyde's twin triumphs. In thes eas, Clinton's minions are trying to tighten Washingt grip. Health care, of course, was the worst. It's hard to gine a more audacious program to expand governmen trusiveness than Hillary Rodham Clinton's ill-fated health- reform bill. Joseph A. Dear's agenda, however, is comin close second at OSHA, as he pushes more heavy-handed r mandates, and paperwork on employers. Transportation retary Frederico F. Peña did his share when he overr his own technical staff, ordering hearings into whether eral Motors should recall its pickup trucks for safety def

But then there is the other Clinton Administration sonality. Vice-President Gore has pushed to break down riers to telecom competition and let the markets build the Information Superhighway. Anne K. Bingaman, the Ju Dept.'s antitrust chief, may bluster, but she ends up by r ing sensible decisions, such as in the Microsoft case. merce Secretary Ronald H. Brown has won applause fo "airlift" of U. S. exports and efforts to lift export contro high-tech products. And Clinton himself fought hard fo North American Free Trade Agreement and the Ge Agreement on Tariffs & Trade.

Business is blindly angry at President Clinton. Th lies a major error. It would do well to see clearly that d ent forces vie for the economic soul of the Administra Business should support those fighting for global com tiveness and battle those pushing for excessive regul

WHY CAN'T BANKS LEARN THEIR LESSON

There they go again. Having recovered from most of asset-quality problems in recent years, banks are len like there's no tomorrow. Companies that would have bee nied credit just three years ago are starting to see b compete for the privilege of supplying them with credit. eral Reserve statistics show large bank loans to comme and industrial companies up 10% so far in 1994.

Unfortunately, though, there is a tomorrow in the market. In order to win business, banks are undercharging some loans and asking for too little collateral on othe practices that will come back to bite them when the econ slows down. Federal Reserve Chairman Alan Green warned bankers in a recent speech that current industry practices "give a central banker and supervisor pa

Why can't banks learn their lesson? The ups and dow credit availability since the late 1980s are just the l turns in a cycle that stretches back years. Rarely, if eve banks as a group lend at rates that reflect their true ris would help if banks were more rigorous about lending a ferent rates to customers of different credit quality. big banks regularly use credit scoring on large loans many others don't. When the economic cycle turns dow it always does, they will deserve the problems they will a certainly face.

WOW! THIRD-QUARTER PROFITS UP 45% SCOREBOARD OF 900 COMPANIES

ESS WEEK
November 14

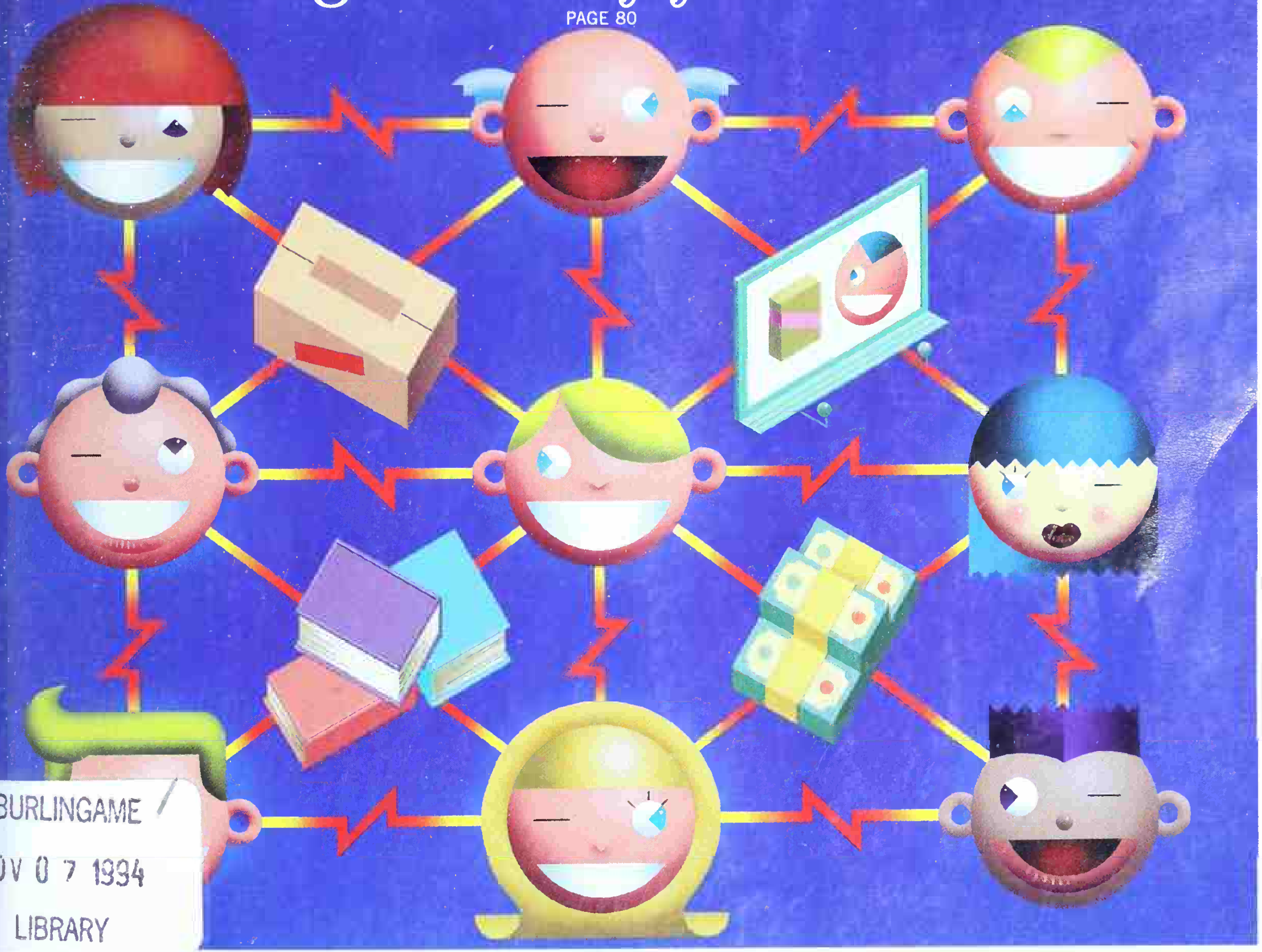
BURLINGAME PUBLIC LIBRARY
3 9042 03747636 0

BusinessWeek

EMBER 14, 1994 A McGRAW-HILL PUBLICATION $2.75

How the INTERNET will change the way you do business

PAGE 80

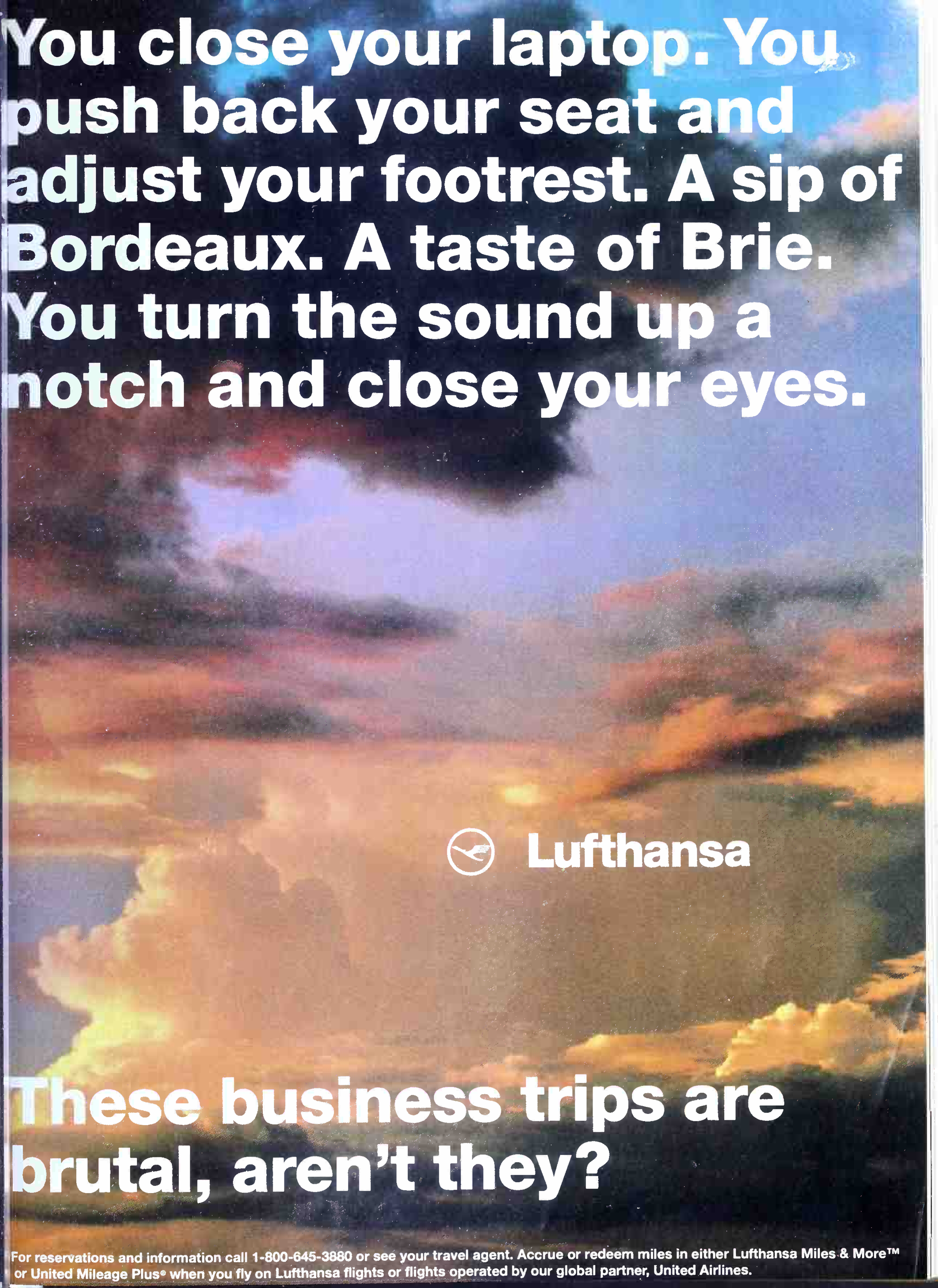


BURLINGAME
OV 0 7 1994
LIBRARY

Power Macintosh

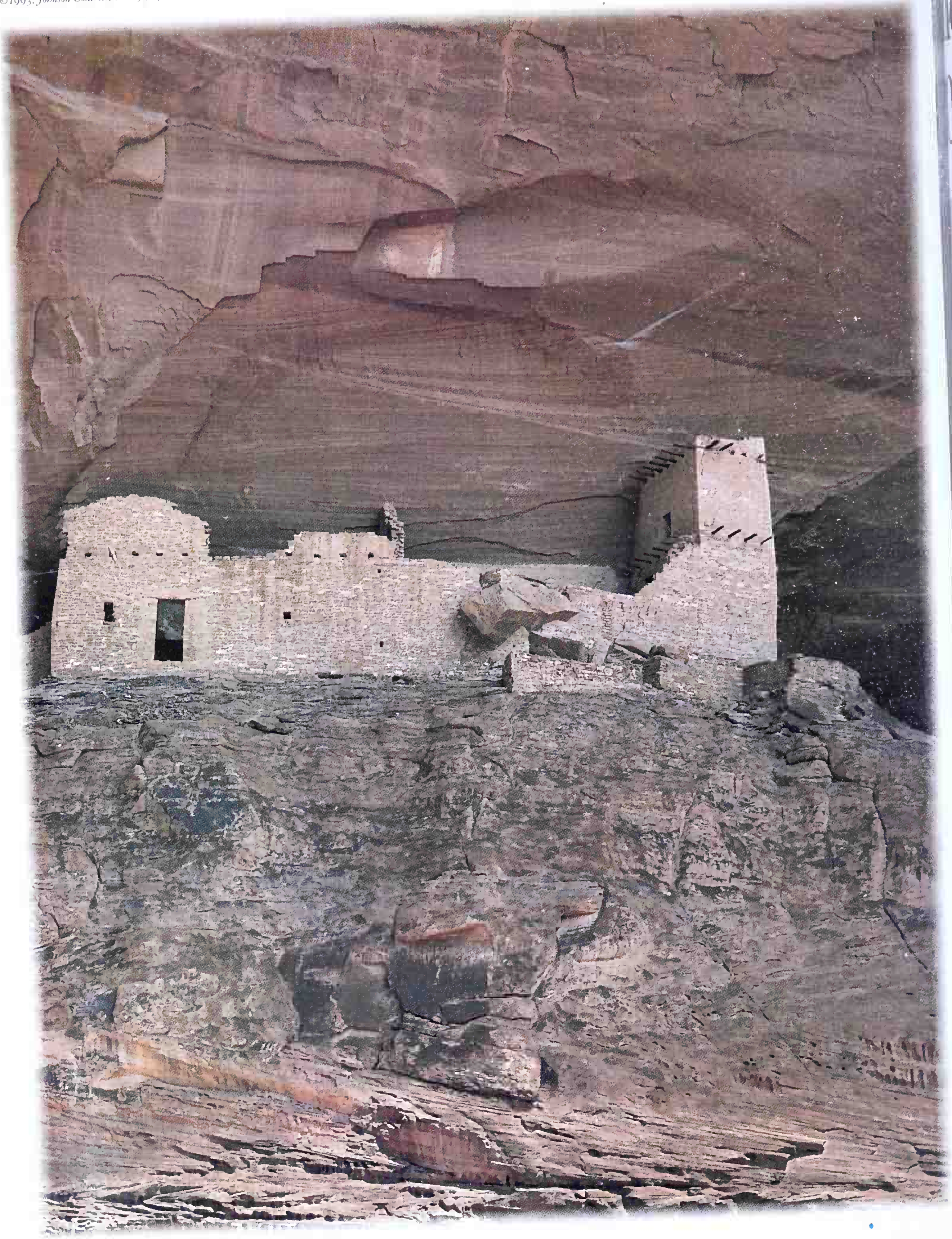
Matt Ghourdjian
National Director of Technology
Howrey & Simon

With offices in Los Angeles and Washington, D.C., Howrey & Simon is considered one of the most technologically savvy law firms in the nation. "It's great," says Matt. "When the senior partner has a Power Macintosh 8100 with two 21" monitors, you know there's not much resistance to new technology."


You close your laptop. You push back your seat and adjust your footrest. A sip of Bordeaux. A taste of Brie. You turn the sound up a notch and close your eyes.
Lufthansa
These business trips are brutal, aren't they?

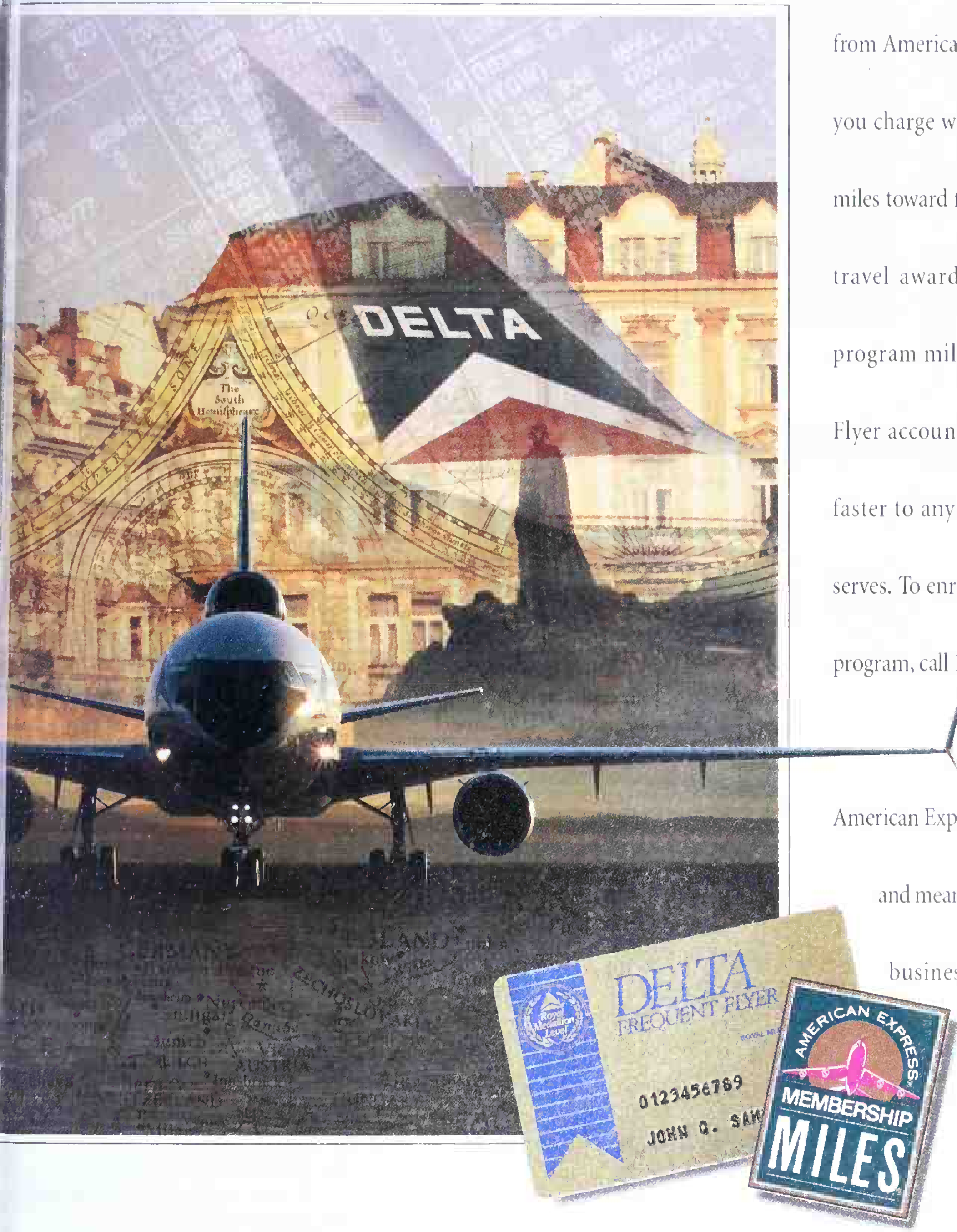
For reservations and information call 1-800-645-3880 or see your travel agent. Accrue or redeem miles in either Lufthansa Miles & More™ or United Mileage Plus® when you fly on Lufthansa flights or flights operated by our global partner, United Airlines.

©1993, *Johnson Controls, Inc.* 9314



[PUEBLO INDIAN DWELLINGS, *Canyon de Chelly, Arizona*]

merican Express® Card.
0 Cities Worldwide.


DELTA
The South Hemisphere
DELTA
FREQUENT FLYER
Royal Medallion Level
0123456789
JOHN Q. SAM
AMERICAN EXPRESS
MEMBERSHIP
MILES

Wherever international business travel takes you, take along the travel partners that make it simple.

The *Membership Miles*® program from American Express makes everything you charge with the Card earn program miles toward free flights and other special travel awards. And you can transfer program miles to your Delta Frequent Flyer account, to earn free flights even faster to any of the 32 countries Delta serves. To enroll in the *Membership Miles* program, call 1-800-443-9251.

Delta Air Lines and the American Express Card. Together, the ways and means to make your international business travel more convenient, more comfortable and more rewarding.

DELTA AIR LINES®

YOU'LL LOVE THE WAY WE FLY℠

AMERICAN EXPRESS
3712 345678 95006
C F FROST

Don't Leave Home Without It.®

COVER STORY

THE INTERNET

Turn on. Dial in. Browse through the network for the masses. It's easy to use. It boasts some 21,000 commercial addresses and hundreds of electronic malls and stores. It will change forever the way you do business page 80

THE ONLINE AD AGENCY
THE NEW YORK WEB
SONY

BusinessWeek
NOVEMBER 14, 1994

Cover Story

80 FLYING WITH THE NET
Buy on it. Sell on it. Chat on it. You may even feel like you're traveling on it. The Internet isn't just a club for hobbyists and engineers. It's a splendid medium for electronic commerce

83 BIG BLUE'S CYBERNEWS
IBM promotes itself on the Web

84 HERE COMES THE ELECTRONIC MALL
Advertisers are going on line in a big way, hoping "to bait the cyberhook"

86 HELLO DIRECT, GOODBYE MAIL ORDER?
A high-end phone-equipment marketer goes Internetting

88 BATTLING CYBER-SCOUNDRELS
Dozens of companies are cooking up broad strategies to thwart hackers

Top of the News

34 CONSUMER BURNOUT?
Hopeful retailers are stocking up for Xmas. It may be wishful thinking

36 HARD ROAD BACK TO HAITI
U.S. companies want to return, but they say they need government help

37 COMMENTARY
California's Prop 187 isn't just cruel, it's hypocritical

38 WATCH YOUR BACK, MR. PARSONS
Time Warner's new president faces turmoil from the bottom up

39 DISNEY'S VIRTUAL PRESIDENT
Sanford Litvack is taking care of the duties that Katzenberg craved

40 UPS VS. FEDEX
They are stepping up their fight to dominate the delivery business

42 NO EXIT FOR BANKERS TRUST?
The derivatives debacle isn't over

44 THE SNAPPLE-QUAKER DEAL
Its payoff won't come right away

44 TOUGH GUYS DON'T KOWTOW
RJR's Harper won't do KKR's bidding

46 I WANT MY BIG TV
Large-screen sets fly off the shelves

46 THE RUB IN DISABLED RIGHTS
Recent rulings have business worried

47 IN BUSINESS THIS WEEK
Apple and IBM, Hershey, Astra and Merck, the Infobahn, Tandy changes its mind, baseball, video mayhem

International Business

52 FOREIGN POLICY
Clinton needs a win at the APEC summit, while Asian leaders see a chance for more progress on free t

55 COMMENTARY
With financial aid on the way, busi is behind the peace in the Middle E

56 GERMANY
Can Gerhard Schulmeyer put the h back into Siemens Nixdorf?

59 INTERNATIONAL OUTLOOK
Russia: Chernomyrdin is talking austerity but eyeing a bailout

Economic Analysis

22 ECONOMIC VIEWPOINT
Dornbusch: Trade liberalization, no

26 ECONOMIC TRENDS
Stock funds, oil prices, U.S. capital outlays, downside to the jobs uptu

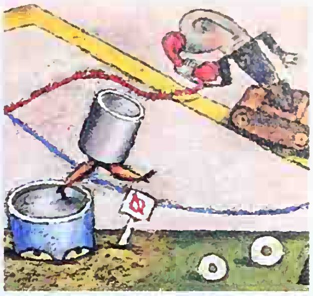
31 BUSINESS OUTLOOK
Peppy growth—and the Fed is une

90 FUJIAN EXODUS
A wave of immigrants hits the U.S.

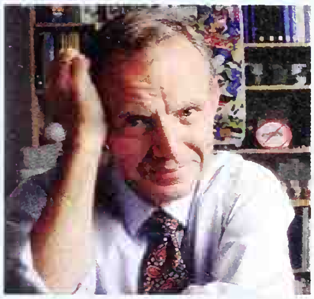
CROSSROADS
Clinton's showing at the Asia-Pacific summit has enormous implications for free trade's future page 52

'P ME BEFORE I BUY AGAIN
t-averse consumers could cast a pall over ıoliday season, and well beyond page 34

BONUS PAY
Companies ponder the riddle: How closely should performance and wages be linked? page 62



PROFIT SURGE
Earnings last quarter just kept going, and going... page 108



GREEN GIANT
Novo Nordisk: An enviro-friendly biotech pioneer page 72

OMMENTARY
'he "natural rate" unemployment myth

Government

VASHINGTON OUTLOOK
Another tough trustbuster in town?

The Corporation

3ONUS PAY: BUZZWORD OR BOON?
Companies are pushing incentives further and further down in the ranks

FUTURE SHOCK AT PG&E
The utility races to transform itself

Science & Technology

A MEAN GREEN MACHINE
Novo Nordisk is developing natural substances to replace chemicals

DEVELOPMENTS TO WATCH
Efficient heaters, medicine from pigs, green genes, avoiding Chernobyls

People

AN UNFAMOUS AMOS
Continental Cablevision's quiet founder, Amos Hostetter, may do a megadeal

Finance

98 **THE BOND BULLS ARE BACK**
Contrarians who see an aging recovery are moving big bucks into bonds again

99 **BRUISED BY BRUCE McNALL?**
BofA, Bank of California, and EAB all lent him money and lived to regret it

100 **DERAILING A TRAIN DEAL**
Union Pacific is going all out to thwart a Burlington-Santa Fe merger

102 **GE VENTURES TO BE DIFFERENT**
The pension fund as venture capitalist

104 **INSIDE WALL STREET**
An auto-parts maker revs up
USG: Ready for a housing rebound?
Catching the telecom wave

149 **INVESTMENT FIGURES OF THE WEEK**

Corporate Scoreboard

108 **HOT DAMN! THEY DID IT AGAIN**
Against all odds, corporate profits surged by another 45% in the third quarter

110 **WHY MARGINS ARE SO FAT**
Low labor costs have worked to companies' advantage

Personal Business

140 **BENEFITS:** Coping with counselors
TAXES: The new nanny tax
SMART MONEY: Fertile ag stocks
TRAVEL: All aboard the Chunnel train
ART: Fanfare for the common man's art
CARS: Impressive new safety features

Features

6 **UP FRONT**
10 **READERS REPORT**
14E4 **LETTER FROM NAPA VALLEY**
15 **BOOKS**
18 **TECHNOLOGY & YOU**
How to make your E-mail deliver
147 **BUSINESS WEEK INDEX**
148 **INDEX TO COMPANIES**
150 **EDITORIALS**
The politics of fury isn't the answer
A Net gain for business

Business Week (ISSN 0007-7135) published weekly, exceptfor one issue in January, by McGraw-Hill Inc. Executive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y 10020. U.S. subscriber rate $46.95/year; Canada: CDN $69/year. Second-class postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.O. Canada Post International Publications Mail Product Sales Agreement No. 246484. Postmaster: Send address changes to BUSINESS WEEK. P.O. Box 430, Hightstown, N.J. 08520

Up Front

EDITED BY LARRY LIGHT & JULIE TILSNER

TALK SHOW "[The job right now] is to not let the pot boil too much."

—Alan Blinder, Federal Reserve vice-chairman, Nov. 1, on the role of the central bank

STUMP STAR: *Bentsen*

POLITICS AS USUAL

THE ECONOMISTS HIT THE HUSTINGS

PRESIDENTIAL ECONOMIC advisers normally don't spend lots of time campaigning. But Bill Clinton, *persona non grata* to many Democratic candidates this fall, is pressing his team into service to tell turned-off voters that the economic expansion is his finest accomplishment.

Top economic pitchman is Treasury Secretary Lloyd Bentsen. The former Texas senator and 1988 vice-presidential nominee has campaigned for 33 Democrats this year. In one recent 36-hour period, Bentsen appeared in Seattle, San Francisco, and Portland, Ore.

Also in demand is Council of Economic Advisers Chair Laura D'Andrea Tyson, by far the most telegenic White House economic aide and now a master of the political sound bite. She dismissed the GOP "Contract with America" as "Voodoo Two." Tyson has campaigned for six candidates, including Senator Edward Kennedy of Massachusetts and Representative Marjorie Margolies-Mezvinsky of Pennsylvania, who cast the deciding House vote for Clinton's 1993 budget plan. Robert Rubin, a longtime party fund-raiser who now heads the National Economic Council, has campaigned for New York Governor Mario Cuomo, among others. *Paul Magnusson*

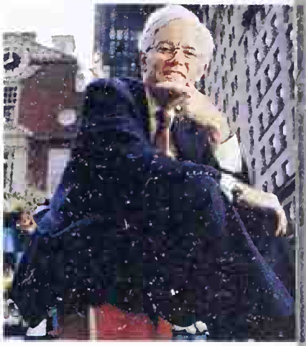
STREET SMARTS

LISTENING TO PETER LYNCH

PETER'S PROGNOSTICATIONS are just around the corner. A New Year's ritual among many investors is to jump on Peter Lynch's choices for the year ahead. The legendary stockpicker, who gave up managing the Fidelity Magellan mutual fund four years ago, has continued to enjoy a spectacular run.

Take the 12 stocks for 1994 that he selected last December. Through Nov. 1, they are up 19%, blowing away the broad market indexes, such as the Standard & Poor's 500 (up a mere 3.6%). It was the same story as in previous years (48% in 1992, vs. 10.1% for the S&P 500).

How did he do it in this year's roller-coaster market? He culled winners in two down-and-out sectors, energy and finance. "Financial stocks were depressed in the short term, and energy stocks had been depressed for 10 years," he says. His big gun was oil-drilling supplier Smith International, up 87%, and his other energy picks—Enterra, Apache, and Murphy Oil—were up an average of 14%.



LYNCH: *He still has the tou*

Lynch's numbers would ha been even better if not for single dog: insurer Life US down 56%. We requested sneak preview of 1995 pick No such luck. *Geoffrey Smi*

THE FEDS

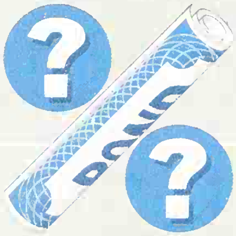
FANNIE MAE'S LINE IN THE SAND

FANNIE MAE, AS savvy politically as it is financially, is fighting a Clinton Administration plan to boost low-income mortgage lending. The Federal National Mortgage Assn., a federally chartered private company that buys mortgages from lenders and bundles them into bonds, has called in a cavalcade of big-time pols to help.

At issue is a program by Fannie to spur lending for affordable housing in urban and rural areas, to low- and moderate-income homebuyers. Fannie chief James Johnson, a former Walter Mondale aide, is upset over pressure from the Housing & Urban Development Dept. to focus on minority and low-income buyers regardless of their loc tion. And HUD has considere making Fannie police bias l lenders, which Johnson se as unworkable.

Fannie Mae complains th the HUD plan would igno the urban middle class, p tentially prompting their e odus from cities. Johnson ha enlisted the mayors of Bo ton, Chicago, and Oakland a well as Representatives Ba ney Frank (D-Mass.) an Charles Schumer (D-N. Y.) lobby against the HUD pla Their impact has been fel The word is that HUD thus f has backed off on the idea Fannie Mae as an antibia enforcer. *Amy Barre*

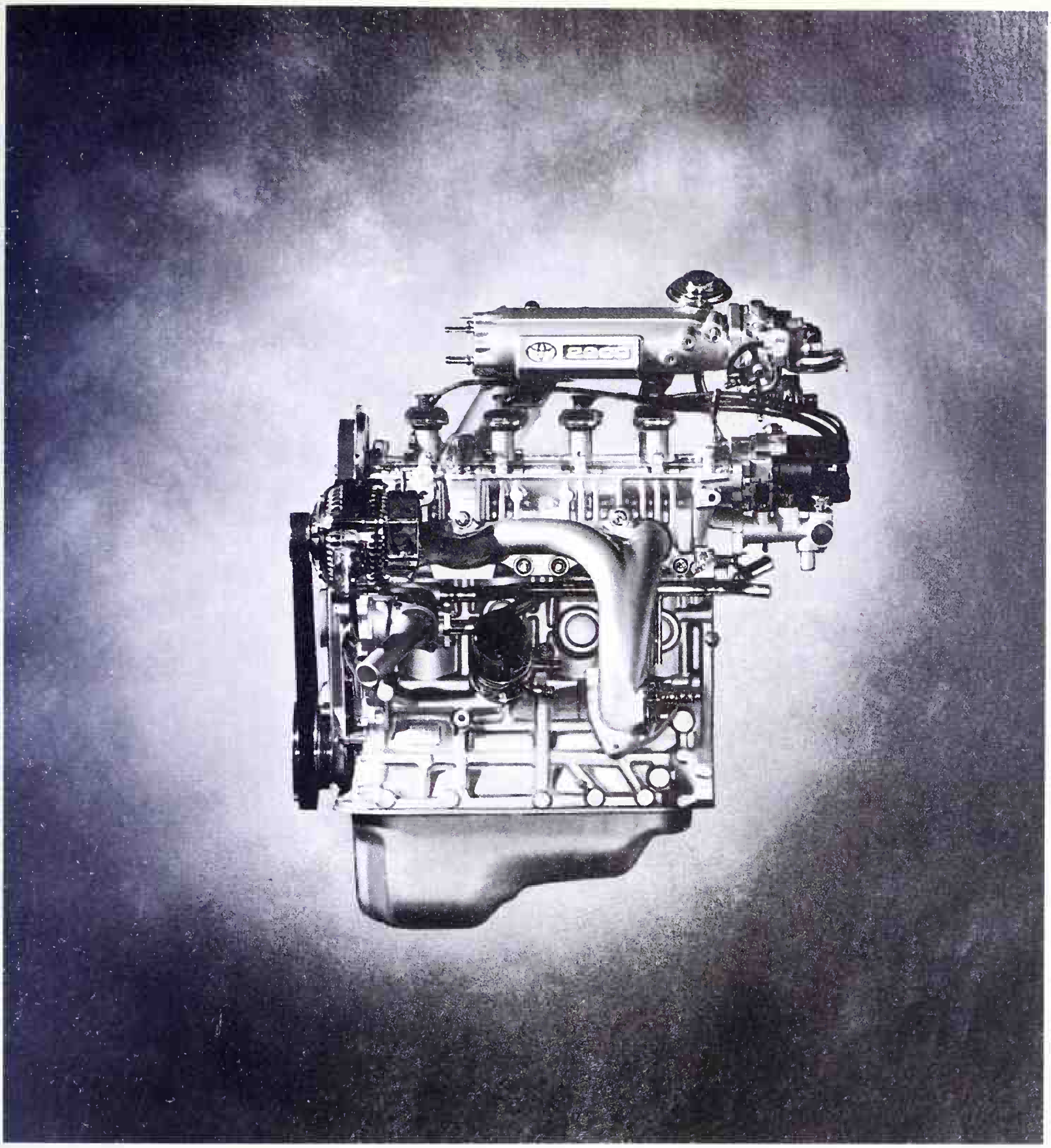
REALITY CHECK



DISCLOSING MARKUPS to municipal-bond buyers is bad for them, say bond dealers. The dealers are upset about a proposed Securities & Exchange Commission rule requiring disclosure of the difference between what the firm paid for a bond and what it is selling the bond for. They argue that buyers will be more focused on the markup than on the paper's credit quality and yield. Dealers' trade associations pledge to make more pricing info available, but not the markup.

IN REALITY, many dealers are less concerned with whether investors are making good decisions than they are with the prospect of falling profits from smaller markups due to bargain-minded buyers. Stock investors spend plenty of time looking at investment quality, even though stock commissions can vary. Since when have investors made decisions solely, or even mainly, on the basis of dealer profits? That was the same argument that was used to resist unfixing stock commissions in the 1970's. *Kelley Holland*

PHOTOGRAPHS: LEFT TO RIGHT: [illegible] GAMMA LIAISON; JANE [illegible] GAMMA LIAISON; ILLUSTRATIONS TOP TO BOTTOM BY TIM GRAJEK, ALAN BASEDEN



The 2.2 liter DOHC Camry engine. Made in Georgetown, Kentucky.

IT ALSO DRIVES THE ECONOMY.

AT TOYOTA, we're continuing our commitment to building in America. In fact, at our manufacturing plant in Kentucky, we're producing nearly 250,000 engines per year. It's part of Toyota's $5 billion investment in American manufacturing, an investment that's driving more than 16,000 direct jobs across America.

INVESTING IN THE THINGS WE ALL CARE ABOUT. **TOYOTA**

For more information about Toyota in America write Toyota Motor Corporate Services, 9 West 57th Street, Suite 4900-D14, New York, NY 10019.

© 1991 Toyota Motor Corporate Services of North America, Inc.

Up Front

GENIUS WATCH

CALL IT VISIONARY'S BLOCK

BILL GATES'S BOOK ON THE future of the Information Superhighway is in the slow lane. Slated for publication this fall, in time for Christmas, the Microsoft chief's tome now has been put off until spring. Reason: Gates thinks it needs more work.

GATES: *A literary perfectionist, too?*

Since Gates and his co-authors (Microsoft exec Nathan Myhrvold and journalist Peter Rinearson) bagged a sweet $2.5 million advance from Penguin USA's Viking unit, shouldn't they have delivered on time? With up to two-thirds of publishers' sales revenue typically coming during the Christmas season, isn't Viking in a bad position? Maybe not. If *The Road Ahead*, as the work is tentatively titled, turned out to be a shoddy rush job, that would hurt, too. And Gates is such a big name that a delay might not matter. Says Stuart Applebaum, a Bantam Doubleday Dell senior veep: "This will be an event, regardless of the season."

Certainly, there has been a lot to distract Gates from his literary endeavors. His mother died this summer; the Justice Dept. recently closed an antitrust probe of Microsoft; and Gates is buying Intuit. Plus, notes Times Books Publisher Peter Osnos, "the timetable was too ambitious." Gates, who will give his book proceeds to charity, only contracted for the project last spring. *Richard Brandt and Denise Demong*

ENDANGERED SPECIES

HUH? A MOVE TOWARD *LESS* INFORMATION?

DO YOU REMEMBER ADDING machines? Rotary phones? Put corporate quarterly reports on that list. A recent survey by the National Investor Relations Institute shows that 54% of companies polled have scrapped or soon will scrap the once routine practice of sending shareholders quarterly earnings statements.

A sampling of companies that no longer send out quarterly reports

BROWNING-FERRIS

MORTON INTERNATIONAL

SMITHKLINE BEECHAM

TEXACO

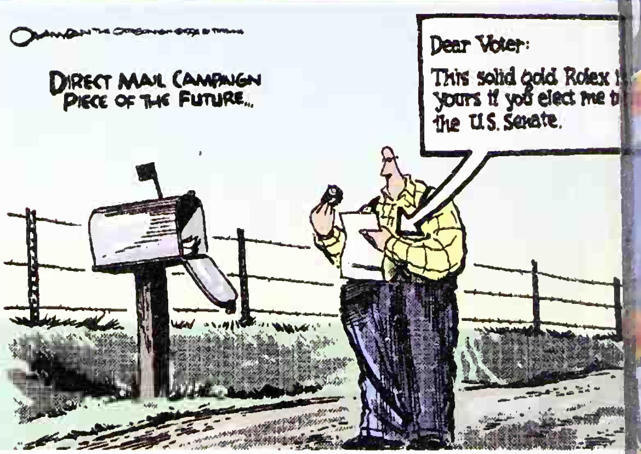
WHITMAN

DATA: AMERICAN SOCIETY OF CORPORATE SECRETARIES

Companies say that it costs too much–and stockholders who really care can get the info anyway. Texaco, which recently canned the mailings, is saving itself several hundred thousand dollars yearly. Instead, the oil giant has an 800 number that investors can call to ask for a report. "There are so many electronic bulletin boards and newspapers that get the information out in a timely fashion," says Paul Ramirez, Texaco's director of shareholder relations. Complaints? "Actually, no."

Some companies, such as IBM, are scaling back only partway: replacing a quarterly mailing with a six-month interim report. □

DRAWN & QUARTERED


DIRECT MAIL CAMPAIGN PIECE OF THE FUTURE...
Dear Voter:
This solid gold Rolex
yours if you elect me t
the U.S. Senate.

GAMES PEOPLE PLAY

LOOKING THROUGH THE BOSS'S EYES

THE BIG PICTURE IS SELDOM appreciated outside the corporate suite. That's why Harris Semiconductor, based in Melbourne, Fla., is having all its 8,000 employees play a board game to teach them how the whole shebang works. Playing in groups of three or four, the workers experience the challenges of big-money investing, flat sales, and cost overruns. Players get cards with heart-wrenching personnel problems to solve and angry shareholders' questions to field. The aim: to make a profit in play money.

A game, which usually lasts about four hours, can be a heady undertaking. Cherie Keel, a secretary at Harris, found herself writing out a $4 million check toward the quisition of fictitious Zod Industries. Then she had arrange millions more fr bank lenders and outsi investors.

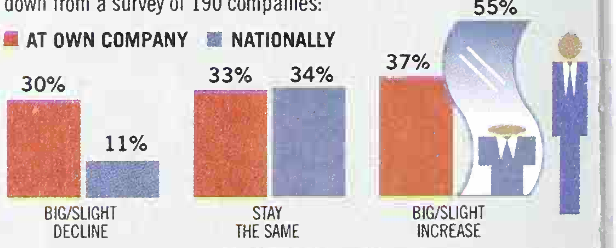
The game, called Zodi was tailor-made for Harris Paradigm Learning in Ta pa, which says it cost Har about $500,000. Paradigm s angling to do the same fr other companies. Until no games in Corporate Ameri were largely for top mana-ers. *Peter Valdes-Dape*

PLAYING ZODIAK: *High finance*

THE BIG PICTURE

THE JOBS OUTLOOK

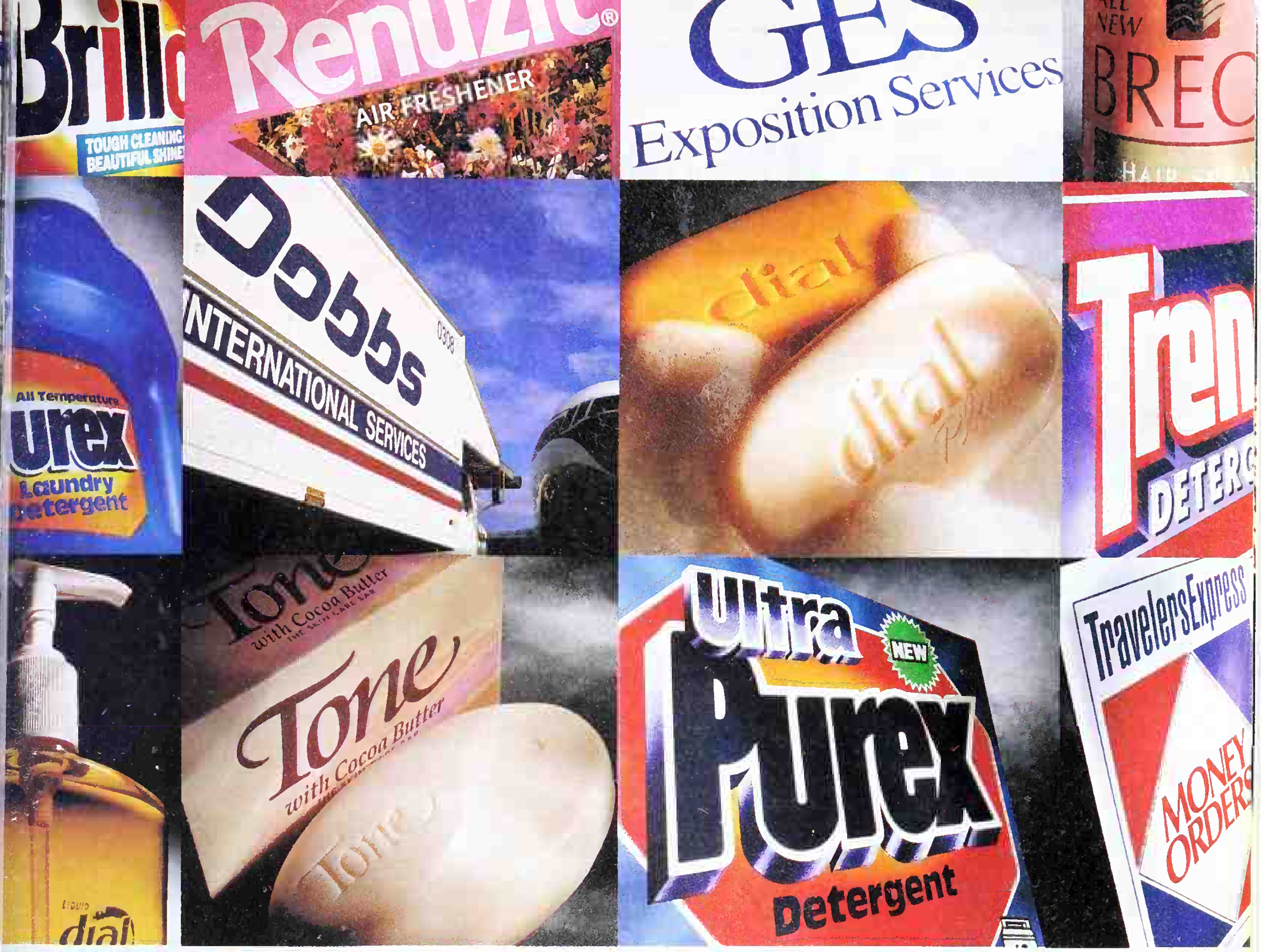
Executives are more optimistic about employment growth in the overall U.S. economy in 1995 than at their own companies. Here's the breakdown from a survey of 190 companies:



DATA: WILLIAM M. MERCER INC.

FOOTNOTES Women polled who say they are "early-bird" holiday shoppers: 60%. Early-bird men: 37%

(TOP LEFT) PHOTOGRAPH BY DAN LAMONT/MATRIX. CARTOON BY JACK OHMAN/THE OREGONIAN/TRIBUNE MEDIA. GRAPHIC BY ALAN BASEDEN


Brillo
TOUGH CLEANING
BEAUTIFUL SHINE
Renuzit®
AIR FRESHENER
GES
Exposition Services
ALL NEW
BREC
HAIR
Purex
All Temperature
Laundry
Detergent
Dobbs
INTERNATIONAL SERVICES
dial
dial
Tren
DETERG
Liquid
dial
Tone
with Cocoa Butter
Tone
with Cocoa Butter
Tone
Ultra
NEW
Purex
Detergent
TravelersExpress
MONEY
ORDERS

"Either you shape the future or the future shapes you."

– ***John W. Teets,*** *Chairman, President and Chief Executive Officer*

"The only constant is change. What separates success from failure is whether you're merely keeping up with change or actually guiding it. At The Dial Corp, we're committed to aggressively managing our own destiny. That's why we've refocused the Dial family, becoming a larger, stronger force in our two core business segments, consumer products and targeted services. This has meant that, within a mere twelve months, we've shed $515 million worth of business that no longer fits our strategic vision and acquired $615 million of high-growth enterprises that do. You see, we believe that change is not simply a constant. At Dial, it's also the constant opportunity to shape just what the future brings."

The Dial Corp

Profit Through Leadership

© 1994, The Dial Corp

BusinessWeek

EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
CHIEF ECONOMIST: William Wolman
ASSISTANT MANAGING EDITORS:
Sarah Bartlett, Robert J. Dowling, G. David Wallace
ART DIRECTOR: Malcolm Frouman
SENIOR EDITORS: Bob Arnold, Frank J. Comes, Deidre A. Depke, Judith H. Dobrzynski, Marc Frons, Geoff Lewis, Ciro Scotti, Mark N. Vamos, Lee Walczak (Washington), Chris Welles, Seymour Zucker
EDITORIAL PAGE EDITOR: Bruce Nussbaum
CHIEF OF CORRESPONDENTS: Keith G. Felcyn
INTERNATIONAL EDITION: William J. Holstein (Editor), John E. Pluenneke, Elizabeth Weiner (Sr. Editors)
SENIOR WRITERS: John A. Byrne, James E. Ellis, William Glasgall, Jeffrey M. Laderman, Gene G. Marcial, John Pearson, Karen Pennar, Otis Port
ASSOCIATE EDITORS: Duane E. Anderson, Catherine Arnst, Amy Dunkin, William D. Marbach, John Meehan, Michael Oneal, Thane Peterson, Gary Weiss.
DIRECTOR, EDITORIAL OPERATIONS: Thomas J. Reed
PICTURE EDITOR: Lawrence Lippmann
SENIOR ART DIRECTOR: Laura Baer
ECONOMICS: James C. Cooper (Sr. Economist/Business Outlook editor), Kathleen Madigan (Assoc.). Christopher Farrell, Michael J. Mandel (Economics editors). Gene Koretz (Economic Trends editor).
DEPARTMENT EDITORS: Books: Denise Demong. **Computers:** Ira Sager. **Corporate Finance:** Phillip L. Zweig. **Corporate Strategies:** Jane A. Sasseen. **Information Management:** John W. Verity. **International Finance:** Joan Warner. **International News:** Christopher Power. **International Outlook:** Stanley Reed. **Investment Banking:** Leah Nathans Spiro. **Legal Affairs:** Linda Himelstein. **Media:** Mark Landler **Money & Banking:** Kelley Holland. **News:** Keith H. Hammonds. **Personal Business:** Edward C. Baig. **Science:** Emily T. Smith. **Scoreboards:** Frederick F. Jespersen. **Social Issues:** Michele Galen. **Software:** Amy Cortese. **Technology:** Peter Coy, Neil Gross. **Up Front:** Larry Light. **The Workplace:** Aaron Bernstein.
STAFF EDITORS: Pam Black, Veronica Byrd, Bruce Einhorn, Paul M. Eng, Elizabeth Lesly, Ron Stodghill II, Amey Stone, Suzanne Woolley, Laura Zinn
ASSISTANT EDITORS: Lori Bongiorno, Julie Tilsner
COPY EDITORS: Harry Maurer, Michael Mercurio (Deputy chiefs); Prudence Crowther, Marc Miller (Asst. chiefs); Tim Belknap, Aleta Kaufman, Jack Robbins, Jim Taibi (Sr. copy editors); Carl Desens, Hardy Green, Cynthia McClean, Joseph Mandel, David Pengilly, Malka Percal, Doug Royalty; Maria Chapin, Gail Fowler, Jeneen Hobby, Aida Rosario (Researchers)
PRODUCTION COPY EDITORS: Donald Halsband (Chief), Lawrence Dark (Deputy), Hallberg Hallmundsson, Celine Keating, Robert S. Norman, Robert J. Rosenberg, Eva Stettner
ART: Steven Taylor (Deputy director), Cynthia Friedman, Francesca Messina, Jay Petrow, Christine Silver (Assoc. directors), Alice Cheung (Asst. director). **Graphics:** Arthur Eves (Director), Joan Danaher (Deputy director), Rob Doyle (Sr. Illustrator), Lisa Knouse Braiman, Alberto Mena, Ray Vella (Illustrators), Jaime Beauchamp (Computer artist) **Production:** Stephen J. Romeo (Mgr.), Annette Kennedy (Asst. manager), Alan Bomzer (Coordinator)
PHOTOS: Scott Mlyn (Deputy Picture editor); Todd James (Senior Picture editor), Anne Murray, Ronnie Weil (Assoc. Picture editors); Bettina Baudoin (Paris), Kathleen Moore (Asst. Picture editors), M. Margarita Eiroa (Traffic manager) Lawrence Crowe (Librarian); Michael Hirsch (Researcher)
EDITORIAL OPERATIONS: Yvonne Rodriguez (Production chief). Richard Balestrino, A. Peter Clem (Production managers) Karen Butcher, Thomas R. Dowd, Fidel Lee, Jose L. Martin, Jane M. Perkinson, Craig Sturgis, Edgardo Torres, Karen Turok, Ilse V. Walton, Nicholas White (Makeup editors) Donald C. Pearson (Traffic manager), Bruce M. Arnold, Stephen R. Lebron (Assts.)
CORRESPONDENTS: Atlanta: David Greising (Mgr.), Maria Mallory **Boston:** Mark Maremont (Mgr.), Gary McWilliams, Geoffrey Smith **Chicago:** Richard A. Melcher (Mgr.), Greg Burns, Susan Chandler, Kevin Kelly **Cleveland:** Zachary Schiller (Mgr.). **Connecticut:** Tim Smart (Mgr.), Chris Roush. **Dallas:** Wendy Zellner (Mgr.), Peter Burrows, Stephanie Anderson Forest **Detroit:** Kathleen Kerwin (Mgr.), James B. Treece (Sr. Correspondent), David Woodruff **Los Angeles:** Ronald Grover (Mgr.), Larry Armstrong (Sr. Correspondent), Eric Schine. **Miami:** Gail DeGeorge (Mgr.) **Philadelphia:** Joseph Weber (Mgr.) **Pittsburgh:** Stephen Baker (Mgr.), Keith L. Alexander **San Francisco:** Russell Mitchell (Mgr.), Richard Brandt, Joan O'C. Hamilton, Robert Hof, Kathy Rebello. **Seattle:** Dori Jones Yang (Mgr.) **Washington:** Stan Crock, Owen Ullmann (News Editors), Amy Barrett, Amy Borrus, John Carey (Sr. correspondent), Christina Del Valle, Richard S. Dunham, Dean Foust, Susan B. Garland, Howard Gleckman (Sr. correspondent), Douglas Harbrecht, Mark Lewyn, Paul Magnusson, Mike McNamee, Mary Beth Regan, Michael Schroeder, Stephen H. Wildstrom (Technology & You), Catherine Yang **Bonn:** John Templeman (Mgr.), Karen Lowry Miller **Hong Kong:** Joyce Barnathan (Mgr.), Pete Engardio **London:** Paula Dwyer (Mgr.), Julia Flynn **Mexico City:** Geri Smith (Mgr.) **Moscow:** Peter Galuszka (Mgr.) **Paris:** Stewart Toy (Mgr.), Gail Edmondson, Bill Javetski **Rome:** John Rossant (Mgr.) **Tokyo:** Robert Neff (Mgr.), Larry Holyoke. **Toronto:** William C. Symonds (Mgr.)
EDITORIAL SERVICES: Broadcasting: Ray Hoffman **Business Manager:** Barbara Boynton **Information Services:** Jamie B. Russell (Director), Judi Crowe (Asst. editor), Heather Hartley, Fred Katzenberg, Maria Maronak, Karen Stevens **Office Manager:** Roselyn Kopit **Public Relations:** Christine Summerson, Josephine Coppola. **Readers Report:** Yvette Hernandez **Reprint Permission:** Janet Gonzalez. **Systems:** Ina L. Kichen (Mgr.), Andrew Bernardo, Marie Brown-Bryant, Marta Skrelja

PRESIDENT: John W. Patten
PUBLISHER: David G. Ferm
SR. VP, OPERATIONS: Gary B. Hopkins
VP, CONSUMER MARKETING/CIRCULATION: Robert Montemayor
VP, INTERNATIONAL: Gerd Hinske
VP, STRATEGIC PLANNING & DEVELOPMENT: Cara Erickson
VP, MARKETING: Harold K. Somerdyk
VPs, SALES: Constance E. Bennett (Eastern Region), Dan Dunn (Midwestern Region), Louis R. Mohn (Western Region)
VP, STRATEGIC PROGRAMS: James H. McGraw IV
CONTROLLER: Gary M. Singer
DIRECTOR, ADVERTISING BUSINESS: Linda F. Carvalho
DIRECTOR, PRODUCTION: Mario J. Talluto

Readers Report

WHAT MAKES A B-SCHOOL THE BEST?

Your Cover Story "The best B-schools" (Oct. 24) focused on the top 20, as well it should have. But an important trend in the business of business schools is not being picked up by the sweep of your "top 20" radar.

A new class of schools is emerging. Like small and midsize businesses in any field, they compete with the giants by being more entrepreneurial, more willing to change, and more focused. Examples include Babson College in the field of entrepreneurship, the University of Arizona in information management, the University of Tennessee at Knoxville in quality management, and Rensselaer Polytechnic Institute in technology management.

Rensselaer's school of management is unique in its dedication to the problem of converting technology to competitive advantage. Our mission is to develop business leaders who are managerially and technologically sophisticated. The school has made technological entrepreneurship a mainstream activity, so that many of our students will have spent at least one semester working with one of the startup companies in our new-business incubator.

As in any other business, the small and medium-size business schools that stay focused and strive for leadership in their areas of focus will become attractive alternatives to most of the Big 20.

Joseph G. Morone
Dean
School of Management
Rensselaer Polytechnic Institute
Troy, N. Y.

Far be it for me to knock the MBA; I am trying to influence my sons to go that route. However, the comment from Alfred N. Page, dean of the College of William & Mary's business school, could make one have second thoughts. He states: "Our graduates should increase their lifetime earnings by $300,000 because of the MBA." If you take the $40,000 for two years at W&M's graduate school and invest it at 6% for the 4 years of expected employment, you can earn $411,000 without putting a foot on their campus.

The gain will come from other satisfactions, not the money.

Edd L. Utley
Signal Mountain, Tenn.

I graduated in 1987 from the business school at the College of William & Mary at a total cost of $20,000. Had I gone to Chicago, the cost of education would have been closer to $50,000. Seven years later, I doubt if my net worth would have been any more had I gone to Chicago. Thank you, William & Mary, for giving me value for my money

Nalin Khanna
New Delhi

BusinessWeek
Our All-New Rankings Have Some Big Surprises
THE BEST
B
SCHOOLS

ASSESSING B-SCHOOLS

"A new class of schools is competing with the giants by being more entrepreneurial and more focused."

—Joseph G. Morone
Rensselaer Polytechnic Institute

I find it paradoxical that Harvard has fallen so out of favor that graduates call it a "dinosaur," yet it receives the largest number of applicants of any top program. Recruiters aren't satisfied with its graduates but continue to offer the highest pay packages. And graduates with unrealistically high expectations criticize placement opportunities by ranking Harvard the lowest of the top five schools. On the educational side, Wharton's ascension is driven by an emphasis on teaching, spearheaded by dozens of new faculty members. Wharton graduates celebrate this success by giving it a "C" in the teaching category (lowest of the top seven schools).

Radical reinvention is apparently the

BUSINESS WEEK
NOVEMBER 14, 1994 3398
ISSN 0007-7135 * * *

Published weekly, except for one issue in January, by McGraw-Hill, Inc. Founder: James H. McGraw (1860-1948)

Executive, Editorial, Circulation, and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127039; Intl. 2360127039. U.S. subscription rate $46.95 per year; 2 years, $78.95; 3 years, $104.95. Single copies, $2.75; back issues, $5. Write for rates in other countries. Subscriber Services: 1-800-635-1200 TDD: 1-800-554-1579

Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, N.J. 08520. Second-class postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484. Registered for GST as McGraw-Hill, Inc. GST #R123075673. Copyright 1994 by McGraw-Hill Inc. All rights reserved. Title registered in U.S. Patent Office. European Circulation Center, McGraw-Hill House, Maidenhead, Berks, England. Telephone: 0628-23431; Telex: 848640.
Officers of McGraw-Hill, Inc.. Joseph L. Dionne, Chairman and Chief Executive Officer; Harold W. McGraw, III, President and Chief Operating Officer; Robert N. Landes, Executive Vice President, General Counsel, and Secretary; Robert J. Bahash, Executive Vice President and Chief Financial Officer; Frank D. Penglase, Senior Vice President, Treasury Operations.

PHOTOCOPY PERMISSION. Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy any article herein for the flat fee of $1.50 per copy of each article. Send payment to the CCC. Copying for other than personal or internal reference use without express permission of McGraw-Hill is prohibited. Address requests for customized bulk reprints to Business Week Reprints, P.O. Box 457, Hightstown, N.J. 08520, or call 609-426-5494. ISSN 0007-7135/94/$2.75
PRINTED IN THE U.S.A

BREITLING

1884

DME
0.3
INE
FMS1
NAV
330
15
S
21
WX
B/C1
5
CRS
030
×LL11
DIS 5.7
HDG
210
BREITLING
NAVITIMER

OLD NAVITIMER

NAVITIMER: ON COURSE AND ON TIME. With time a crucial aspect of air travel, the watch has long been viewed by pilots and navigators as their basic personal instrument. Even in this age of sophisticated navigation satellites and radio beacons, compact computers like the NAVITIMER'S continue to effect routine flight calculations.

Today, NAVITIMER mechanical chronographs with built-in slide rule rank as the premier instrument at a pilot's service. Based on a design voted official watch of the Aircraft Owners & Pilots Association in 1952, current NAVITIMER models all incorporate BREITLING'S innovative slide rule. Relentlessly improved over the years, NAVITIMERS are amazingly simple to use, water-resistant, and their trim good looks remain as unmistakable as ever.

Selfwinding mechanical chronograph calibrated to $^1/_5$th of a second.

30-minute and 12-hour totalizers.

Power reserve in excess of 42 hours.

Easy-to-read calendar.

Aviation-type slide rule also suitable for weight, measure and currency conversions.

Case water-resistant to 30 m (100 ft) with glareproofed cambered sapphire crystal.

Made in steel, in steel and 18K gold and in solid 18K gold.

Available with three types of leather strap with choice of tang-type buckle or folding clasp, or else with a "PILOT" bracelet.

AUTHORIZED BREITLING AGENT:

GREG
JEWELERS
10921 Weyburn Ave.
Los Angeles, CA 90024
(310) 824-3738

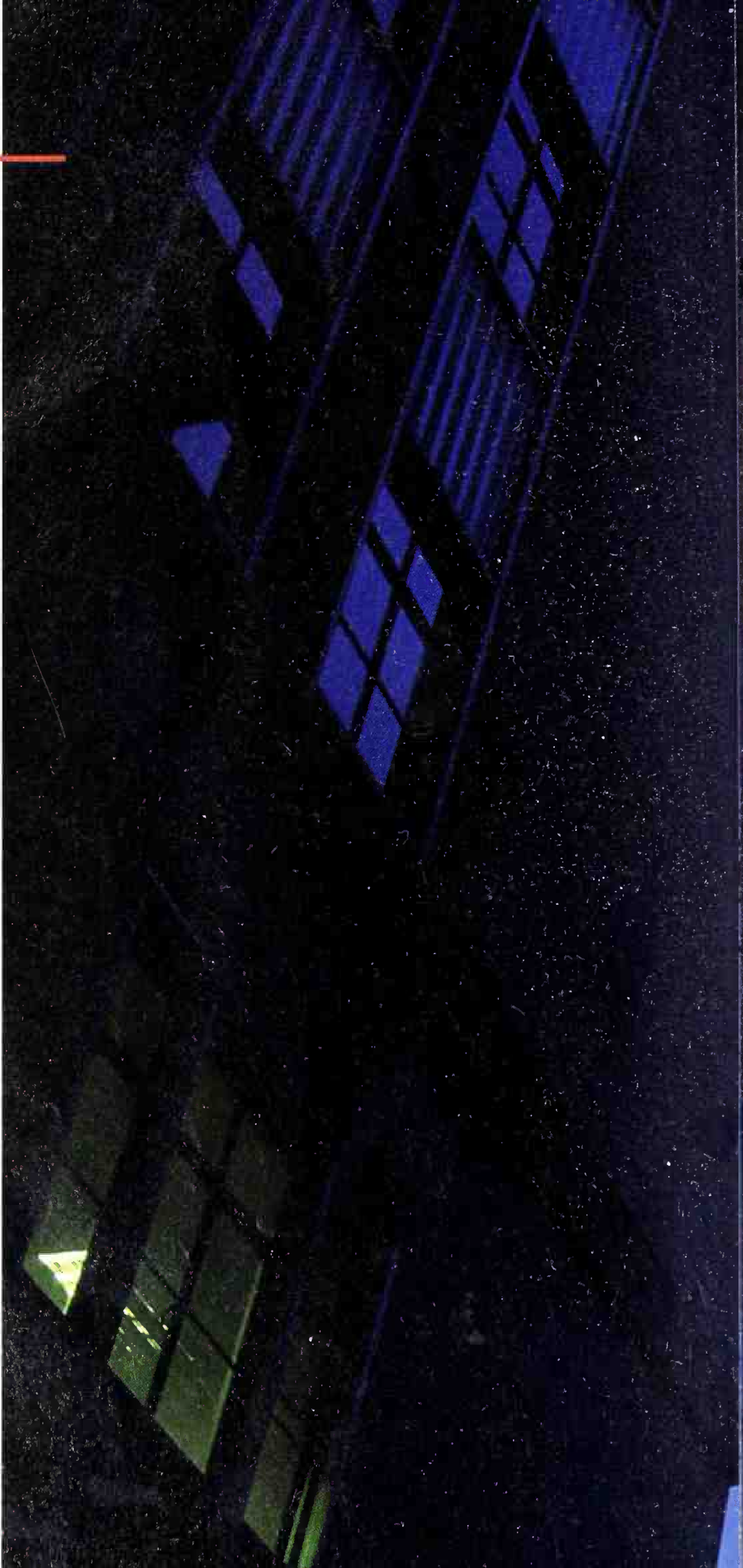
INSTRUMENTS FOR PROFESSIONALS

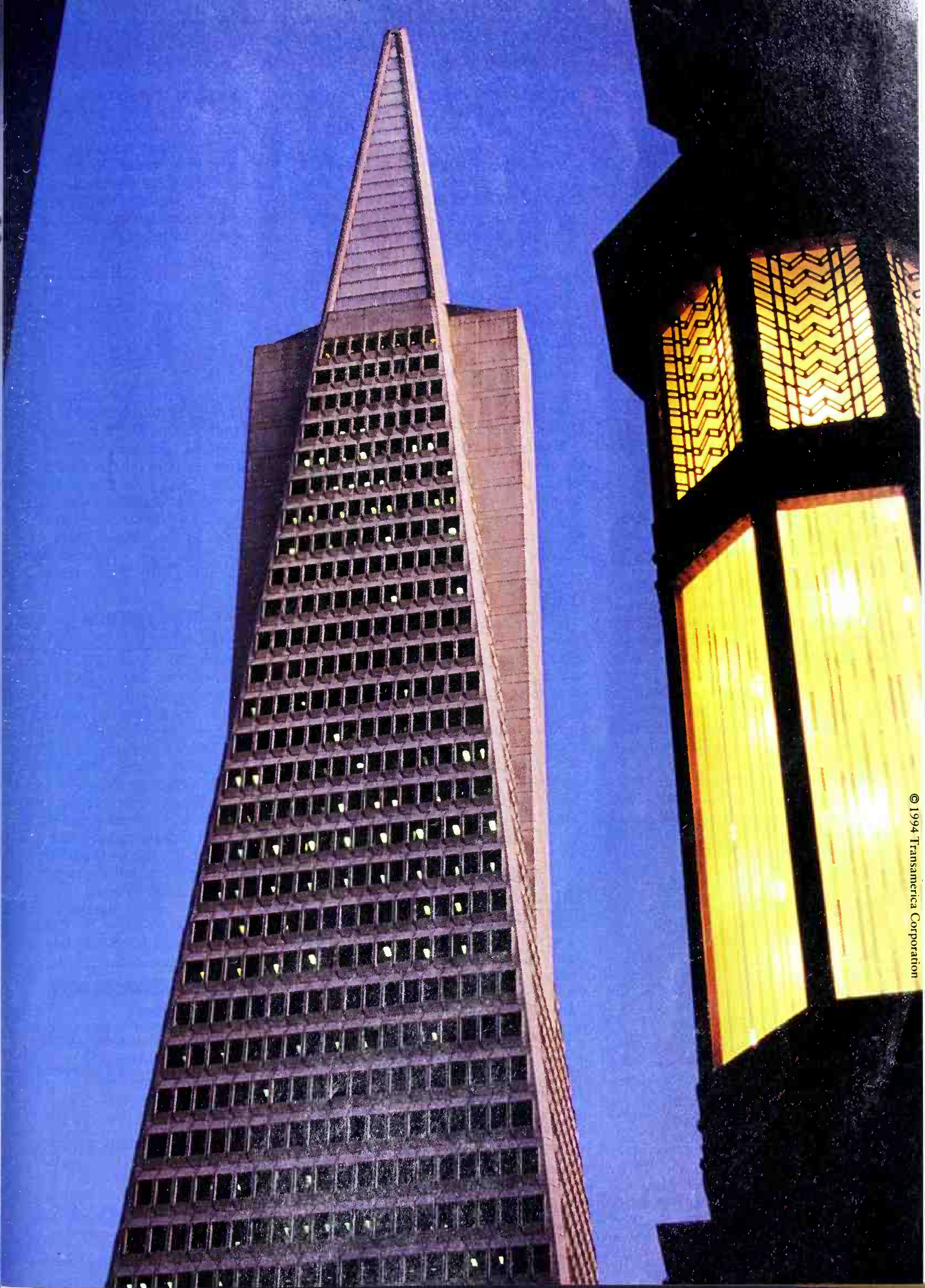
Financial Services
from Transamerica

YOU KNOW OUR BUILDING. NOW MEET OUR FAMILY.

We're Transamerica, the people in the Pyramid. We offer life insurance, annuities, retirement plans, mutual funds and other products to help people plan and invest for the future. We offer consumer and commercial loans to help families and businesses grow. We're also one of the world's biggest leasing companies. In all of our businesses, we believe in providing our customers with real solutions to their financial needs, at reasonable prices. That's a philosophy you can count on when you deal with any Transamerica company. Remember us for the best in financial services.

TRANSAMERICA
Life Insurance • Investments • Lending • Leasing





© 1994 Transamerica Corporation

key to success (based on the Northwestern/Wharton models). Other business schools, bitten by the reengineering bug, are tearing apart their programs to "teach business as a complex whole" and make curriculums "more pragmatic." Funny, but the case-study basis of Harvard's program has always emphasized the real-world experiences and broad-minded perspective of the general manager.

Ronald Bottano
Long Beach, Calif.

There is something very wrong with your survey when a school with a teaching score of "C" is ranked No. 1.

I'm glad I'm at the University of North Carolina.

Ann B. Eaton
Chapel Hill, N. C.

I'm sure your article has created its usual stir in academia. Actually, as ranking systems go, yours is pretty good. You survey both students and recruiters, and both have experience at the schools they rate.

My objection is the "Best B-School" title. In our business school, the MBA is only 15% to 20% of our product line. You have done a decent job of ranking the best MBA programs. Use an accurate title.

William A. Strang
Associate Dean for
External Relations
University of Wisconsin-Madison
Madison, Wis.

From your description of your methodology, I discovered BUSINESS WEEK did not interview MBA graduates working abroad, nor did it poll companies located outside the U. S. This did not make sense. Maybe next year, BUSINESS WEEK will consider international business when ranking B-schools.

Richard J. Sherman Jr.
Arlington, Va.

Our survey covers graduates around the world. About a quarter are outside the U. S.

Even the archaic scoring system fancied by the Miss America organization is more scientific than the capricious methodology behind your crowning of America's best business school.

Generalizations by recruiters are combined with generalizations by freshly graduated students, who have little understanding about how their newly acquired education and credentials are going to affect their future managerial careers. Yet BUSINESS WEEK prefers these qualitative comments over the only hard numbers in the survey that are traditional indicators of a business school's quality: percentage admitted and salary upon graduation.

Until hard data are incorporated with the qualitative "stakeholder" review, BUSINESS WEEK should caution against hyping its highly anticipated survey with the name "Best B-schools."

Dan Howard
Beverly Hills, Calif.

As second-year MBA students at Wharton, we were of course pleased to read your cover story. As students who have tried to help Wharton become a better place over the last year, we want to point out that over 78% of Wharton students voted last year to not disclose grades to recruiting companies. As other B-schools reexamine their own curricula, we heartily encourage them to join Wharton, Stanford, and Harvard in this practice.

David Morris
Fidel Gakuba
Philadelphia

OS/2 IS WORTH THE WAIT

In "Are IBM and Apple a day late?" (Top of the News, Oct. 24), you indicate that the delay of PowerPC systems while awaiting OS/2 was a mistake. It does not seem so to one who has willingly used OS/2 from the beginning and wishes to continue doing so. The combination of PowerPC hardware and OS/2 software will support the multiple operating environments in use today while providing an attractive growth path for the future. This is technology worth waiting for.

Gary A. Hill
Sunnyvale, Calif.

'THE BEST GSA ADMINISTRATOR IN 20 YEARS'

In your article on GSA Administrator Roger W. Johnson ("I am treated . . . like a virus," Top of the News, Oct. 24), you quote a union official as being critical of the changes that have taken place under Mr. Johnson's leadership.

As the president of the national council of American Federation of Government Employees locals, I would like to state that several statements by one vitriolic individual do not reflect the sentiments of the union. In fact, the AFGE signed a partnership agreement with Johnson and management a year ago, thus beginning a constructive relationship to produce the necessary long-term changes that will make the General Services Administration more responsive and less costly to its customers and, ultimately, to the American taxpayers Periodic disagreements over details can be expected in any management-union discussions; however, Roger Johnson has established his creditability, and he stands as the best GSA administrator in 20 years. Our agreement with Johnson is strong and has produced many positive results.

Harry L. Dawson
President
AFGE National Council of GSA Local
Fort Worth

PLEASE BRING BACK REAGANOMICS

In response to Robert Kuttner's article "This budget 'contract' is nothing more than voodoo II" (Economic Viewpoint, Oct. 24): I cannot believe that he considers tax cuts for the wealthy, taking many of the poor off the tax rolls and the longest peacetime expansion as evidence of a "disastrous effect." We need more of the Reagan years.

Charles Valvano
Bridgewater, N.J

LEAPING OVER THE OLD INTERNET GUARD

Our book, *How to Make a Fortune on the Information Superhighway*, does not tell businesspeople "How to make enemies on the Infobahn," as your misleading headline indicated (Up Front, Oct. 24). On the contrary, it contains a full description of workable, effective marketing techniques based on our experiences. When we advertised broadly on the Internet, we were one of the first, and the old Internet guard didn't like it. On the other hand, tens of thousands of people registered not anger but a desire to do business with us.

Martha S. Siegel
Cybersell
Scottsdale, Ariz.

HOW TO REACH BUSINESS WEEK

LETTERS FOR READERS REPORT

All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space.
Mail: Business Week, 1221 Avenue of the Americas, 39th floor, New York, NY 10020
Fax: (212) 512-4721
Internet: bwreader@mgh.com

SUBSCRIBER SERVICES

For individual subscriptions, corporate subscriptions, renewals, changes or problems, and single copies.
Phone: (800) 635-1200 or (609) 426-7500

COPYRIGHT PERMISSIONS

Before quoting or reproducing editorial material.
Phone: (212) 512-3396
Fax: (212) 512-4938

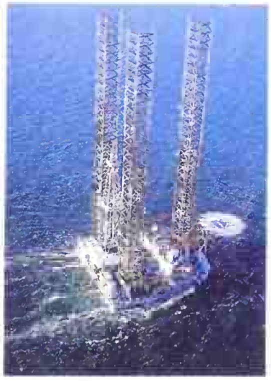
A positive a++itude

It does seem as if India, the nation, has caught up with Essar, the corporation. Our belief in a positive attitude is today the preserve of an entire country. With good reason, too.

India's recent economic surges have catapulted it into the top 5 investment markets. Stoking this interest further is its base of potential consumers, over 200 million strong. India's commitment to a market-driven economy indicates a spurt of 30% in corporate returns.

At Essar, a $2 billion-asset company with quality professional management, we see ourselves as major contributors to, and beneficiaries of, this ideal scenario. We've already achieved business leadership in steel, shipping, oil & gas, power, finance. And a position among the world's largest groups. As we explore further, our clients and affiliates are discovering that in India, we test positive.

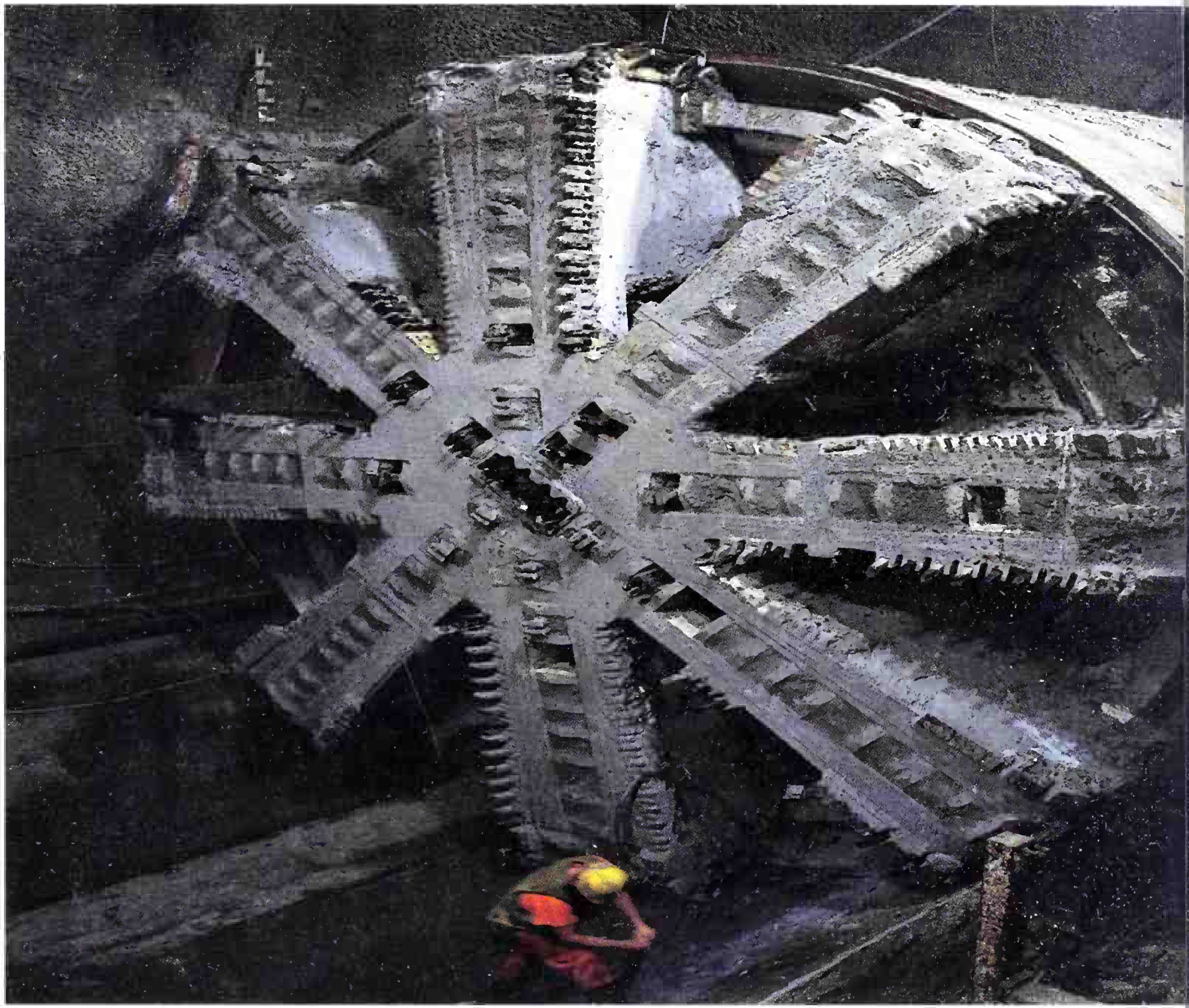
STEEL•SHIPPING•OIL & GAS•POWER•FINANCE•TURNKEY PROJECTS•TRADING



ESSAR
INDIA

Clarion

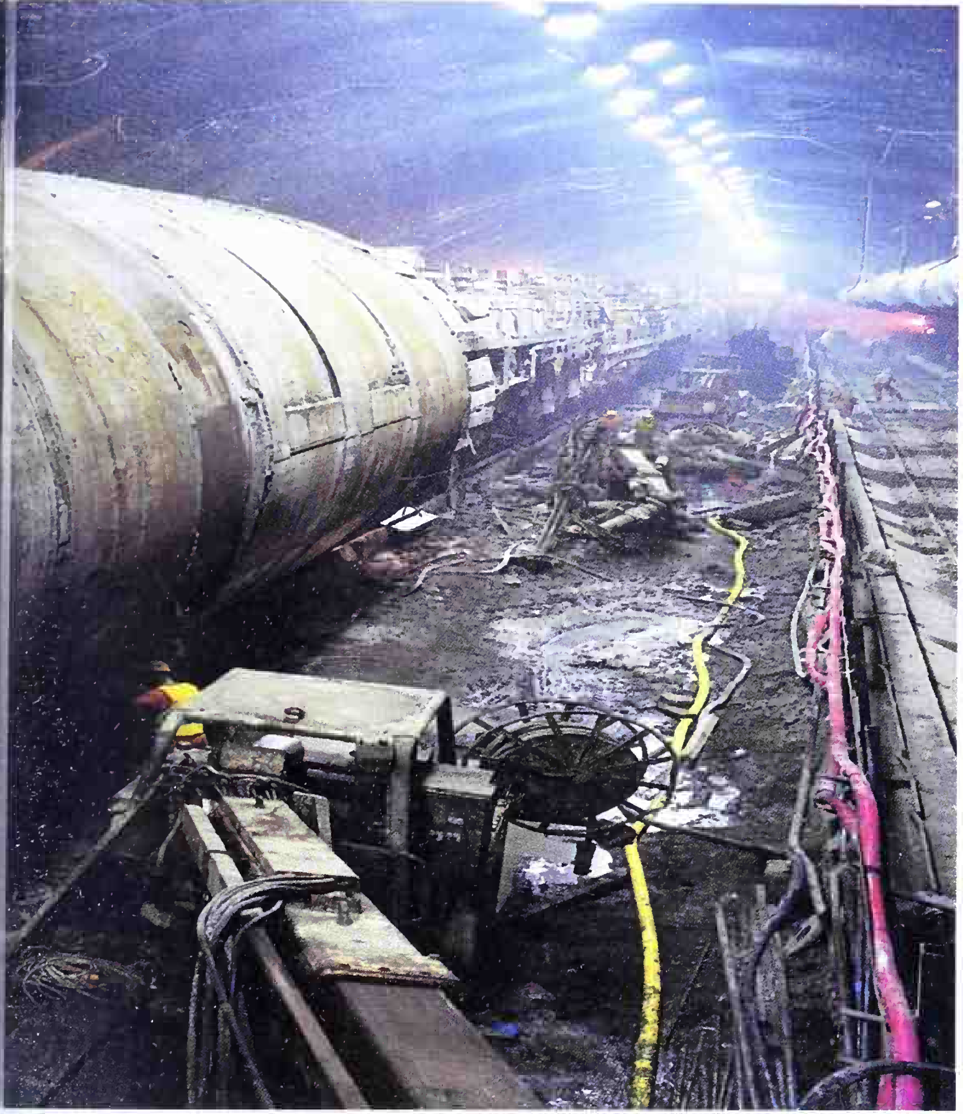
Fax business enquiries to Bombay 91-22-493-2695, London 44-71-839-3542, New York 1-212-758-5860.



The Chunnel Cutterhead— Able to chew through 15 feet of granite an hour, this tungsten-studded, laser-guided earth eater turned a 1,000-year dream into reality and conn

Introducing Novell GroupWare. If not for the British and French, it would've been the year's greatest networking achievement.

©1994 Novell, Inc. Novell GroupWare, GroupWise and InForms are trademarks of Novell, Inc. SoftSolutions is a registered trademark of SoftSolutions Technology Corporation, a wholly owned subsidiary of Novell, In



t of Europe to the isle of Great Britain. Not bad, but can it get eight people in the same room at the same time for a meeting?

For the longest time, we've all heard that it's better to work smarter, not harder—a welcome maxim for anyone who's ever put in a three-digit-hour workweek. Now, for the first time, someone is about to tell you how. Announcing Novell GroupWare™—GroupWise™4.1, InForms™and SoftSolutions™—revolutionary software designed to help teams access, sort, manage, share and route information using almost any platform, network or database. Effectively eliminating the problems of business that get in the way of doing business. Granted, we're not the first to promise you greater productivity through greater access to information. We are, however, the first to make that access available to companies regardless of their requirements. Their size. Even their multiple operating systems. In short, what we've developed is a modular, customizable family of network applications that are easily installed and configured, support mobile computing, offer improved functionality and, best of all, take advantage of data, hardware and networks you already have in place. No small feat, even in light of that recently opened route between Dover and Calais. Call **1-800-291-9375** for your nearest certified reseller or to learn more about Novell GroupWare, the perfect way to put people together with information.

NOVELL
GroupWare

GroupWise 4.1—Comprehensive integrated e-mail, calendaring, scheduling and task management. GroupWise 4.1 enables you to share information across almost any platform, gateway or network.

InForms—More than an electronic forms program. Now you can create and design forms and views, access multiple databases in real time and, via e-mail, digitally sign forms requiring immediate approval.

SoftSolutions—The leader in document management solutions. You can secure information and access data (text, graphic or video) anywhere on the network, regardless of its application or platform.

GroupWise
InForms
SoftSolutions

Letter From Napa Valley

BUMPER CROP: *Declining prices and lower consumption have hurt, too*

THE BUG THAT'S EATING WINE COUNTRY

Pilot Harold Morrison levels our Cessna 172 Skyhawk off at 1,300 feet and points it north. It's midday, and the fog is burning off. The morning fog acts as a kind of natural air conditioning and helps make the narrow, 40-mile-long gap in the Mayacamas Mountains below us America's premier wine-grape region. From the air, Napa Valley is a crazy quilt of fields, scattered small towns, and the occasional estate. South of us, copper-colored salt ponds at the foot of San Pablo Bay reflect the sun. Ahead looms the craggy face of Stag's Leap. Vines seem to cover every plantable inch of terrain, 35,000 acres of grapes in all.

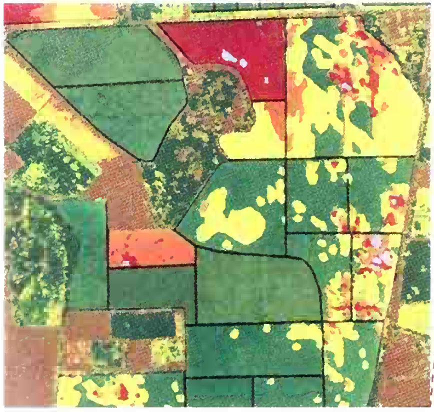
It's a stunning view, but in the seat behind me, Andy Bledsoe, vineyard manager of Robert Mondavi Winery, is most concerned with the scene just below. Over the drone of the engine, he calls: "There it is–there. See the holes?"

DEVASTATION ROW. The "holes" are dirt patches which, in an otherwise lush vineyard, look like the knees of old corduroys with cracked and worn-down wales. The vines planted in those holes have shriveled, because, several feet below ground, a bug known as *Phylloxera vastatrix* (Latin for "devastating louse") is chomping on their roots. The lice damage the vine's ability to transport water and nutrients, and, while no threat to the grapes' wholesomeness or taste, will kill the vines within a few years.

Bledsoe has been combating this pest for six years, ever since phylloxera appeared in a Mondavi vineyard. He has walked the fields and gone up in small planes countless times to eyeball the growing damage. But lately, the most helpful perspective has come in a stack of computer-generated digital images of the scene below us. Those images are the fruit of a
project Mondavi has co-sponsored wi
NASA and the University of Californ
at Davis. Called grapevine remote-sen
ing analysis of phylloxera early stre
(GRAPES), the scheme relies on sophist
cated remote-sensing equipment and s
called geographic information softwa
from the space program. The goal:
rationalize what until now has been
battle grape growers have waged larg
ly on instinct and hunches–and not a
ways well.

NAPA VALLEY
CALIFORNIA
SAN FRANCISCO

AIRBORNE SENSORS HELP CHART THE SPREAD OF DAMAGE



DAMAGED AREAS
⬜ Since 1989
🟥 Since 1991
🟧 Since 1992
🟨 Since 1993
🟩 Undamaged Area

This is not the first time phylloxe
has reared its minuscule but migh
head: In the last century, it was respo
sible for vast losses in vineyards worl
wide. In Napa alone, all but 3,000
20,000 acres were destroyed. Son
winemaking families just gave up ar
walked off the land.

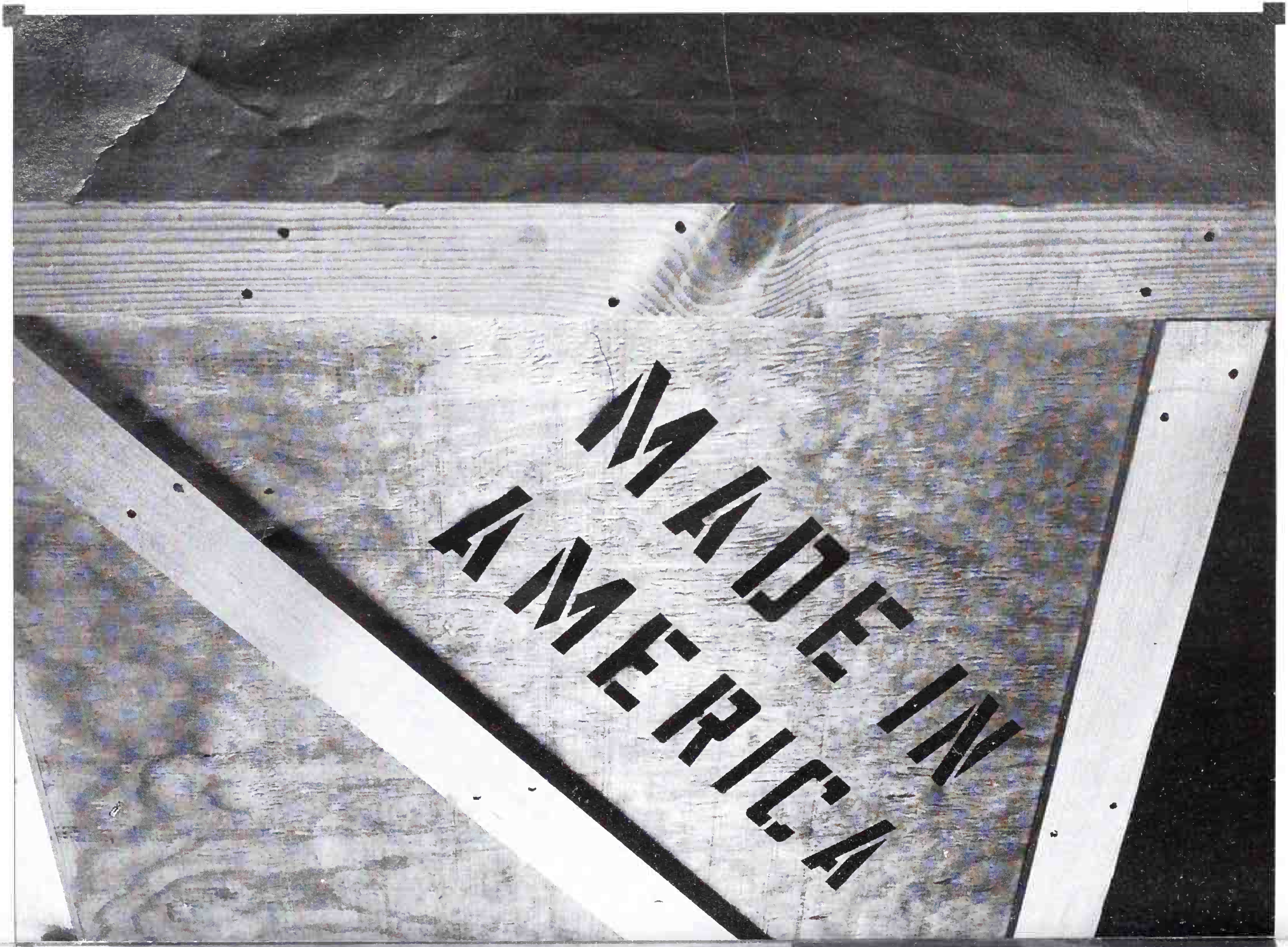
SICK PATCHES. Grape growers eventua
ly recovered by replanting with roo
stocks that resisted the strain of phy
loxera then prevalent. Californ
winemakers embraced a stock calle
AXR No. 1. The Europeans, howev
were afraid phylloxera might mutat
so they used a number of different roo
stocks. Sure enough, by the mid-1980
Napa vineyards started showing sic
patches: Leaves turned burnt and dr
shoots were stunted, and fruit withere
in mid-season. At first, some grower
wouldn't even mention the pest b
name, hoping it was something els
something curabl

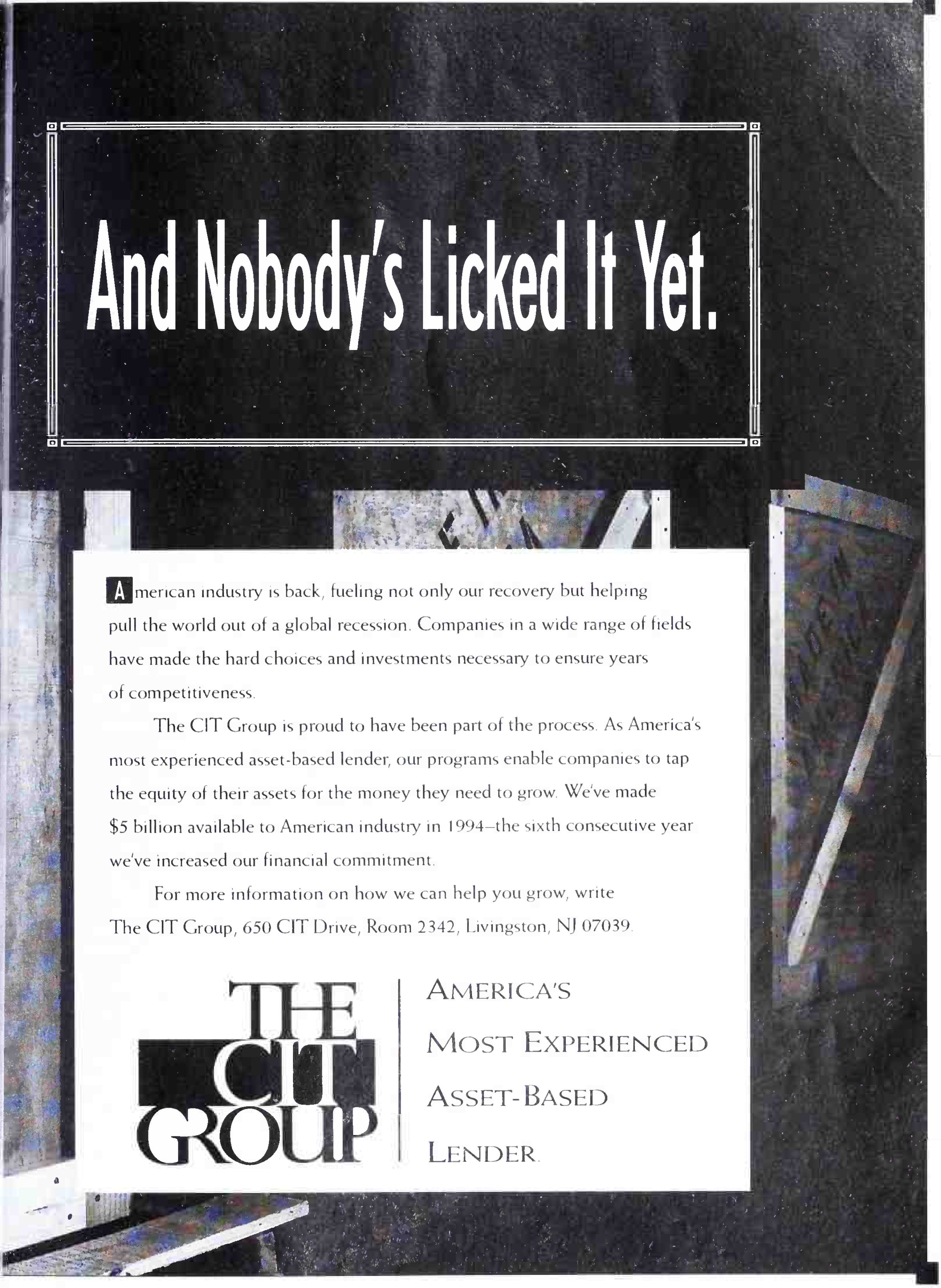
No wonder. At th
time, roughly 70%
Napa's vineyard
were planted in AX
No. 1, which turne
out to be highly su
ceptible to the ne
strain. There is n
effective treatmen
because the bug live
so far beneath th
surface and reproduces so fast (in
deed, even asexually). Dumping
enough chemicals to wipe out phyllo
era would likely poison the soil fo
years to come, not to mention th
groundwater. The only answer is to re
plant with one of the 10 or so rootstock
that resist phylloxera better, at a cost
$10,000 to $40,000 per acre.

Napa grower
have already spen
about $90 millio
pulling out and re
planting 6,000 acre
according to Mik
Fisher of Napa

PHOTOGRAPH BY [illegible] MAP PHOTOGRAPH COURTESY OF NASA MAP BY ROB DOYLE/BW

Only One Stamp Outsells Elvis.


MADE IN
AMERICA



And Nobody's Licked It Yet.

American industry is back, fueling not only our recovery but helping pull the world out of a global recession. Companies in a wide range of fields have made the hard choices and investments necessary to ensure years of competitiveness.

The CIT Group is proud to have been part of the process. As America's most experienced asset-based lender, our programs enable companies to tap the equity of their assets for the money they need to grow. We've made $5 billion available to American industry in 1994–the sixth consecutive year we've increased our financial commitment.

For more information on how we can help you grow, write The CIT Group, 650 CIT Drive, Room 2342, Livingston, NJ 07039.

THE CIT GROUP

AMERICA'S
MOST EXPERIENCED
ASSET-BASED
LENDER.

© 1994 The CIT Group, Inc

Letter From Napa Valley

Motto, Kryla & Fisher, wine-industry financial consultants. And since it takes three to five years before new vines bear fruit, it will cost growers an additional $60 million in lost crops. By the time the job is done, Fisher says, Napa Valley will have forfeited about $350 million because of the tiny louse.

WILD RABBITS. As we fly over Mondavi's vineyards near Stag's Leap, we see ugly, dusty, blank spots of fallow land–where hearty vines normally would be preparing to disgorge a rich fall harvest. Instead, a dozen farmworkers are slowly making their way down a vineyard. They are budding grafts of sauvignon blanc grapes onto new rootstock. By 1997, Mondavi will have spent about $20 million replanting its 1,400 acres in Napa. Half-gallon milk cartons dot Mondavi vineyards that have been replanted, protecting the new vines from hot sun and voracious wild rabbits.

NEW VINES AT MONDAVI: *Growers have already spent $90 million replanting*

GERRY GROPP

For a major player such as Mondavi, which had revenues of $168 million in 1993, such a setback doesn't have to be a crisis. But the bulk of replanting is still ahead for an industry that is already suffering the effects of declining consumption–and bumper crops–in recent years. Nobody wants to pull a vineyard too soon and lose a crop. But if you wait too long, you lose not only the crop but also a full growing season for new vines. And in the back of everyone's mind is the uneasy feeling that phylloxera could mutate again and go after the "resistant" new vines.

Known for its progressive, sophisticated approach to winemaking, Mondavi decided to bankroll about half the cost of the $400,000 GRAPES effort with NASA. The goal is to assess some fundamental things: Where did the current infestation start? Was a new strain of phylloxera introduced by new rootstocks or farming techniques, or did the old strains mutate? Can infected vines be identified before they're visible to the naked eye? How quickly does phylloxera spread? Finding answers to these questions should help in scheduling replanting and battling future outbreaks.

Since mid-1993, Cindy Bell, a research scientist with NASA contractor Johnson Controls Inc., and a small team have been working on the ground in Napa and with data plucked from airborne sensors. First, using special beacons that help orient satellite and scanning data, they identified a test site on Mondavi land. Then, they combed the fields, taking color-spectral measurements of the bands of light that both healthy and sick vines emit. It turns out that phylloxera infestation changes the greenness of grape leaves because it affects chlorophyll production. The team also took heat measurements. Since infect plants transport less water, it's believ their leaves are hotter.

Armed with those data, GRAPES se up a variety of high- and low-flying ai craft armed with scanners to measu canopy colors and heat. GRAPES has al used historical satellite and infrar data to try to chart the spread of dar age. It has even used ER2 planes, updated version of the U-2 spy plan which fly as high as 65,000 feet. Fro that altitude, sensors can scan the enti valley at once. One early finding: Som scientists now think that the new, A No. 1-hungry phylloxera mutated sim taneously in a couple of different "h spots" in the Napa Valley.

DRAMATIC CHANGES. Most of NASA's da analysis lies ahead and could take least another year. The agency hop this kind of technology transfer wi eventually help all kinds of farmers, n just grape growers, says Bell. Ultimat ly, "some private company could come and crunch numbers and show peop how to use this as a management tool she says. Already, NASA has produce maps that were made from digital dat from the spectral scans. If Mondavi ha had some of those images a year ag Bledsoe says he would have pulled th vines out of some plots even soone When NASA is done, all its findings wi be made public.

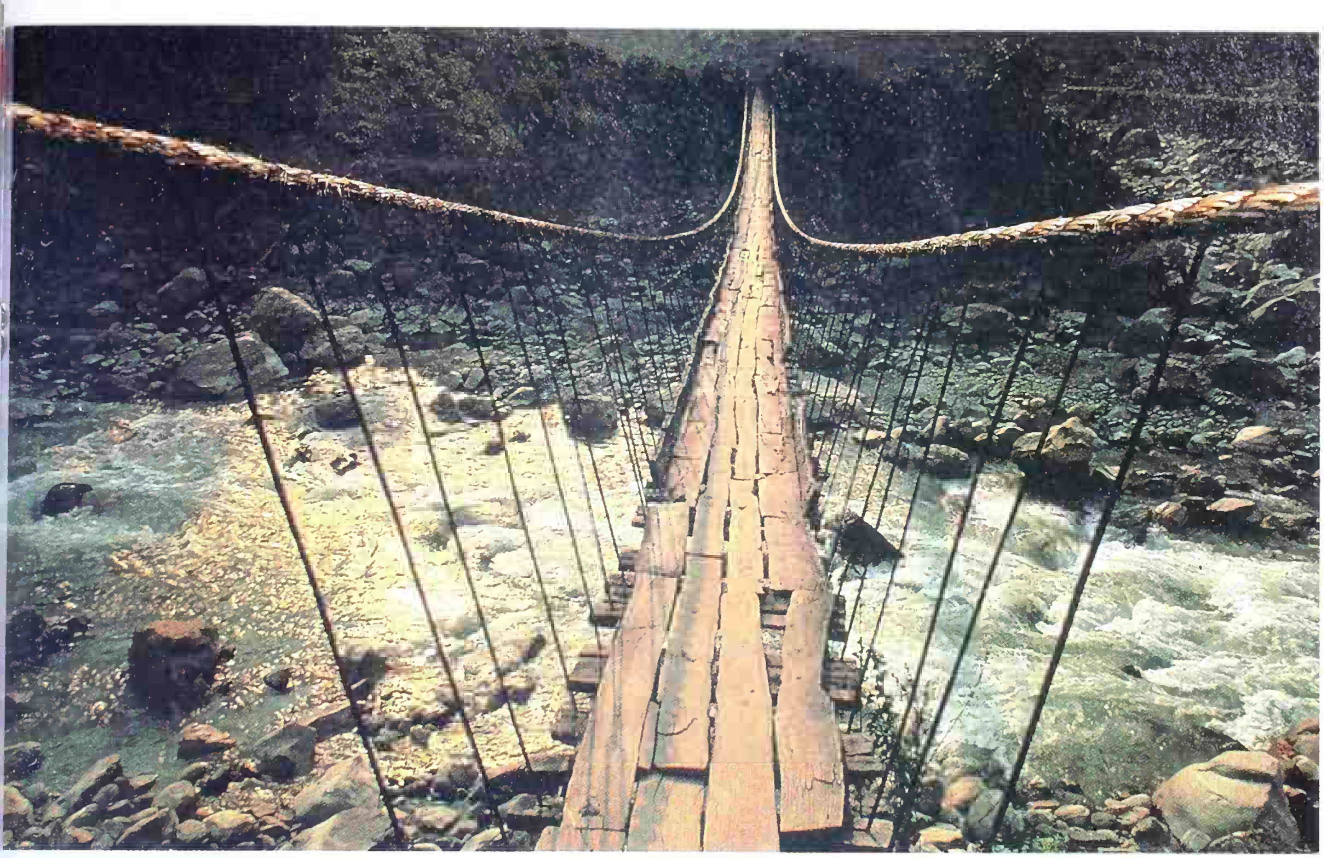
The effort to stanch the spread phylloxera could change viticulture pe manently. More sustainable technique that rely less on chemicals have bee gaining favor anyway, and the radica replanting is hastening their adoptio There have been dramatic changes i trellising: In Napa, vines historicall were allowed to create a thick, spraw ing canopy of leaves. Many vineyard now look as if they've been tidied up b a fussy librarian: The vines grow fla between two sets of wires, increasin the surface area that gets sunlight Bledsoe says it's more efficient, shoul require less spraying for molds, an even allow for machine harvesting

"After the valley's replanted, ther will be higher production than ever, Bledsoe believes. And for those wit the resources to hold on that long, som valuable new tools for the future

JOAN O'C. HAMILTO

Correspondent Hamilton is based i San Francisco.

The fight against phylloxera could change winemaking permanently–and help other farmers as well



There's a span of several months until your deal closes. The last thing you want to hear is a rope snapping.

It's taken months to negotiate your way to this point in your cross-border acquisition. Regulatory approvals will take several months more. Meanwhile, the terms you agreed on are exposed to market volatility.

You need to protect the equity value of your purchase and future funding obligations with hedging strategies that allow you to achieve certainty in an uncertain future.

So you've planned well. And you've selected a firm that won't let those plans fall through.

A team of specialists who actively trade in cash and derivative markets throughout the world. And whose knowledge of structuring techniques and the regulatory environment assures you of solutions that are matched precisely to your risk exposures.

They can design a program that mitigates the risk of rising interest rates by hedging the cost of future financings. Or manage your foreign currency exposure by locking in favorable exchange rates.

They can help you stabilize anticipated cash flows by structuring commodity price hedges. Even shield you against the devaluation of assets in merged pension funds.

A dynamic strategy that can flex with changing events. And deliver you intact to your goal.

MORGAN STANLEY

Bombay Chicago Frankfurt Hong Kong London Los Angeles Luxembourg Madrid Melbourne Milan Moscow New York Paris San Francisco Seoul Shanghai Singapore Taipei Tokyo Toronto Zurich

Introducing the luxury sedan built for people whose heads are in the ozone.

We want to clear the air. By eliminating asbestos. And CFCs. By building one of the world's finest luxury sedans in a state-of-the-art, environmentally sound factory. The new Mazda Millenia even offers (admittedly for a bit more) an incredible engine that increases power while decreasing pollution and fuel consumption.*

For more immediate gratification, the Millenia offers a complete host of luxury amenities, plus our 36-month/50,000-mile warranty and 24-hour Emergency Roadside Assistance.**

For a free brochure, call 1-800-639-1000. And starting at just $26,000, even the price will be a breath of fresh air.†

millenia

mazda
IT JUST FEELS RIGHT.

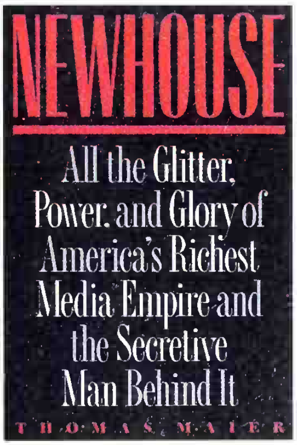
*EPA estimated 28 mpg highway/2[illegible] mpg city. **See dealer for details on limited warranty and Roadside Assistance program. †[illegible],995 M.S.R.P. for Millenia with [illegible] trim. $31,995 M.S.R.P. for Millenia [illegible] shown. Taxes, license, freight, options, dealer charges extra. Actual prices set by dealer. © 1994 Mazda Motor of America, Inc.

EWHOUSE
the Glitter, Power, and Glory of America's Richest Media Empire and the Secretive Man Behind It
Thomas Maier
. Martin's Press • 446pp • $24.95

SHOUTS AND MURMURS ABOUT SI

Was *Vanity Fair*'s decision to put a nude, very pregnant Demi Moore on its cover "an enor- ously positive pushing of the envelope," ; former Editor Tina Brown asserts? r was Si Newhouse's magazine practic- g a kind of high-brow striptease–com- ercially effective but editorially cheap?

Thomas Maier clearly believes the lat- r, which is ironic, because the run-on ubtitle of his new biogra- hy reads very much like a *anity Fair* teaser. How ould any self-respecting edia junkie resist a book alled *Newhouse: All the litter, Power, and Glory f America's Richest Media Empire and the ecretive Man Behind It*? espite the slick New- ouse-style packaging, hough, Maier's title accu- ately captures the trengths and weaknesses f this ambitious portrait.


NEWHOUSE
All the Glitter, Power, and Glory of America's Richest Media Empire and the Secretive Man Behind It
THOMAS MAIER

Maier, an investigative nd business reporter for *New York Newsday*, offers a tantalizing glimpse nto Newhouse's sprawling empire, which ncludes such blue-chip bastions as Ran- dom House, Condé Nast Publications, nd *The New Yorker*. Glitter, power, and glory blanket these places like so much tardust. And Maier relishes the grand chemes and petty plots that course hrough them. His account of the forced etirement of *New Yorker* Editor Wil- iam Shawn is particularly engrossing.

Maier is less successful in probing the nan behind the curtain. S. I. Newhouse Jr., chairman of the company and cur- rent patriarch of the clan, is as secretive as advertised. He declined to cooperate with the author, as did most of his fam- ly, friends, and employees. The perspi- cacious Brown, who now edits *The New Yorker*, is an exception, but even she sticks to bromides when describing her boss: "He's a very modest man," she reports, "but I think he's having the time of his life."

Fine. But there must be more to a congenitally shy person who turned himself into one of the world's foremost media tycoons. Maier shows that Newhouse has helped shape many trends in the communications industry: the use of consumer research to design publications, the eroding line between editorial and advertising, and the growing focus on celebrity gossip in the mainstream media. Yet his portrait of the 67-year-old mogul is frustratingly vague.

Maier acknowledges as much early on. "Si Newhouse remains a refractive personality," he writes, "reflecting many different insights with no certainty of what is inside." First, there was the vulnerable young man who languished in the shadow of his father, S. I. Newhouse Sr., the 5-foot 2-inch giant who bought the *Staten Island Advance* in 1922 and built the nation's largest privately held newspaper chain. Si, by contrast, dropped out of Syracuse University and plodded through an unhappy first marriage before starting what his father expected would be an undistinguished career in the family business.

Later, of course, Si surprised everybody by growing into the daring businessman who bagged *The New Yorker* and Random House. Those moves in the 1980s completed the metamorphosis his father had begun in 1959 by purchasing Condé Nast, the first attempt to add a patina of class to the family's profitable but pedestrian collection of papers. Even after proving his business acumen, however, Si comes across as capricious and clumsy–most notably by firing a string of editors in shockingly ungracious ways.

Wisely, Maier doesn't let Newhouse's idiosyncrasies overshadow his triumphs. He demonstrates how Newhouse cultivates talent, offering in the bargain a nifty thumbnail sketch of Alexander Liberman, the legendary art director he set loose to create a distinctive look and editorial style for Condé Nast's magazines.

In the end, though, Maier deems Newhouse's secretiveness to be more than an irritation: He sees it as evidence of Newhouse's refusal to be held accountable. And in Maier's view, that makes him unfit for the responsibilities that come with being a media mogul. He says Newhouse is content to own a string of mediocre papers, so long as they generate cash to finance his upscale magazines. Such a practice, he argues, leads to a society of information haves and have-nots: Affluent readers get high-quality publications, and everybody else gets dross.

More specifically, Maier revisits the widely reported allegations that Newhouse secretly killed the sole competitor to his *Cleveland Plain Dealer*. The *Akron Beacon Journal* reported that in 1982 Newhouse paid the new owner of the rival *Cleveland Press* $22.5 million for its subscription list in return for the owner's promise to shut the *Press* down. After an investigation, the Justice Dept. decided not to bring antitrust charges. Newhouse has said the deal had nothing to do with closing the paper. Still, Maier makes a sweeping judgment: "The actions in Cleveland would forever mark Si Newhouse and his family as unworthy stewards."

Reasonable people can differ on whether media barons owe society any more account than other business people. But Si's brother, Donald, takes the Newhouse evasiveness to an almost comical level in the only official statement the family gave Maier: "I think we are accountable, in that if we are not accountable, people will not read or listen to our offerings." It's a curiously fitting epitaph for a chatty book with a deep silence at its heart.

BY MARK LANDLER

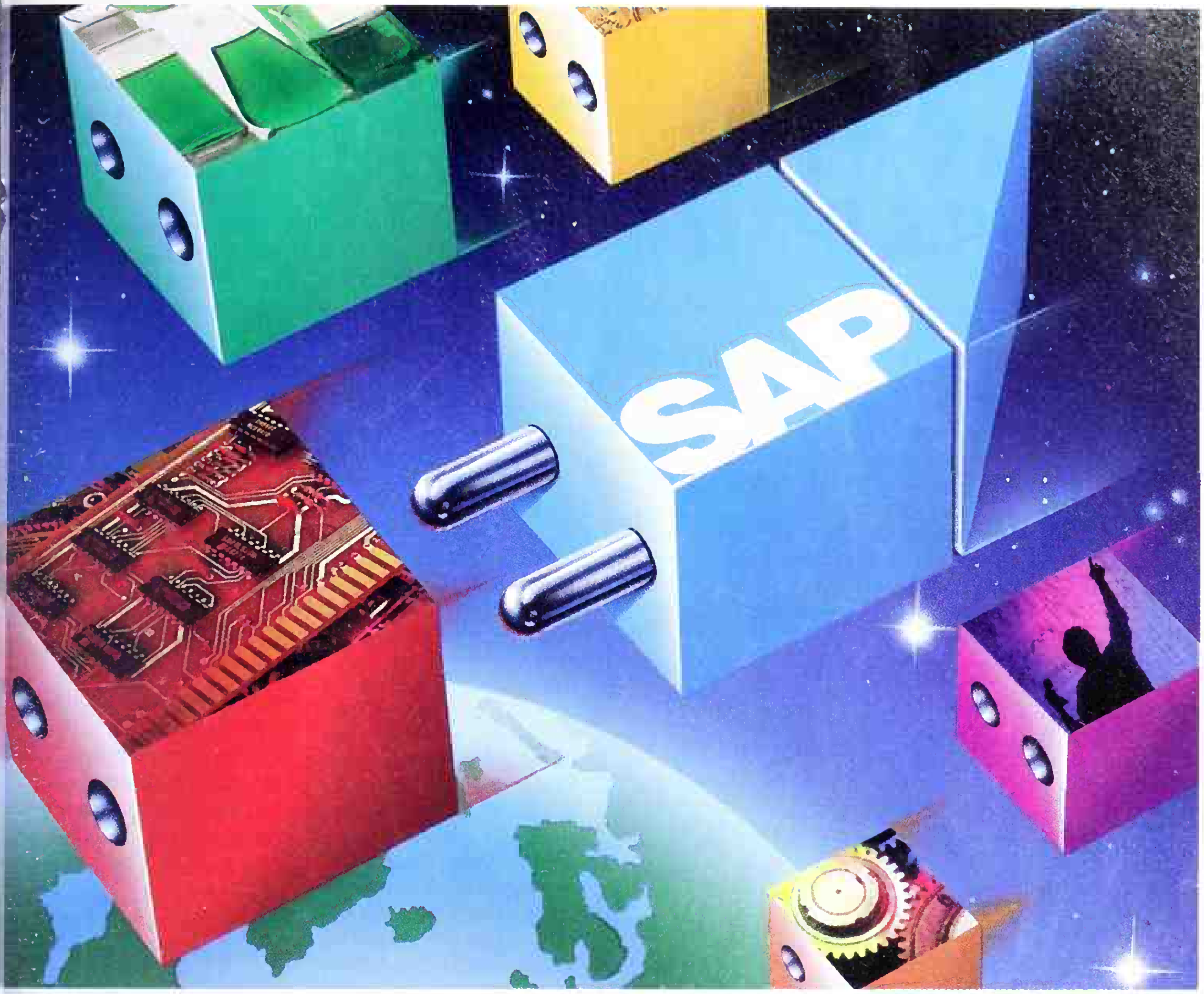
Landler is BUSINESS WEEK*'s media editor.*

MAIER SEES IN NEWHOUSE'S SILENCE A REFUSAL TO BE HELD ACCOUNTABLE

Your Express Lane On The Information Superhighway.

Turn right at R/3. Today. And SAP will help you accelerate the interconnectivity of your enterpris on a global basis. SAP is ranked number one worldwide in client/server applications.* Powered b the superior performance of R/3 — the first fully integrated client/server software. From sales t manufacturing, finance to human resources, R/3 already helps manage and streamline ke

SOFTWARE THAT RUN



business operations for over 1800 major corporations around the world. In fact, 9 of the top 10 Fortune 500 companies count on SAP to put more people in the driver's seat with greater access to the information they need, enterprise-wide. So to find out just how our integrated client/server solutions can help you speed past your competition, call SAP ASAP at ***1-800-USA-1SAP, ext. 500.***

GREAT ENTERPRISES.™

EDITED BY STEPHEN H. WILDSTROM

FINDING AN 'AGENT' TO BAG YOUR E-MAIL

For business people on the go, E-mail is the best thing to come along since frequent-flyer miles. With a laptop and remote-access software, you can stay in touch with your office and the rest of the world with less time and money wasted on phone messages and hotel faxes.

Still, until software and communications networks get smarter, E-mail isn't as useful as it ought to be. For example, finding an E-mail address can be a major challenge, and sending mail from one system to another ranges from moderately difficult to impossible.

DAY TRIPPING. On the road, it's far worse. A case in point: On a recent West Coast trip, I took Sony Corp.'s new Magic Link personal communicator instead of a conventional laptop. Magic Link is one of the more advanced communications devices around. It features easy access to the electronic world—including Internet mail and all major commercial mail systems—through General Magic's Magic Cap and Telescript software and AT&T's PersonaLink network.

Even Magic Link has its drawbacks, though. I wanted cc:Mail to forward messages to my PersonaLink. But I had to be logged in for cc:Mail to dispatch any messages, and for security reasons, our network kicks users off each night. (I would have faced the same difficulty with Microsoft Mail.) So our network administrator had to log me in each day to activate "automatic" forwarding.

The good news is that things are slowly improving for E-mail users, both at home and away. The key lies in new software that allows automated processing of messages using "rules" or "agents." You will be able to tell your mail system to forward messages from your boss to your pager, store routine office traffic for future reading, and discard mail from your ex-spouse unread. And improved directory services will help you in finding and keeping track of E-mail addresses.

MOVING TRAFFIC. A limited form of automation is available now on cc:Mail and Microsoft Mail, which dominate PC-based systems. Two products due next year—Lotus Communications Server and Microsoft Exchange Server—will give users the opportunity to set up rules that can sort and dispatch mail without your having to retrieve it first. For example, if a reorganization means that mail that used to come to you should now go to Sally in San Diego, a simple rule will redirect the traffic with no intervention on your part. But don't expect to use this improved software as soon as it hits the market: Converting a corporate mail system is a big, time-consuming job.

In the meantime, Telescript and PersonaLink provide the best glimpse of the smart networks to come. The software and the service, which are inseparable, are available today only on the Sony Magic Link. But General Magic—a partnership of Sony, AT&T, Apple Computer, Motorola, and others—plans Windows and Macintosh versions for next year.

SINCERELY YOURS. A crucial feature of the software is the address card. When you exchange mail with another PersonaLink subscriber, you get a file containing all the information the correspondent wants to share—work, home phone, and fax numbers, E-mail addresses on a variety of services, even PIN numbers for Skytel Corp. pagers. As you use the service, you build up a detailed directory. Then, when you want to send a message, you can simply click on the recipient's card and choose a method of delivery. No more having to remember or enter addresses as complicated as a5093643684@attpls.net.

The next breakthrough will come when finding E-mail addresses becomes at least as easy as finding phone numbers. You will give the command "find Steve Wildstrom at BUSINESS WEEK," and within minutes, an electronic "agent" will report back with my address. For now, you will have to look for me the hard way (but there's a hint at the bottom of the page). *S.W.*

BULLETIN BOARD

INFO HIGHWAY

A SMALL BUSINESS LUXURY

"Is there really a need for small business to be concerned about being on the Information Highway?" asks reader Arne J. Goldstein. The East Windsor (N.J.) management consultant worries that the benefits won't justify the money and time—and he's probably right. For bigger corporations, experimentation with marketing and the exchange of information on the Internet or commercial on-line services is an investment in the future (page 80). But the time required is a luxury that small companies can ill afford unless they're in high-tech businesses where access to the Internet is all but required. What every business, no matter how small, can benefit from is access to E-mail.

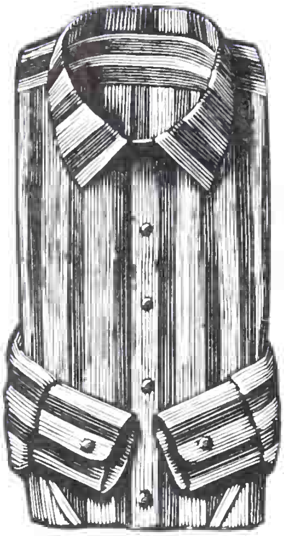
FLOPPY DISKS

COOLER CATALOGS

Many big corporations are turning to the multimedia abilities of CD-ROMS to give their product catalogs pizzazz. Most smaller companies lack the wherewithal to produce such a catalog—or 600 megabytes worth of product to fill it. Mini-Cat, from Prostar Interactive MediaWorks (604 273-4099), gives them the next best thing: The $199 software lets users easily combine text and scanned images to make a floppy-disk catalog for their customers.

QUESTIONS? COMMENTS? techandu@mgh.com on Internet or fax (202) 383-2125

©1994 J.P. Morgan & Co. Incorporated



Shirts look better after

they've been taken

to the cleaners.

On the other hand,

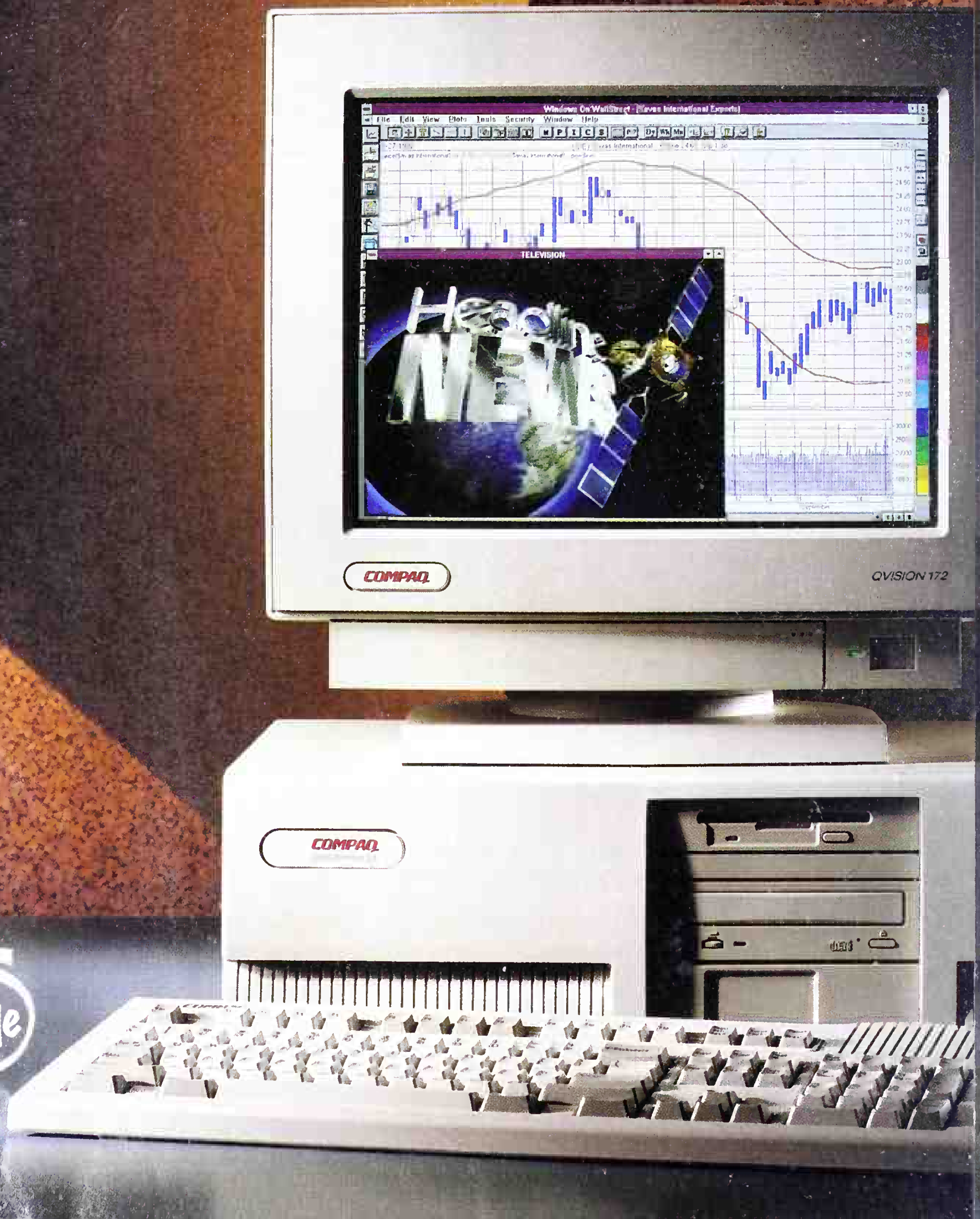
there's your portfolio

after taxes.

Every portfolio should carry a warning label: "Shrinkage may occur. Do not invest without considering latest tax ramifications." Little wonder Morgan advisors have developed a unique, new approach to managing assets for higher *after-tax* returns. It starts with Morgan's proven equity research. Then, using a proprietary technology, we pinpoint tax-efficient trades and build the portfolio that'll be most continuously profitable after taxes for you. Based on your investment goals. And your tax profile. There's nothing like custom-tailoring. If you have assets of $5 million or more, call Thomas F. Shevlin at (212) 826-7494. **Private Banking** **JPMorgan**

New York, Wilmington, Del., Chicago, Palm Beach, Los Angeles, San Francisco, Brussels, Frankfurt, London, Madrid, Milan, Nassau, Paris, Geneva, Hong Kong, Singapore, Tokyo

INTRODUCING A COMP WELL ENGINEERE ACTUALLY IMPROVES V


Windows On WallStreet - [Texas International Exports]
File Edit View Plots Tools Security Window Help
TELEVISION
Headline NEWS
COMPAQ
QVISION 172
COMPAQ

intel inside

One of the most impressive features of the Deskpro XL is its future. Its upgrade ability, expandability and flexibility (and countless other Compaq-engineered abilities) are all designed to protect your investment.

If you use a powerful computer, you know how it works: The day you bought your last machine was the day you started thinking about your next one. For that reason, we'd like to introduce you to a computer you can always look forward to – the new Compaq Deskpro XL.

Basically, we've designed the Deskpro XL to be everything you could ever want in a high-performance desktop computer. A new high at the high end. So not only did we build in our own industry-leading technologies, we added the flexibility and expandability that will make it possible for you to take advantage of advances still to come.

It's showtime. Spectacular graphics capabilities we built into the Deskpro XL, combined with the VESA Advanced Feature Connector, lay the groundwork for high-end design work and video conferencing.

Deskpro XL's powerful PCI local bus, with integrated 32-bit Fast SCSI-2 and Ethernet capabilities, lets you add the most advanced features – while its EISA slots offer compatibility with the thousands of existing options. You also get super-fast QVision PCI graphics with crisp 1280 x 1024 resolution. So with the Deskpro XL, you enjoy maximum performance today, with a door wide open for future growth.

It's fast. Oh, is it fast. And the good news is, it will only get faster. The Deskpro XL's advanced architecture makes it easy to upgrade to future processors — so you'll be able to buy more speed without buying a new computer.

Standard equipment, of course, includes the Compaq commitment to quality, dependability and value. Which comes in the form of our free three-year warranty* and our free seven-day, 24-hour support.

Our Vocalyst keyboard has a built-in speaker, microphone and controls for Business Audio — so the complete power of business communication will always be right at your fingertips.

The Deskpro XL makes upgrading a lot easier with its Plug and Play capabilities. Servicing is a snap, too – no special tools required.

The Deskpro XL starts at $2,599** and is available now at your nearest authorized Compaq reseller. If you'd like more details via fax, call us at 1-800-345-1518, select the PaqFax option and request document #4052. You'll find that the future has never looked better.

COMPAQ

© 1994 Compaq Computer Corporation. All Rights Reserved. Compaq and Deskpro Registered U.S. Patent and Trademark Office. Vocalyst is a trademark and PaqFax is a service mark of Compaq Computer Corporation. Headline News is a registered service mark of Cable News Network, Inc. Pentium and the Intel Inside logo are registered trademarks of Intel Corporation. *Certain restrictions and exclusions may apply. Monitors, battery packs and certain options are covered by a one-year warranty. Call the Compaq Customer Support Center and select the PaqFax option for more details. **Estimated selling price, actual pricing may vary.

Economic Viewpoint

BY RUDI DORNBUSCH

AMERICA'S VOICE ON FREE TRADE MUST NOT FALTER

KATHERINE LAMBERT

CONGRESS needs to send a firm message to the world by refusing to sacrifice trade liberalization to the interests of protectionists or isolationists

The vote on the most recent round of trade liberalization is in trouble in Congress. In postponing the vote until after the elections, the Democratic and Republican leadership in both houses assured President Clinton that the legislation will be approved when it is finally put to the test. But the truth is that the Democratic leadership didn't have the 60 necessary votes in the Senate, and it is highly improbable that it could deliver a lame-duck House.

This is a big deal. Trade is the backbone of the U. S. economy, and broadly speaking, this is a vote on the world trading system. If the U. S. sends the wrong signal, free trade will be derailed, and a severe trade conflict could ensue.

Speaking narrowly, the vote will be on the most recent round of the General Agreement on Tariffs & Trade, which stands for three things:

- Broadening trade liberalization to include die-hard opponents, such as the textiles and apparel industries.
- Opening of trade in hitherto closed areas, including services and intellectual property.
- Weakening the scope for unilateral action, including by the U. S., by setting up a World Trade Organization (WTO).

CALLING IT CLOSE. The Clinton Administration appears to believe that it will be able to pull off a last-minute rescue à la NAFTA and the budget. But at best, this vote will be a cliff-hanger. And Clinton's withdrawal of so-called fast-track legislation—which allows the White House to negotiate trade pacts and put them to Congress for a simple yes or no without amendments—means that if the vote occurs after Dec. 31, when fast-track expires, any trade law will be peppered with amendments. A new Congress, brimming with freshmen Republicans who have no allegiance to this bill and are quite possibly protectionist (as Republicans traditionally are), could slice the trade deal to pieces. With a lame-duck Congress and a White House that has already suffered a crushing defeat on its health-care legislative initiative, why should Clinton—or we—be confident?

The trade legislation is faced with two different challenges. The first is old-fashioned protectionism: Trade in manufacturing has reached the hard core, such as textiles. Senator Fritz Hollings (D-S. C.) represents this camp. The voters of South Carolina elect him to protect textiles from international competition—and he does it admirably well at grea expense to U. S. consumers. Here's one plac where term limits would accomplish wonder The ordinary voter should have no sympathy Every protected job in textiles costs consumers upward of $50,000 above what the worker earns.

Protection is not only very expensive, it' not even a major employment device. The Institute for International Economics, a Washington think tank, places employment losse from radical trade liberalization at 150,00 jobs—not even a month's worth of net U. S. jo creation at the current pace. The propose liberalization of textiles trade is not nearl that ambitious, taking hold gradually ove more than a decade.

COMMON GROUND. The other argumen against the legislation comes from an isolationist front. The new agreements limit U. S trade remedies such as retaliatory duties tha often are used as instruments of protectio in defiance of both the spirit and letter o world trade rules. Opponents of a WTO argu that U. S. workers would be at the mercy o the gnomes of Geneva—international WTO bureaucrats who would administer the rules Congress would surrender sovereignty, critic charge, in an uncharted and uncertain trad world where the playing field already seem tilted.

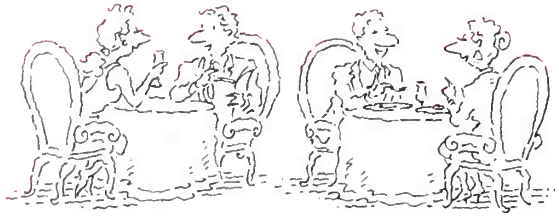
True, the U. S. would have to start abidin by common rules and independent judgment in trade conflicts. What's wrong with that The U. S. is asking other countries to do exactly that, so how can it reasonably expect to d any less? Failure to ratify the WTO will send signal that the U. S. wants to write its ow rules. Other countries will understandabl ask why they shouldn't do the same. The European Union will lean toward French protectionism rather than Chancellor Helmu Kohl's openness option.

Nearly 2 billion people in China, India, an the emerging economies and post-communis world are just now joining world trade. They want their piece of the action, and we wan them to abide by agreed rules. There coul not be a worse time for the U. S. to opt out b insisting on special treatment. The Administration has to wake up, and the business community needs to speak up. Congress mus firmly reject any attempt to delay or wate down trade liberalization.

Rudi Dornbusch is professor of economics at Massachusetts Institute of Technology

Our position, word by word.

Accommodation



Accommodation is the reasonable way for smokers and nonsmokers to work out their differences.

That is our position at Philip Morris. And it turns out that most Americans share this view.

In a recent USA TODAY/CNN poll among both smokers and nonsmokers, nearly 7 out of 10 respondents said they think that rather than banning smoking in public places, smokers should be allowed to smoke in separate, designated areas.

Philip Morris has a program that helps owners of businesses, such as restaurants, bars and hotels, to accommodate the choices of both smoking and nonsmoking customers by setting up designated smoking and non-smoking areas.

The program works because it respects the rights and wishes of both groups. So both get what they want.

That's accommodation.

You could also call it a win-win situation.

For a free copy of our booklet, *Smoking Issues*, which contains more information about The Accommodation Program, as well as information on other issues relating to smoking, please call us at 1-800-852-3445, Ext. 221.

PHILIP MORRIS U.S.A.

We want you to know where we stand.

Facts Matter Businesses where smoking has been banned have reported, in some cases, up to a 30% loss in sales. Some restaurants have been forced to fire employees and others have even had to close down.

© 1994 Philip Morris Inc.

FORTIS IS HERE TO PROTECT

In a rapidly changing world, you and the people you love need solid financial answers. That's the strength of Fortis — a worldwide financial services organization $100 billion strong. Built on a foundation of solid answers for over 165 years, Fortis stands for powerful choices when you need health insurance with today and tomorrow in mind. Life insurance

Fortis Financial Group
MUTUAL FUNDS / ANNUITIES

Fortis Life
LIFE INSURANCE

Securities offered through Fortis Investors, Inc., St. Paul, MN 55164, 1-800-800-2638. Other insurance contracts are issued by Fortis Benefits Insurance Company, St. Paul, MN and

EVERYONE IN YOUR CASTLE.

that can help you live a better life. Employee benefit plans that can even benefit the employer. Mutual funds carefully managed to help meet your investment objectives. And annuities to help your golden years shine brighter. Solid answers for everyone in your castle. From Fortis. A name you can trust around the world...and right in your own backyard.

fortis℠

SOLID ANSWERS FOR A CHANGING WORLD®

For more information, call your independent agent, broker or financial consultant, or call ***1-800-377-7282***.

Time Insurance
HEALTH INSURANCE

Fortis Benefits
EMPLOYEE BENEFITS

nce Company, Milwaukee, WI. In New York State, insurance products are issued and underwritten by First Fortis Life Insurance Company, Syracuse, NY. © 1994 Fortis, Inc.

Economic Trends

BY GENE KORETZ

ARE STOCK FUNDS A TICKING BOMB?

A statistical analysis says no

A specter is haunting Wall Street—the fear that a sharp slowdown in the flow of household savings into domestic equity mutual funds could touch off a market debacle. In the past three years, nearly $450 billion has flooded into equity mutual funds, much of it from consumers seeking higher returns than those offered by bank deposits.

Not to worry, says economist Zwen Goy of CS First Boston. In a surprising finding, her analysis of mutual-fund flows and stock prices in recent years turns up little evidence of the impact of fund flows on stock prices.

Looking at monthly data, for example, Goy found virtually no causal relationship between fund flows and subsequent market price changes. Only outflows via redemptions or through exchanges with other funds (mainly money market funds) show a slight tendency to lead market changes.

Similarly, Goy found that stock market fluctuations don't affect the amount of money investors send to mutual funds, though they sometimes affect outflows. More often than not, however, stock prices and outflows fluctuate independently of each other.

Annual data tell a similar story. In 1988, the Standard & Poor's 500-stock index rose 15%, while new cash to equity funds plummeted 60%. In 1990, the index fell nearly 6%, while mutual-fund sales rose 25%. And in 1991, the funds' net inflow of $44 billion was a drop in the bucket compared with the $1.3 trillion surge in the value of U. S. stocks.

"Among the many factors that influence stock market trends," sums up Goy, "mutual-fund flows by themselves seem relatively inconsequential."

WHY OIL'S PRICE MAY BUBBLE UP

Its parity with gold is lagging

Oil prices, currently around $17 to $18 per barrel, could rise to $22 or $23 next year, maintains economist Michael J. Howell of Baring Securities Ltd. The reason is a historical relationship between the prices of oil and gold.

Over the long term, notes Howell, the price of a ton of crude oil (7.33 barrels) has averaged about 40% to 50% of the price of an ounce of gold. During economic peaks, he claims, the two prices tend to converge, while oil's gold-buying power often drops to about 20% or 30% during recessionary periods.

Since a ton of oil today can only buy about a third of an ounce of gold, Howell thinks oil prices are headed higher—particularly since he doubts that gold prices are likely to decline anytime soon. All of this, he adds, is consistent with a classic commodity cycle, where precious metals prices perk up as economic activity quickens, and then the momentum shifts to soft commodities, then to base metals, and finally to oil.

"Oil is usually the last to move," says Howell, "because it tends to have the most elastic supply in the short term."

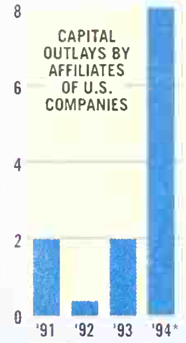
THE SPENDING BINGE IS GLOBAL

U.S. capital outlays surge abroad

As the global upturn widens, the investment spree among U. S. companies is spreading to their overseas operations. According to a recent Commerce Dept. survey, foreign affiliates of U. S. firms plan to hike their capital outlays by 8% this year to about $69 billion—the largest increase since 1990.

While Europe accounts for roughly half of such spending, its gain this year is only 4%, following an 8% decline in 1993. By contrast, outlays in Asia will rise 14% after a 15% rise last year, with such places as China, Hong Kong, and Thailand among the chief beneficiaries. U. S. affiliates in Japan plan a modest 4.3% increase.

A BIG JUMP IN SPENDING OVERSEAS



▲ PERCENT INCREASE
*PLANNED
DATA: COMMERCE DEPT.

One of the biggest catalysts in the foreign investment surge is the North American Free Trade Agreement (NAFTA). Spending in Canada is expected to rise 14% this year on top of a 14% increase in 1993. And capital expenditures by U. S. affiliates in Mexico are set to jump an eye-popping 40%.

DOWNSIDE TO THE JOBS UPTURN

Many reemployed settle for less

From the start of 1991 through th end of last year, some 4.5 millio American workers over 20 years old lo permanent jobs that they had held for least three years. Even as the U. moved into a full-fledged expansion, th job toll from structural shifts in th economy remained high.

HOW DISPLACED WORKERS HAVE BEEN FARING

4.5 MILLION PEOPLE LOST PERMANENT JOBS FROM 1991 THROUGH 1993*

BY FEBRUARY, 1994

68% Were reemployed
19% Were still looking for work
13% Had left the labor force

OF FULL-TIMERS BACK AT WORK

47% Were earning less than before
26% Were earning 0% to 19% more
27% Were earning at least 20% more

*Jobs held at least three years

DATA: BUREAU OF LABOR STATISTICS

The good news is that by February this year, more than two-thirds wer back at work. And some 73% of thos in the prime working-age span of 25 t 54 years were reemployed. Over 73% o some 1.2 million displaced manageria and professional workers had also foun jobs, as had more than three-quarters o those who lost government jobs or wh had been working in the finance, insurance, and real estate industries.

On the other hand, nearly one-fifth o displaced workers were still looking fo work, and 13% had left the labor force Further, some 47% of those back at full time jobs were making less than before and nearly a third of this group suffere pay cuts of 20% or more. And that's no counting those who became self-employed or the 9% of former full-timer who were working part time.

The picture is somewhat better tha the results of a similar survey conducted a few years ago in the wake of th 1990-91 recession. But the significant degree of downward mobility still experienced by millions of displaced worker helps explain Americans' continuing anxiety over their employment prospects.

ALBERTO MENA/BW

People told us what we could do with confusing rebates and option packages.

Here's the part we could print.

Oldsmobile
Simplified
Pricing

Asking people what they think about car shopping made us realize we need to make it a lot simpler. Starting now. By equipping every new Oldsmobile with the most popular options, standard. By taking out confusing rebates—but leaving in the savings. So our retailers can give you their best price right upfront. Without a lot of haggling. Basically, you told us to make buying a car easier, more enjoyable—maybe even fun. And considering it's your money, we think it ought to be. Demand Better.

Oldsmobile

GM *© 1994 GM Corp. All rights reserved. Buckle Up, America!*

LOONEY TUNES, all names and all related
indicia are trademarks of Warner Bros. © 1994

Another IBM Client/Server Success.

"What you need for client/server is a partner who's animated."

Warner Bros. Studio Stores are opening about as fast as a...beep beep...*Roadrunner*, and a big part of their business is original artwork, or cels, from Warner Bros. cartoons.

"No two production cels are alike, yet each one has to be available in all of our 100 stores, simultaneously," says Karine Joret, Vice President, Worldwide Marketing.

What Joret needed was a client/server system that could 1) display cels in perfect detail, 2) be easy enough for any user, 3) make it impossible for two customers to order the same cel and 4) integrate smoothly with their existing point-of-sale system.

"We also needed a vendor who really knew retailing and could do the entire job, at our speed. It was IBM."

What IBM created is an OS/2®-based multimedia system with touch-screen PC clients in stores and a server in Burbank, all tied in to a RISC-based network for point-of-sale. IBM wrote the application software and helped build facilities for digitizing images at the Warner Bros. Studios.

Karine Joret
Vice President
Worldwide Marketing

"Now," says Joret, "instead of flipping through photocopies, customers browse on a screen, and the instant a cel is bought it's pulled from the system, even as other customers browse in other stores. It's exactly what we asked for.

"As upcoming animated films, such as the *Roadrunner*'s 'Chariots of Fur,' create more demand for our products, our business grows and our needs change. IBM is always right there with us; I can't tell you how helpful that is."

It's another side to client/server IBM takes seriously: that you're the client, and we're the server. Call us and you'll see.

That's all folks.

For more information about IBM Client/Server, ask for extension "star" 802 at

1 800 IBM-3333.

IBM®

© 1994 IBM Corp

IBM and OS/2 are registered trademarks of International Business Machines Corporation.

UPS TotalTrack

It's like watching an instant replay of your package being delivered.

Okay, so you don't actually see a UPS driver handing your package to the person you sent it to. But our tracking software is the next best thing.

Just pop the disc into your computer and you can find out exactly when your package was delivered and who signed for it. If you want, we can even fax you their signature as tangible proof.

Of course, that's the kind of support service you've come to expect from UPS. We track more packages than any other package delivery company in the entire world. So we're constantly discovering more innovative ways to do it.

For details on our free tracking software, call 1-800-PICK-UPS. And get the play-by-play analysis of your package delivery. With no commercial interruptions. **The package delivery company more companies count on.**

ups

Worldwide Olympic Sponsor

©1994 United Parcel Service of America, Inc. 36 USC 380

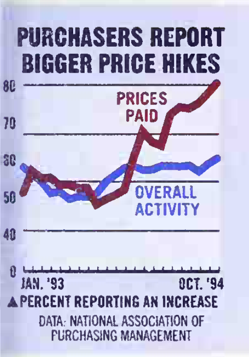
Business Outlook

Y JAMES C. COOPER & KATHLEEN MADIGAN

RAMBUNCTIOUS GROWTH—AND THE FED IS UNEASY

U.S. ECONOMY To tighten or not to tighten? Policymakers at the Federal eserve may well have felt a bit melancholy on Oct. 28 as ey pondered their next move after the release of the ird-quarter data on gross domestic product.

The rub: The economy showed more oomph last quar-er than expected, growing at an annual rate of 3.4%. hat pace far exceeds the 2.5% that the Fed believes is the conomy's noninflationary speed limit. Still, inflation itself lowed. The GDP fixed-weight deflator rose at a 2.7% annual pace, down from 2.9% in the second quarter and .1% in the first. That news delighted financial markets, ven with the report of strong growth.



PURCHASERS REPORT BIGGER PRICE HIKES

▲PERCENT REPORTING AN INCREASE

DATA: NATIONAL ASSOCIATION OF PURCHASING MANAGEMENT

But if policymakers felt any hesitation just after the GDP release, the data that came early in the following week certainly tipped the scales toward another interest-rate hike. Solid income growth and increased construction spending suggest the economy remains too rambunctious. And the nation's purchasing managers reported strong factory activity and higher prices in Octo-er (chart). Seeing all that, the markets for stocks, bonds, nd the dollar quickly turned sour again.

Moreover, the Fed's Nov. 2 survey of regional economies howed rising activity across the country. It also sounded a warning on inflation, reporting price hikes for manufacturers' materials. "Most districts report no change n retail prices, although pressure is building in some districts," said the Fed.

Given that report, the Fed is sure to raise the federal unds rate when it meets on Nov. 15. Most Fed-watchers expect a half-point hike to 5.25%, but don't rule out something more. Either way, a move will shift monetary policy from neutral to one that's outright restrictive.

The board will likely boost the discount rate as well—naybe by a full point, to 5%. Such a move would support the ailing dollar and slow the inflationary pressures from nore-expensive imported goods. It would also signal that urther increases in the funds rate are likely.

THE FED'S PROBLEM is deciding how much is enough. Higher rates take a while to affect the economy. The third-quarter GDP data showed the drag from past tightening exactly where it should first show up: Residential construction fell at a 7.2% annual rate, and nonresidential structures dropped 5.4%.

Those declines, along with a wider trade deficit, were offset by rises in consumer spending, business investment in equipment, and government. The big surprise: Inventories, which in the second quarter had grown by the largest amount in 6½ years, increased in the third quarter by the most in 10 years.

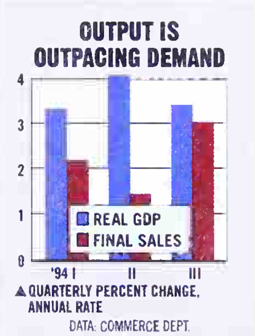
The Commerce Dept., which did not have inventory data for September, may have overestimated that month's stock levels, at least in manufacturing. Factory inventories fell 0.2% in September, instead of increasing 0.4% as Commerce had assumed.

Even so, for all three quarters of 1994, output has outstripped demand (chart). The gap between output and final sales hasn't been so wide since 1984. The big difference is that final sales were booming at a 5% annual rate a decade ago. In the third quarter of 1994, real final sales grew only 3.1%.

If past Fed hikes have already begun to muffle the economy's vibrancy, then further moves could exacerbate the slowdown in demand in 1995—just when businesses find themselves awash in inventories. If so, output, employment, and income growth will feel the pinch.

INDUSTRY was busy in October, however. The National Association of Purchasing Management's business index rose to 59.7%, up from 58.2% in September. The NAPM production index jumped to 64.2% in October, from 61.2%. Both indexes are the highest in almost seven years.

And surely to the Fed's dismay, more and more purchasers reported paying higher prices. With a reading of 79.9% in October, the price index is the highest since mid-1988.



OUTPUT IS OUTPACING DEMAND

▲QUARTERLY PERCENT CHANGE, ANNUAL RATE

DATA: COMMERCE DEPT.

That's not as scary for the inflation outlook as it sounds. The NAPM also said its members were having a hard time passing rising costs along to their customers. At the same time, the purchasers said employment sagged last month, suggesting little or no upward push on wages—still the largest cost item for most businesses.

But while manufacturers may have started the fourth quarter at a healthy pace, the construction industry probably did not. True, construction spending advanced by

ERIC HOFFMANN/BW

1.6% in September, but that followed no change in the two preceding months. And new demand is slipping: Building contracts fell 4.4% in September, says the F. W. Dodge Div. of McGraw-Hill Inc. Residential contracts dropped 7%. Without new projects, construction might have peaked back in the second quarter.

CONSUMERS may also have put their biggest spending days behind them. They are turning cautious, just as the holiday shopping season arrives (page 34).

Personal income in September rose a solid 0.6%—or 0.4% when adjusted for taxes and prices. But real spending was flat for the month. And in October, retailers' receipts dipped 0.4% below their September level, reports the *Johnson Redbook* survey of department and chain stores. This suggests consumers are not spending with the same verve as earlier in the year.

In the third quarter, consumer spending grew at a 3% annual pace—better than the second quarter's 1.3% but far from the 4.2% clip of the previous three quarters.

What will keep 1994 holiday shoppers from repeating their 1993 spree? The key difference: This year, households won't have extra cash from mortgage refinancings. Also, some face an upward adjustment in floating-rate mortgages, debt burdens have soared, and savings are low.

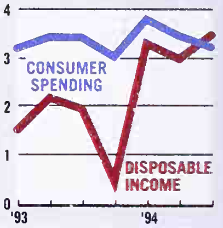
That means future spending gains will run in sync with income growth. That trend started to jell in the third quarter (chart). Heading into 1995, the Fed's rate hikes should cause growth in both income and spending to slow.

But by how much? The boldness of this year's tightening is unusual—although not unheard of: Five previous times in the postwar era, the Fed lifted interest rates by at least two percentage points in the first nine months of a tightening cycle. Excluding the superinflationary 1980-81 period, the central bank went on to hike rates further by an average of 2.6 percentage points.

For today's policymakers who are attempting to soft-land the economy, the record of such aggressive moves is not encouraging. In the past, outside forces such as oil shocks in the 1970s and Iraq's invasion of Kuwait in 1990 have scuttled their efforts. On average, the U. S. has slipped into recession about two years after the initial rate hike.

This time, the Fed's chances of pulling off a soft landing are good, given that it began tightening well before inflationary pressures started to emerge. But from here on, the Fed will have to move carefully. Not enough tightening, and inflation will take off. Too much, and the economy, like Hamlet, could meet a tragic end.

INCOME GAINS CATCH UP TO SPENDING



▲PERCENT CHANGE FROM A YEAR AGO

DATA: COMMERCE DEPT., BUSINESS WEEK

EUROPE

IN GERMANY, IT'S RECOVERY VS. THE BUNDESBANK

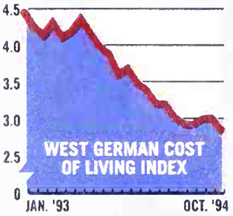
As German Chancellor Helmut Kohl prepares for his fourth term in office, the world's third-largest economy is well on its way to recovery from its worst postwar recession. But Kohl's new government may soon find itself on a collision course with the Bundesbank.

The semiannual forecast from Germany's six leading economic institutes is for 2% growth in 1994 and 2½% in 1995. Both projections are up sharply from those made six months ago. Exports and capital spending will be the driving forces, while consumer demand will remain anemic next year, held back by the solidarity tax—to pay for unification—and a cut in some transfer payments.

Weakness in factory orders and output last quarter suggests that second-half growth will not match the first half's 3%, but business surveys of expectations for future demand remain upbeat.

The institutes also expect inflation to fall to 2½% in the first half of 1995 and to 2% in the second half of the year. Annual growth in western Germany's cost-of-living index fell to a 3½-year low of 2.8% in October (chart). Further declines seem assured, given the slowdown in rent and service inflation—about half of the index.

INFLATION HITS A 3½-YEAR LOW



▲PERCENT CHANGE FROM A YEAR AGO

DATA: FEDERAL STATISTICS OFFICE, DRI/McGRAW-HILL

The problem is Kohl's weak coalition government and its expected difficulty in passing the painful legislation that is needed to wipe out Germany's ballooning public-sector deficit. Since the election, Bundesbank officials have been quick to make it clear that future monetary policy depends critically on fiscal reform.

For now, the Buba seems content with its "steady hand" policy of stable interest rates in force since July. But a new round of rate hikes seems likely next year, as inflation bottoms out and as wage demands pick up in response to the stronger-than-expected recovery. IG Metall, the huge engineering union, has already led off the 1995 wage round by demanding a 6% pay hike. And without progress on the deficit, the Bundesbank's task of managing the recovery while keeping inflation down may well clash with Germany's desire for growth.

We've Built Communications Systems From Scratch For Plenty Of Clients.

Take Australia, For Example.

Even we were impressed when Australia selected us – along with our British and Australian partners – to design and build an integrated telecommunications network for the entire continent.

The results? A network unlike any other. Satellite, cellular, local and long-distance service combined to provide millions of Australians with the most sophisticated communications technology in the world.

Why BellSouth?

Partially, it was our experience. As a leader in telecommunications, we're on five continents. Sharing our expertise in all phases of communications technology, from design and application to implementation and management. In all kinds of ventures from cellular networks to total communications systems. But it was also our ability to listen. And make the technology meet Australia's needs.

Some people think we're still a regional company. We are. It's just that now the whole world is our region. For more information, call your BellSouth representative or 1-800-726-BELL.

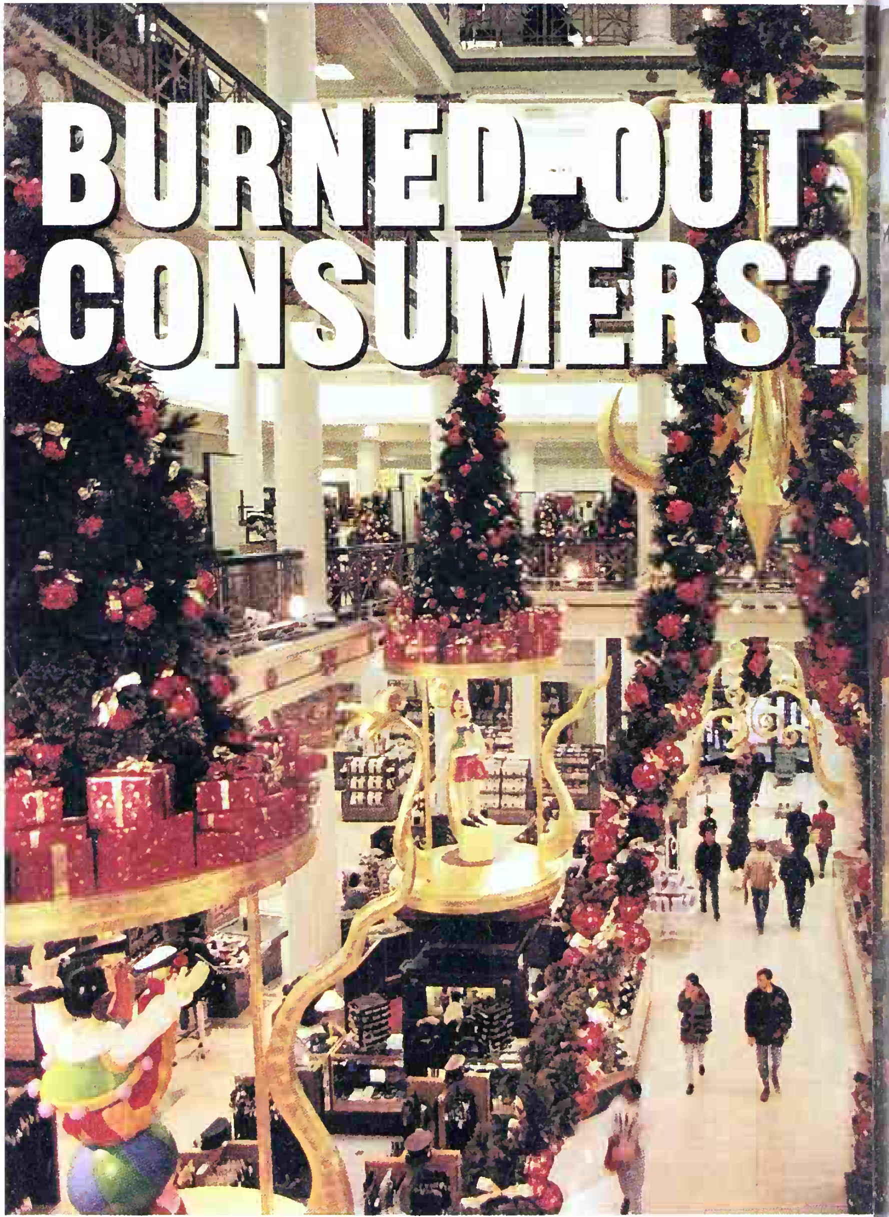
©1994 BellSouth Corporation

BELLSOUTH®

Telecommunications *Information Services* *Mobile Communications* *Advertising Services* *Everything You Expect From A Leader*®

Hopeful retailers are stocking up for Xmas. It may be wishful thinking

BURNED-OUT CONSUMERS?



MARSHALL FIELD'S: *Stores want to avoid a repeat of 1993's shortages*

Angela Fallen has been spending big this year. With a new home and a young son, Fallen, a 29-year-old senior financial analyst with the Atlanta Committee for the Olympic Games, and her husband have run up about $10,000 in credit-card bills. As Christmas approaches, though, the Fallens are slowing down. "We've made a pact," she says. "If we use the credit cards, we will only be purchasing things that can be paid [off] in two months. If not, we'll just have to do without it."

Hardly what retailers want to hear. Stores and catalog companies are bulking up—rapidly boosting inventories in anticipation of continued strong consumer demand. Retail inventories, outside of autos, have been rising at an annual rate of 13.3% over the past four months, the fastest pace in 10 years and twice last year's increase. "We've just bought a new, 153,000-square-foot warehouse to handle all the inventory we have purchased," says David Hochberg, a vice-president at mail-order retailer Lillian Vernon Corp. "We're gearing up for a robust Christmas." The warehouse push helped fuel a surprisingly strong 3.4% third-quarter growth rate in gross domestic product.

Will customers cooperate? While recent economic news has been good, there's a real possibility that the flood of goods will outstrip Americans' willingness to lay out the big bucks for gifts. Over the past six months, consumption has throttled back to a 2.1% inflation-adjusted annual rate, from 3.8% through most of 1993 and early 1994. Americans have started saving again, pushing the savings rate up from 3.6% to 4% of income. That conservatism is echoed by a 9% decline in the Conference Board's index of consumer expectations since June. "I have a feeling that retailers are too optimistic about the economy," says Rosalind Wells, senior economist at consultant Management Horizons. "There may be too much merchandise on the shelves."

Cautious consumers and big retail inventories: It's a surefire recipe for last-minute Christmas price-cutting by retailers, who in recent years have become more flexible about lowering prices to move merchandise. With auto supplies still low, economic output probably won't take a hit. More likely, stores will simply sell what they've ordered for lower prices. Despite the bond market's ever-present fears of runaway inflation, the effect may be to hold down price increases through the beginning of 1995.

Certainly, retailers looking to stock their shelves are finding that almost a
types of holiday gifts—from high-tec
geegaws to shirts and scarves—are pler
tiful and cheap. Household appliance
and women's clothing cost less than
year ago, while children's clothing, hom
electronic equipment, and toy prices hav
nudged up only slightly (table). Despit
the dollar's weakness, prices of importe
toys, games, and sporting equipment ar
down almost 1% compared with last yea
thanks to surging supply from China an
other East Asian countries.

With costs so low, retailers see
chance to make big profits—if they cor
rectly anticipate consumer demand. J.C

Whenever "a girlfriend says let's go shopping," comment

PHOTOGRAPH BY TODD BUCHANAN; CHARTS BY ALAN BASEDEN

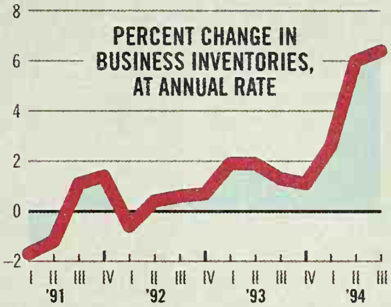
CHRISTMAS CONUNDRUM

GOODS ARE CHEAP...

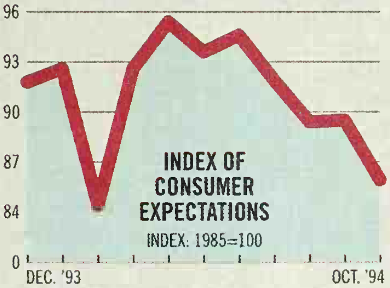
PRODUCER PRICE CHANGES FROM SEPT. 1993

WOMEN'S CLOTHING	–0.5%
HOUSEHOLD APPLIANCES	–0.5
CHILDREN'S CLOTHING	0.2
MEN'S CLOTHING	0.7
HOME ELECTRONICS	0.8
SPORTING GOODS	0.8
TOYS AND GAMES	0.9
JEWELRY	0.9

...WAREHOUSES ARE FULLER...



...BUT CONSUMERS ARE WARY



DATA: LABOR DEPT., COMMERCE DEPT., CONFERENCE BOARD

enney Co., for example, has boosted inventories across the board over last year o meet the stronger sales it expects. nd L.L. Bean Inc. plans by the end of lovember to have its inventories about 5% above levels of last year, when it uffered shortages of many items. "We've ound being in stock is even more impor-ant than we ever realized," says Leon A. orman, L.L. Bean's president.

LARGER PROBLEM." In part, merchants re forced to carry higher inventories ecause consumers are shopping later nd later in the Christmas season. At nail-order retailers especially, that neans items have to be on hand right away. "Last year our inventory levels did not meet our demand," says Allison O'Connor, vice-president for merchandising at Hanna Andersson Corp., a mail-order house. "This year we've increased inventory levels to support demand all the way through December 25."

But indications abound that spending may not meet retailers' expectations. Debt, for one, remains a burden for many families: The ratio of household borrowing to income is now 90%. That's up from 85% in 1989 and 70% in the early 1980s. Mortgage refinancings have eased the interest load, but not the principal. Notes Lawrence B. Lindsey, a governor at the Federal Reserve Board: "Things haven't gotten a lot worse for the consumer, but the larger problem still exists."

That wouldn't surprise Renée A. Gorski, who holds down two jobs in Denver as a cocktail waitress and a manicurist. Gorski recently paid off $600 in consumer debt she piled up last year. Now, even though she still carries credit cards, she pays cash. "I'm buying less," she says. "If a girlfriend says let's go shopping, I go: 'No way!'"

CHILLING JOB CUTS. For Americans still willing to take on more debt, higher interest rates leave less cash to spend. By next year, the rise in adjustable-rate mortgages will cut about $10 billion off consumer buying power, says David Lereah, chief economist of the Mortgage Bankers Assn. What's more, potential home buyers are having to cut back on spending to afford the house they want. Rising mortgage rates have "really been a disaster," says David Karnes, an attorney at a Beverly Hills law firm who is looking to buy a house. He has reduced his credit-card debt and won't be increasing the amount he spends at Christmas.

There's little doubt that the unsettled job market is still having a chilling effect on spending. Despite the glitzy 5.9% unemployment rate, over 140,000 new job cuts have been announced in the past three months in such industries as pharmaceuticals, communications, and financial services, according to outplacement firm Challenger Gray & Christmas Inc. For those unfortunate enough to find themselves out of work, of course, the impact is much more immediate. Diane Buckner, laid off in September from her job as a shipping clerk in Chicago, plans to halve her Christmas shopping this year. "My motto has become 'cash and carry,'" says Buckner. "I'll do anything possible to avoid creating a bill due."

To be sure, there's no calamity in sight. With 1.8 million net new jobs created over the last six months, Americans have more than enough income to produce a decent holiday buying season—one matching last year's, at least. But it may not be enough to justify the big inventories retailers are carrying. And that could well produce a deflationary, if not wholly merry, Christmas this year.

By Michael J. Mandel in New York, with Maria Mallory in Atlanta, Nanette Byrnes in Los Angeles, and bureau reports

> nver cocktail waitress and manicurist, "I go: 'No way.'"

PRIZED WORKFORCE: *Haitians are regarded as diligent employees*

ANDREW LICHTENSTEIN/JR PICTURES

FOREIGN POLICY

THE HARD ROAD BACK TO HAITI

U.S. companies ask for government help to jump-start factories

In mid-October, Clinton Administration officials bubbled with optimism as they briefed 100 companies on a grand plan to rebuild a devastated Haiti. But for many executives, the meeting was a downer. "They talked about infrastructure this and democracy that," fumes Andrew Postal, president of Judy Bond Inc., a New York maker of women's clothing with two Haitian plants idled by the trade embargo that followed the 1991 military coup. "There wasn't a word about what they were going to do for the private sector."

It is turning out to have been a critical omission. No one doubts the importance of the U.S.-led $550 million international aid effort for Haiti, which will focus on food and medicine, reforming the police and judiciary, and building roads and sewers. But stable, long-term private investment by foreign companies, whose plants used to dominate Haiti's export sector, is crucial to the tiny nation's survival. "They have to restore a viable export sector to be able to import machinery and other capital goods," says an official at the Inter-American Development Bank in Washington. And private investment would create jobs that won't disappear when the aid money runs out.

But U.S. businesses are wary of returning without some financial backing—and credible political pledges—from the Administration. Their skepticism is understandable. After the fall of the Duvalier dictatorship in 1986, then-Secretary of State George P. Shultz implored Postal and dozens of other U.S. executives to expand Haitian operations. Many did, and by the late 1980s, assembly plants supplying U.S. customers employed more than 80,000 Haitians. Plants supplying U.S. apparel, sporting goods, and electronics companies contributed the vast bulk of Haiti's estimated $400 million in exports in 1990. But the companies got clobbered by the 1991 international embargo. Now, they say, they need a helping hand from Uncle Sam to rebuild commercial ties.

Indeed, since President Jean-Bertrand Aristide's return, only a few companies—mostly big non-U.S. players—hav made plans to put money into Hait Club Méditerranée, for instance, plans t reopen its 750-room resort north Port-au-Prince in a month. "Initially w will open for local people, the [U.S. Army, and U.N. officials who want t spend a weekend in the resort," say Jean-Michel Landau, president of Clu Med Sales Inc. Even though the plac has been shut for six years, Club Me has paid the salaries of more than 5 employees to ensure that the resor didn't fall into disrepair.

Most U.S. companies with ties to Ha ti couldn't afford to do likewise. The tend to be small and midsize operation with scant resources. As sanctions tight ened, 90 of 132 U.S. assembly operation vanished, says Raymond Lafontant, ex ecutive director of the Haitian Industri alists Assn. Some shifted production fror Haiti to Costa Rica, Honduras, and other Caribbean countries.

Still, many companies want to go back They prize Haiti's diligent, literate work force. "We'd shift back quickly," says Jerry Kobre, president of RSK Industrie Inc. The New York-based children' sportswear maker had contracted production to four Haitian plants before th embargo, then switched to suppliers in E Salvador. "But without governmen help," he says, "we can't."

SYMPATHY. What executives want ar government loan guarantees or other po litical assurances to ease bankers' reluc tance to lend. They are also lobbying fo trade concessions and short- to medium term loans from U.S. agencies to hel jump-start shuttered plants. Haitia business leaders are praying Washington will come through. "With the privat sector so decapitalized, how can it re energize without some financial openin such as lower interest rates and longer term loans?" asks businessman Jean M Buteau, president of the Port-au-Prince based Center for Free Enterprise an Democracy.

Some Administration officials are sympathetic. But there are political and practical hurdles. The Clintonites fear labo will accuse them of helping to expor American jobs. And rising protectionis sentiment makes trade concessions fo Haiti a tough sell. Of course, such obstacles can probably be overcome. But no without the political will the Adminis tration has yet to muster.

By Amy Borrus in Washington an Gail DeGeorge in Miami, with Andreu Downie in Port-au-Prince

ENDING THE HAITIAN HIATUS

What U.S. companies want before they commit to Haiti

RISK REDUCTION U.S. government loan guarantees

GOVERNMENT MONEY Low-interest loans to jump-start idle factories

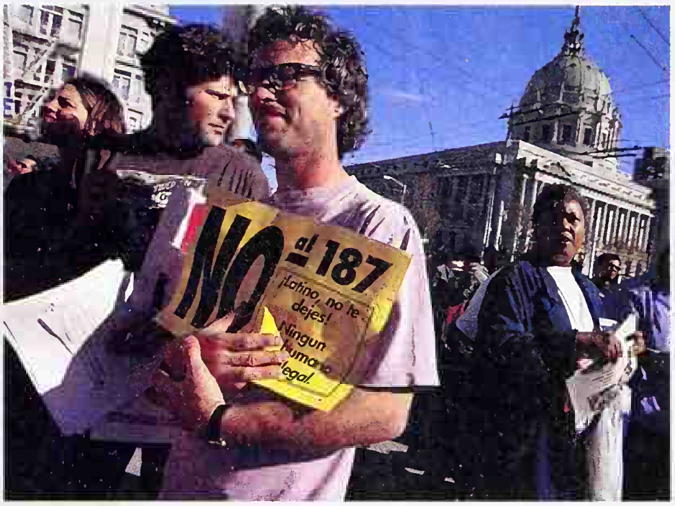
LESS U.S. PROTECTIONISM No import tariffs and quotas on Haitian goods

COMMENTARY

By Eric Schine

PROP 187 ISN'T JUST CRUEL, IT'S HYPOCRITICAL

Imagine the first day of class at any public school. Amid the normal chaos, the teacher must perform an unpleasant task required by law: scanning the room for "apparent illegal aliens," then reporting such children to immigration officials for questioning. Now, switch to a nearby hospital. A brown-skinned, brown-eyed man walks in with symptoms of tuberculosis. But rather than treat him, the doctor must report him to authorities. If he produces falsified papers, he's thrown into jail for five years.



NAYSAYERS: *Many fear a rise in gang violence and disease*

MARK LUDAK/IMPACT VISUALS

It sounds absurd. It certainly doesn't sound like America. But it could be California law on Jan. 1, 1995 if Proposition 187, the so-called Save Our State Initiative, passes on Election Day. Prop 187 has created a national furor with its draconian measures to punish illegal immigrants. Among its provisions: denial of schooling for kids who are illegal aliens, of prenatal care for pregnant women, and of all nonemergency medical care.

ELECTION '94

On its surface, Prop 187 has a simple, if cruel, logic: People who enter the U.S. illegally shouldn't be rewarded with health care and education for their kids. Proponents, including Governor Pete Wilson and Republican senatorial candidate Michael Huffington, say illegal immigrants cost the state $3 billion a year. Critics insist that number is inflated by as much as 50%, but there's no denying the price is steep.

FLAWED ARGUMENT. So what's the problem with Prop 187? For starters, it's hypocritical. It would deny basic services to illegal immigrants who paid some $732 million in state taxes in 1992 alone, according to a recently released Urban Institute study. But it would do nothing to deprive employers of those workers' low-wage services. In fact, federal law already provides penalties for employers who knowingly hire illegal workers. But the laws have gone largely unenforced.

Similarly, the argument that illegal immigrants drain vast resources ignores their hard work at menial jobs. Many seasonal workers in California's $20 billion agriculture industry are illegal aliens. "Without them, we'd be sunk," says Harry Kubo, president of the Nisei Farmers League. That's something Pete Wilson has appreciated in the past. As a U.S. senator, Wilson in the mid-1980s backed federal immigration reform granting amnesty to more than two million illegal immigrants nationwide.

Beyond that, Prop 187 could strain trade with Mexico. That's a key reason a few companies, such as Hewlett-Packard Co., now are speaking out against it. "We felt it would be hypocritical not to oppose Prop 187 given our leadership position on NAFTA," says Gary Fazzino, HP's manager of state government affairs. "The real way to stem the tide of illegal immigrants is to strengthen the Mexican economy." In San Diego County, business leaders are already worried about recent attempts in Mexico to boycott the local $2.8 billion border trade.

If that weren't enough, Prop 187 is probably unconstitutional and threatens to cut off up to $15 billion in federal funding for health and education. "You simply cannot, under our Constitution, try to define the eligibility of a person for social services based on a suspicion about a name, looks, or an accent," says Lawrence H. Fuchs, vice-chairman of the U.S. Commission on Immigration.

Good thing, too. Teachers and parents worry that throwing an estimated 300,000 children out of school would just lead to more gang violence. And, according to a recent joint study by the University of Southern California and the University of California at Los Angeles, Prop 187 could hasten the spread of communicable diseases.

Fallout from Prop 187 is starting to sink in among voters. The measure's popularity is waning (chart), and even leading conservatives such as William J. Bennett and Jack Kemp have denounced it. Still, Prop 187 is expected to pass. One reason: the unshakable assumption by supporters that illegal immigrants come to the U.S. to freeload—in the face of evidence from study after study showing they come to work.

SCAPEGOATING ILLEGALS. In the heat of an election year, the problem of illegal immigration has been overblown. The net increase of illegal immigrants living in California has remained essentially steady over the past two decades at about 100,000 a year, "a drop in the bucket," says Hans P. Johnson, senior demographer for the California Research Bureau. That's just 0.3% of the overall state population.

Illegal immigrants are not the cause of California's woes. Instead of scapegoating them, blame the state's mess on this: the loss of 350,000 aerospace jobs since 1986—a decline of nearly 50%—and the still-weak California economy. A hypocritical new law won't change that.

LOSING STEAM

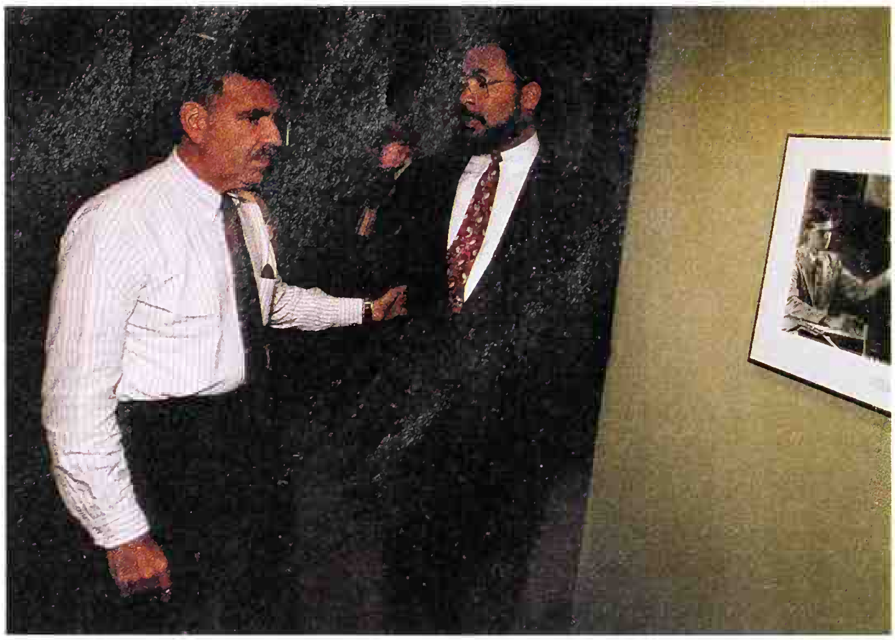
DO YOU SUPPORT PROPOSITION 187?

	JULY 13*	OCT. 30**
YES	64%	52%
NO	27%	40%
UNDECIDED	9%	8%

*609 voters polled **500 voters polled

DATA: FIELD POLL

Los Angeles Correspondent Schine follows the immigration debate.



STEPHEN FERRY/GAMMA-LIAISON

HALLWAY HUDDLE: *Levin wants Parsons to warm up Wall Street*

EXECUTIVE SUITE

WATCH YOUR BACK, MR. PARSONS

Time Warner's new president faces turmoil from the bottom up

To find the real drama at Time Warner these days, forget about the back lot at Warner Brothers. It's all happening at the company's Rockefeller Plaza headquarters in New York. Mystery, intrigue, and plot twists abound, as Time Warner Inc. careens down an ever-more-treacherous Information Highway. On Oct. 31, Chairman Gerald M. Levin added one more ingredient to this murky brew: He named an outsider, Richard D. Parsons, as president of the entertainment giant.

A lawyer with potent political connections, Parsons is best known for rescuing Dime Savings Bank of New York from the brink of insolvency. Last July, Parsons engineered a merger with rival Anchor Bancorp Inc. to form the nation's fourth-largest thrift. Impressive as that sounds, several Time Warner insiders and observers believe it scarcely prepares the 46-year-old Parsons for the rigors of his latest assignment.

UNFAIR CRITICISM? Parsons is joining a company that many observers say still functions more like a Middle Eastern souk than a coherent media conglomerate. Time Warner's six operating companies are run by headstrong chief executives who sometimes pursue agendas that seem to be at odds with the welfare of the parent company. Parson's appointment, for example, has nearly been overshadowed by a bitter showdown between the chairman of Warner Music Group, Robert J. Morgado, and his top U. S. executive, Doug Morris.

The management turmoil has gotten so bad that some insiders and outsiders are beginning to ask whether Levin has a firm grip on the company. "There's a feeling that the place needs to be run better," says one senior executive. In an interview with BUSINESS WEEK, Levin responds that Time Warner is being judged unfairly because of the static arising from necessary management changes. "The problem is a lack of focus on performance," says Levin. "I will stake this company on the performance of our businesses."

True, most of those businesses a
humming along nicely. Three of Tim
Warner's divisions—publishing, musi
and Home Box Office—posted reco
results in the third quarter. The troub
is, the company continues to sag und
the weight of cable reregulation, whic
has hurt its overall earnings. Time Wa
ner's third-quarter operating incom
rose just 3%, to $747 million, on re
enues of $4.09 billion. At 34½, its stock
trading near its 52-week low. "A numb
of people believe that with less cabl
it would be 10 points higher," says Joh
Tinker, a media analyst at Furman Se
Inc.

Tinker and other analysts conten
that Levin has to sharpen Time Wa
ner's focus—and articulate it better
to revive excitement about the med
giant. That's where Parsons comes i
In addition to overseeing the company
corporate affairs, Levin wants Parso
to act as an advocate for Time Warner
strategy on Wall Street. "Clearly, Di
Parsons adds a dimension we haven
had before," he says.

DECISION MAKER. For Levin, the a
pointment also marks a surprisin
change of heart. After maintaining th
he didn't need a No. 2, the low-key cha
man is now acknowledging he could u
help in managing Time Warner's spraw
ing empire. Levin insists he wasn
forced into this by his board. But on
director, Henry Luce III, says the boar
suggested "for quite some time that h
could benefit from some help."

People who know Parsons say he is
decisive executive with a good feel f
Time Warner's corporate culture. As
director of the company, Parsons wa
on a board committee that investigat
ed whether a Securities & Exchang
Commission investigation of Time Wa
ner's outside financial adviser, Ode
Aboodi, should disqualify him from fu
ther involvement with the compan
(The committee decided against cuttin
off Aboodi.)

Parsons also has established ties t
key division executives such as Morg
do and HBO Chairman Michael J. Fuch

WHO'S IN CHARGE? Time Warner's six operating companies are run by headstrong executives who pursue agendas that sometimes seem at odds with the welfare of the parent company

As for Time Warner's other executives: He will have no trouble convincing hem he is a good fellow," says Harold R. Tyler Jr., senior partner at Patter- on, Belknap, Webb & Tyler, a New York aw firm where Parsons was a partner efore his stint at Dime.

Other observers aren't so sure. Par- ons, they note, is not an entertainment xecutive. Many of his colleagues ex- ected him to enter politics after leaving Dime. What's more, insiders say Fuchs nd Morgado were both eyeing the pres- dent's job for themselves. "They have ix division guys who run the equiva- ent of S&P 500 companies," says one an- lyst, "and they bring in someone who wants to be governor of New York. What is this?"

Even if Parsons does win over Time Warner's warlords, some observers question whether Levin has a coherent strategy for the new president to promote. Time Warner has pursued a flurry of initiatives lately: Levin negotiated to acquire 49% of NBC, while bidding aggressively for cable operator TeleCable Corp. Rumors now have Time Warner looking at yet another cable operator, Cablevision Industries Corp.

CALMED DOWN. The NBC talks seemed to conflict with Warner Brothers' plan to start its own TV network. Insiders say Levin ran into opposition from Fuchs and Warner Chairman Robert A. Daly. Levin argues that a company Time Warner's size must move on several fronts simultaneously, adding that he would not pursue a deal that conflicted with the strategy of any division.

Just keeping the peace in these baronies is hard enough. Warner Music Group has calmed down somewhat since Morris vanquished his boss, Morgado. With Levin's backing, Morris just named his own candidate, Atlantic Records President Danny Goldberg, as chairman of Warner's flagship label, Warner Bros. Records Inc.

But observers say warfare between Warner's music executives could easily erupt again. Given Time Warner's combustible personalities and Levin's all-over-the-map strategy, it may not be the only land mine. For Parsons, it all adds up to a trial by fire.

By Mark Landler in New York

DISNEYLANDING THE VIRTUAL PRESIDENT'S JOB

SANFORD LITVACK *is performing the duties Katzenberg craved*

LARA JO REGAN/SABA

Last spring, when his company was stunned by the death of president Frank G. Wells, Michael D. Eisner insisted that the Walt Disney Co. didn't need a No. 2 man. But by late summer, even as he shut the door on studio chief Jeffrey Katzenberg, who desperately wanted the job, Eisner was quietly turning over many of the duties to a onetime Wall Street lawyer and Carter Administration official with scant experience in the ways of Hollywood.

Sanford M. Litvack, 58, has emerged as de facto second-in-command at the $8 billion entertainment giant—just three years after joining Disney. His elevation on Aug. 24 to senior executive vice-president and chief of corporate operations was lost in that day's traumatic announcement of Katzenberg's departure. But in his new job, Litvack has taken on about 90% of the old duties of Wells, who was killed in a helicopter crash in April. Last month he even took over Wells's sixth-floor office, just across the reception area from Eisner's.

Like Richard D. Parsons, Time Warner Inc.'s newly appointed president, Litvack's job is primarily administrative. He is in charge of such mundane corporate functions as legal affairs, accounting, and government relations; for the most part, he'll steer clear of film and theme-park operations. "My job is to act like a filter, to get people to come to me instead of going to Michael," says Litvack. "I deal with the corporate stuff and let Michael do the creative stuff that he's so great at."

TITLE? WHATEVER. At his board's prodding, Eisner finally appears to be delegating. Although he took control of Disney's important animation unit after Katzenberg's resignation, Eisner handed Disney Channel head John F. Cooke the responsibility of working with three Baby Bell companies to create programming for a planned video network.

As Eisner's unofficial chief of staff, Litvack will help coordinate most of the company's other business operations. A onetime assistant attorney general in the Carter Administration, Litvack joined Disney as general counsel in 1991 from the New York law firm Dewey Ballantine. One of his first acts at Disney: a rough-edged memo to the company's outside lawyers strongly suggesting that they rein in their billings. In 1993, he led efforts in Paris to restructure the finances of the troubled Euro Disneyland theme park.

Now, like Wells before him, Litvack is in charge of negotiating Disney's lucrative agreements with corporate sponsors. And last month he came to terms with six labor unions at the Walt Disney World Co. complex in Orlando. He has also been called in by Eisner to consult on special projects, such as Disney's recent, abortive flirtation with purchasing General Electric Co.'s NBC network.

With his new job, Litvack no doubt will get a raise from last year's paycheck of $850,000 plus $2 million worth of stock options. But don't expect him to push for the title of president and chief operating officer any time soon. "It's just a twist on the title I've already got," he says. That's unaccustomed humility for Hollywood—and for Disney.

By Ronald Grover in Los Angeles

LISA QUIÑONES/BLACK STAR

TRUCK LUCK: *Deregulation is expecte*
to save FedEx $70 million yearly

SHIPPING

WATCH OUT FOR FLYING PACKAGES

FedEx and UPS step up hostilities in express delivery

If it's 8:30 a.m., your United Parcel Service package could be at its destination. That's two hours ahead of Federal Express Corp.'s guaranteed delivery time. Then again, if your company ships FedEx, you can schedule, label, send, and track a package via PowerShip, a computer placed on your premises for free. That's not to be confused with UPS's MaxiShip, a similar offering.

Forget the cola wars, the burger wars, the push-'em-up bra wars. Package wars are raging, and just about every company in America—and many abroad—will feel the effects as FedEx and UPS grapple for dominance of the $18 billion-a-year express-delivery business. On Nov. 2, FedEx introduced FedEx Ship, a new PC-based system that lets its smallest customers order pickups, print shipping labels, and track delivery without ever using a telephone. "We have to create new technological capabilities so we never become a standing target," says Dennis H. Jones, FedEx's chief information officer.

LOYALTY? NAH. Returning fire, UPS is unveiling a new alliance to enable customers to book shipping orders over the Prodigy on-line service. "There's no question we track FedEx, just like they track us," says UPS marketing vice-president Joe Pyne. Indeed, since UPS entered the overnight-delivery market in 1985, it has emerged as FedEx' main rival—with 25% of domestic overnight shipments vs. FedEx' 45%.

Both companies know that price is paramount. And price-cutting has pared margins in the domestic business to just 8%, down from about 12% five years ago, says Alex. Brown & Sons Inc. analyst H. Perry Boyle Jr. Adds Morgan Keegan & Co. analyst David M. Guthrie: "They're trying desperately to differentiate something that's becoming more and more a commodity. Customers don't have any loyalty when a contract comes up."

Overseas operations should take up some of the slack. FedEx expects a profit from foreign operations in the fiscal year ended May 31, after losing $1 billion over eight years bulking up overseas. UPS also expects to post a profit overseas next year.

Still, the domestic business drives earnings. Want proof? When FedEx announced disappointing domestic re-
sults in late September for its fiscal fir
quarter, its stock dropped 22%, to $5
The stock fell even though profits ove
seas drove up overall earnings 86%,
$61.1 million, on revenues that were
11%, to $2.2 billion. "We've got to rai
our domestic operating earnings," fre
FedEx Chief Financial Officer Alan
Graf Jr. Closely held UPS's first-half d
mestic earnings jumped 23%, to $9
million, on revenues that were up 11
to $8.3 billion.

CORPORATE GRAB. The domestic do
fight requires constant attention to a
and ground forces. Aware that its a
logistics lag FedEx', UPS last month a
nounced it is investing $120 million
open sorting hubs in Dallas, Rockfor
Ill., and Columbia, S. C. FedEx, mea
while, will spend $1.8 billion over fiv
years to switch from its costly, low-c
pacity Boeing 727s to a fleet of used Ai
bus Industrie jets. Both companies wi
invest heavily in their truck fleets t
take advantage of intrastate truckin
deregulation. Analysts expect the mov
to save FedEx some $70 million a yea

The main aim of much of this spen
ing: to grab big corporate accounts th
amount to 75% of express shipping vo
ume. In recent weeks, UPS lured hom
shopping programmer QVC and compu
er mail-order company Gateway 200
from FedEx. FedEx grabbed retaile
Williams-Sonoma Inc. away from UP
Service counts for a lot, but price is us
ally decisive. For instance, Wisconsi
catalog house Lands' End in June signe
an exclusive contract with UPS becau
"there isn't an addres
that UPS won't go to, an
they were better o
price," says Phil
Schaecher, senior vic
president of operation

Little surprise, the
that most service e
hancements involv
more cost-cutting. Tak
FedEx Ship. T. Micha
Glenn, FedEx marke
ing chief, says "it n
only saves the custome
time and money, it save
us money" by cuttin
telephone traffic, th
cost of package picku
and speeding up sortin
And in the great pac
age wars, cost counts a
much as the cloc

By David Greising i
Atlanta

PACKAGE WARS

TIMELINESS

UPS is rolling out 8:30 a.m. delivery—two hours earlier than FedEx

TECHNOLOGY

FedEx is offering a new PC-based service for small customers; UPS is going on line with Prodigy

LOGISTICS

UPS is spending $120 million on three new air hubs

PRICING

A price war is slashing corporate rates

What you really want is the goose.

Once upon a time, you could set a well defined goal, direct the organization towards it and if all went well, plop!, out came the desired result.

But in this unpredictable era, what if you need to adjust the goal? What if you need two eggs? Or a dozen?

Instead of a single finite outcome, we offer an approach that will keep producing. An enterprise in which all the parts function cooperatively.

So you can shift adeptly from one goal to the next. One achievement to the next. One improvement to the next. And that's not just another theory. That's our golden rule.

ANDERSEN
CONSULTING
ARTHUR ANDERSEN & CO., S.C.

©1993 Andersen Consulting. All rights reserved

DERIVATIVES

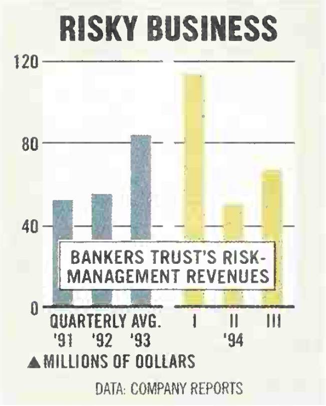
A LINGERING BLACK EYE AT BANKERS TRUST

The pain from its derivatives hit hasn't gone away

It's starting to look as if Bankers Trust Co. has a peck of trouble on its hands. On Oct. 27, Procter & Gamble Co. filed suit against the bank over losses it claims resulted from Bankers Trust derivatives—echoing a suit by Gibson Greetings Inc. in September. Now, BUSINESS WEEK has uncovered a third derivatives suit against the bank, this one by Washington financiers Steven M. Rales and Mitchell P. Rales. Meanwhile, the market for complex derivatives—Bankers Trust's specialty—is hurting, threatening a chunk of its profits.

Gibson alleges that, relying on Bankers' expertise, it was led into inappropriate derivatives—financial contracts whose value is derived from assets such as commodities or currencies. P&G contends that Bankers failed to disclose some terms of a derivative contract. "We thought we understood the terms as they were presented," says a P&G spokesman. But, he claims, the bank gave the company additional terms months later.

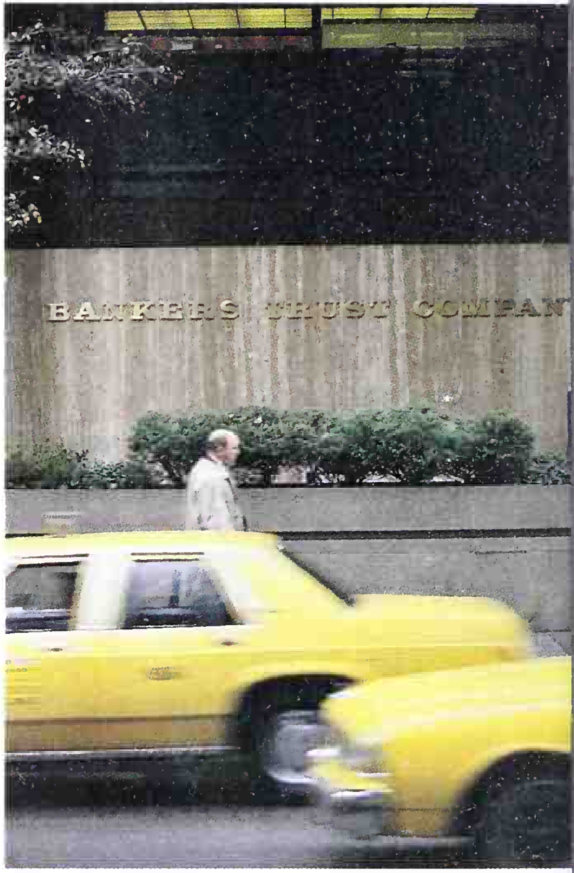
PHONE TAPES. Gibson declines to comment on its suit, and Bankers will not comment on its prospects in either one. But sources close to Bankers note that it routinely tapes all trading-floor phone conversations, and the sources claim the tapes could at least partly exonerate the bank. A P&G spokesman says the bank has told the company about the tapes but has refused to let it listen to them.



DATA: COMPANY REPORTS

Even if Bankers wins against Gibson and P&G, though, other suits keep popping up. The Rales are suing as general partners of an investment firm called Equity Group Holdings. Claiming losses of $11.2 million on emerging-markets derivatives purchased last January that were tied to Mexican bonds, the brothers sued Bankers last April alleging that the bank gave them misleading information about the terms of the derivatives contracts. A hearing is scheduled for Nov. 22 on Bankers' motion to dismiss the suit or change its venue. Bankers declined comment on the suit.

For now, the P&G and Gibson suits could be the least of Bankers Trust's problems. The bigger worry: Bad publicity may be knocking the pins out from under the highly profitable market for complex derivatives. Paul B. Spraos, publisher of the newsletter *Swaps Monitor*, estimates that activity in the market for the most complex—and lucrative—derivatives is about a third of what it was a year ago. Worse yet, regulators are stepping in: Sources at the Securities & Exchange Commission confirm that it is investigating whether Bankers violated federal securities laws when it sold derivatives to P&G. And sources at the Commodity Futures Trading Commission say that agency is considering broadening its oversight of the over-the-counter derivatives market.



HEADQUARTERS: *Complex deals may land elsewher*

Bankers denies that all this trouble is forcing it to sell many more simple, lower-margin derivatives. The bank's profits in derivatives for the first nine months of this year fell by 7.2% compared with the same period last year, to $231 million. But Bankers says its derivatives business actually improved in the third quarter. Its client risk-management income in the third quarter jumped by $17 million over the previous quarter, to $67 million, a spokesman notes, adding that "you don't produce $67 million of net income from mainly plain-vanilla transactions."

Even so, many corporate treasurers are wary. Federal Paper Board Co. i Montvale, N. J., is one. The company ha taken pretax losses of $35 million ove the past 18 months on complex deriv tive contracts with the bank. Quentin Kennedy Sr., executive vice-presider and treasurer, says Federal plans t keep dealing with Bankers, but he als says those were Federal's "first comple derivatives—and our last."

LOOKING OVERSEAS. Still, market e perts expect the slowdown in the use complex derivatives to end after a co sensus develops around the direction interest rates and currencies. And Banl ers may ride out the storm by redou bling its efforts overseas, where it a ready books most of its profits.

For now, though, Bankers' rivals clai to be gaining on it. For one, Fred-rick Chapey Jr., head of global-risk-manag ment origination at Chase Manhatta Corp., says his bank's volume of bus ness in simple and complex derivatives up more than 40% over last year. As fo Bankers Trust, some corporations fe it may be a while before they're entir ly comfortable again with the second ha of its name.

By Kelley Holland in New York wit Michael Schroeder in Washingto

PHOTOGRAPH BY ERICA LANSNER/BLACK STAR; CHART BY ERIC HOFFMANN/BW

Park Avenue's back seats don't take a back seat to most other cars' front seats.

Remember legroom? Well, Buick Park Avenue provides its back-seat drivers with nearly the same legroom, headroom, shoulder room and hip room as its own front seats. And Park Avenue's front seats sit you firmly in the lap of luxury. There is no second class seating here. To learn more, call 1-800-4A-BUICK.

BUICK®

The New Symbol For Quality
In America.

GM ©1994 GM Corp. All rights reserved.
Park Avenue is a registered trademark of GM Corp.

uckle up, America!

DEALS

TEA AND SYNERGY?

Gulping Snapple could really aid Quaker. But not right away

All year, the rumors have buffeted Quaker Oats Co.: It was seeking an acquirer to help its vulnerable Gatorade sports drink compete against new rivals from Coca-Cola Co. and PepsiCo Inc. Snapple Beverage Corp.'s shares bobbed, too, as investors speculated that the iced-tea maker couldn't fend off the soft-drink giants on its own.

The endgame: Quaker will buy Snapple for $1.7 billion cash, creating the nation's third-largest soft-drink company. The deal, at a pricey 32 times Snapple's earnings, promises a $900 million profit for Boston investor Thomas H. Lee and the funds his firm controls, which brought Snapple public and together own 47% of its stock. The big question: Can the deal work for Quaker?

Pooled resources would mean big economies of scale for Snapple and Gatorade. But the transition will cost Quaker plenty

BIG BUCKS. It can, but not right away. Quaker will pay dearly for a company whose profits dropped 74% in the third quarter, to $7.1 million. Shoring up Gatorade and Snapple, both top brands with declining market shares, probably will cost big bucks and take more time than Quaker admits. Investors are concerned: Quaker's stock dropped 10%, to 67⅛, in part because the deal scotched takeover speculation. "Quaker had to do something, but the company has a lot of work to do," says Tom Pirko of consulting firm Bevmark Inc.

Distribution will make or break the acquisition. Quaker sells most of its Gatorade in supermarkets and convenience stores, often in unrefrigerated plastic bottles. Snapple made it big with cold, single-service glass bottles through vending machines, restaurants, and independent retailers. Quaker needs to convince Snapple's 300-plus distributors to carry Gatorade to their customers. It also needs to renegotiate their exclusive-territory agreements to bring Snapple into supermarkets on grocery wholesaler trucks. "It is not an easy management task," Quaker Chief Executive William D. Smithburg concedes.

Another opportunity: overseas sales. Snapple gets just 1% of its revenues outside the U. S., while Gatorade gets about 31%. Quaker has spent heavily in Latin America and Europe, with mixed results. The combined company's bigger scale and brand clout could help attract stronger joint-venture partners. But international growth will require new capital—which could be tight after Quaker takes on $1.7 billion in new debt to finance the acquisition.

Both brands will have to spend more, too, on advertising to keep up with Coke and Pepsi. Quaker found that out this summer, when it doubled Gatorade's U. S. ad budget to $50 million and still lost at least five percentage points of market share from a year earlier. Snapple needs to beef up its meager ad budget as well to fend off the likes of Pepsi's Lipton tea and Coke's Fruitopia.

Quaker likely will win savings in manufacturing, since Gatorade and Snapple share a bottling technology. Watch for Quaker to cut the ranks of co-packers who make Snapple under contract, shifting production to company-owned plants. And look for Snapple in big, plastic bottles like Gatorade's.

To make Snapple sing, though, Quaker will have to find more capital. That's why rumors of a Quaker takeover focused on cash-rich multinationals such as Nestlé and Unilever PLC—and why Quaker says it will try to unload its Mexican chocolate operation and European pet-food unit, sales that could raise $850 million. "This deal pays off strategically. But does it pay off financially?" wonders Jean-Michel Vallette, a senior analyst at Hambrecht & Quist. It could, if Quaker can get rid of some debt and, more important, keep Coke and Pepsi at bay.

By Greg Burns in Chicago, with Laura Zinn in New York

PEOPLE

TOUGH GUYS DON'T KOWTOW

KKR wanted a firm hand at RJR. Maybe not this firm

MIKE HARPER

Kohlberg Kravis Roberts & Co., the leveraged-buyout firm that is RJR Nabisco Holdings Corp.'s biggest shareholder, knew it was getting one hardheaded hombre when it brought in Charles M. "Mike" Harper in June 1993 to run the food and tobacco giant. Now, KKR knows how toug Harper really is.

On Oct. 31, RJR announced that it wi pull out of its recent agreement to bu a minority stake in Borden Inc., th struggling food company. RJR also sai that it plans to spin off 19% of its $7 billion Nabisco Foods Group. Analysts figure that could lead to an eventual split up of RJR's food and tobacco companies **MAJOR FRET.** A spokesman says RJ pulled out of the Borden deal because o accounting differences. But many RJ investors saw it as Harper standing u to KKR. Back in September, when KK announced the $2 billion deal, RJR shareholders fretted that the agreement t buy 20% of Borden with new RJR stoc would dilute their investment.

This time, says Gregory Jackson, portfolio manager at Yacktman Asse Management Co.: "I was happy to se Mike Harper assert his chairmanshi and say, 'We will invest on our terms.' Adds James A. Miller, a managing director at Cincinnati-based Bartlett & Co.: "Maybe Harper said, 'How the hel can I let KKR put a gun to my head an make me buy 20% of this company?' "

But will a spin-off really allow th food unit's stock to shine? Many shareholders worry about potential judgements from smokers' lawsuits. "I am no convinced that the eventual spin-of really does isolate the Nabisco asset in the event that a disastrous lawsui occurs," says Robert Kleinschmidt, president of Tocqueville Asset Management Tough facade notwithstanding, the sam doubt probably is nagging at Harper.

By Laura Zinn in New Yor

(RIGHT) PHOTOGRAPH BY JAMES SCHNEPF

Our Business Is Helping Yours Find More Ways To Make More.

Right now you could be hatching new ways to increase your productivity. That's important today not just to grow, but to survive. And we can help. You see, we go beyond creative financing to help you become more productive. Like helping one company develop order entry systems to reduce order delivery time from 28 days to 4. Or helping another create distribution and warehouse management systems that improved service and optimized resources to get more out of every dollar.

At GE Capital, we're 24 diversified businesses. And each one is committed to helping you become more productive in the competitive race. To find out more, call 1-800-243-2222. After all, nobody has more ways to help you make more.

GE Capital
Our Business Is Helping Yours™

AMERICOM • AUTO FINANCIAL SERVICES • AVIATION SERVICES • COMMERCIAL EQUIPMENT FINANCING • COMMERCIAL REAL ESTATE • COMPUTER LEASING
COMPUTER SERVICES • CORPORATE FINANCE GROUP • EMPLOYERS REINSURANCE • FINANCIAL GUARANTY INSURANCE COMPANY • FLEET SERVICES • GECC HAWAII
GENSTAR CONTAINER • GLOBAL PROJECT AND STRUCTURED FINANCE • GNA • KIDDER, PEABODY • MODULAR SPACE • MORTGAGE INSURANCE • MORTGAGE SERVICES
PENSKE TRUCK LEASING • RAILCAR SERVICES • RETAILER FINANCIAL SERVICES • TIP/TRANSPORT INTERNATIONAL POOL • VENDOR FINANCIAL SERVICES

ELECTRONICS

I WANT MY BIG TV

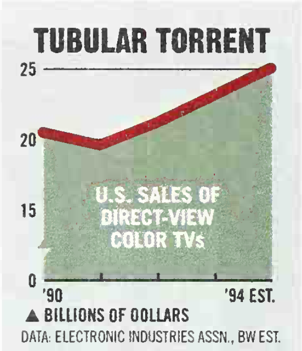
Low prices and satellite services are spurring sales

Is the Interactive Age really upon us? Maybe so, but you wouldn't know it from the boom in plain old noninteractive televisions.

TV sets are selling like mad—and the bigger they are, the better the sales. TV sets 31 inches and larger are moving at 36% ahead of last year's pace. And for the first time, high-margin sets of 25 inches and more are outselling smaller ones. Indeed, strong set sales helped Zenith Electronics Corp. to a third-quarter profit of $9.4 million, vs. a $14.5 million loss a year earlier, on sales that surged 39%, to $419 million. "We're in the midst of a record year for the industry," says Gerald M. McCarthy, Zenith's executive vice-president of sales and marketing.

Through Oct. 22, Americans bought about 750 acres' worth of TV screens—enough to pave Montana's Little Big Horn Battlefield.

Why the boom? The healthy economy is one reason. And falling set prices haven't hurt: These days, 25-inch models start below $300, 15% less than five years ago. Another factor is the advent of new, high-powered satellite TV, which provides more premium channels than cable and, except during severe storms, superior reception. Thomson Consumer Electronics says it is running flat out to meet demand for its pizza-size RCA-brand dishes and expects to make 600,000 this year. Primestar Partners LP is getting a strong reception for its 3-foot dishes. Even huge, old-fashioned C-band dishes are selling well.



DATA: ELECTRONIC INDUSTRIES ASSN., BW EST.

NOT TUNED IN. None of this comes cheap. Primestar's system is the least expensive up front—about $200 for installation—because customers rent rather than own the dishes. The RCA Digital Satellite System costs $899 for the more popular deluxe model, plus about $200 for installation. Programming fees are about the same as for premium cable packages—up to $35 a month.

Oracles of interactivity might question why people would spend so much to receive ordinary television. But that just shows how out of touch those soothsayers are, argues Horst Stipp, NBC Inc.'s director of social and development research: "People talking about new media don't spend much time watching television and can't relate to it," Stipp says. "In that sense, they are very different from the overwhelming mass of Americans."

Indeed, RCA and Primestar aren't even promoting their interactive features, such as the ability to receive data. Says Primestar CEO John Cusick: "Our principal bet is being placed on what we already know people will buy."

There's a lesson in all this. Interactivity may be on the way. But for people who like their TV straight, these are the good old days.

By Peter Coy in New York

LITIGATION

THE RUB IN RIGHTS FOR THE DISABLED

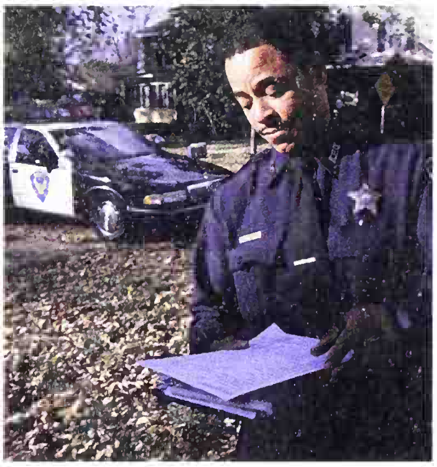
Recent rulings could send the cost of benefits sky-high

When Kevin Holmes joined the Aurora (Ill.) police force in 1985, he discovered a quirk in state law: An officer who is fit enough to chase crooks may not be fit enough to join the pension plan. Holmes's diabetes hasn't kept him from performing his duties, but the police pension board wouldn't enroll him because his condition raised the risk that he would retire early. "If my partner and I both get hurt, he gets a pension and I don't," Holmes says. "That's not fair." After nine years of patrolling the streets, Holmes is still fighting in court to join the pension fund.

He may finally win—thanks to the Americans with Disabilities Act (ADA). Four years after Congress banned discrimination against the disabled in employment and public facilities, workers such as Holmes are starting to bring cases to extend the law's provisions to employee benefits. And employers are worried about the inroads workers are making. "Where the ADA is ambiguous—and it certainly is ambiguous—every benefit plan is at risk," says Judith Mazo of Segal Co., a benefits consulting firm.

So far, only 4% of employment-related ADA complaints brought to the Equal Employment Opportunity Commission (EEOC) allege benefits discrimination. But recent court rulings could make such complaints easier to win, sending the ADA's cost to business skyward.

The problem: Such benefits often limit coverage for conditions that might be considered disabilities. More than 90% of employers limit treatment of alcoholism, drug abuse, and mental illness—caps that don't apply to physical conditions. Long-term disability plans don't pay for mental-health treatment after two years.


HOLMES: *Fit for duty, not a pension*

HIGH STAKES. In one area—limits on AIDS expenses—the EEOC has already won settlements in two cases and is pursuing five more in court. But AIDS caps are rare. The stakes would be much higher if judges rule that alcoholism or mental illness is a disability covered by the ADA—as many advocacy groups argue they should be. Eliminating such caps would cause "an immediate jump of at least 10%" in employers' health-plan costs, says Robert D. Eicher, of benefits consultant A. Foster Higgins & Co

The risk could extend even further In Holmes's case a federal judge has ruled that Illinois and the Aurora police pension board can be sued for employment discrimination, even though Holmes didn't work for them. And a Boston federal appeals court has ruled that the estate of an AIDS sufferer can sue his employer's insurance plan for limiting benefits. "It's very important for us to be able to reach these funds," says Peggy Mastroianni, the EEOC's director of ADA policy. For insurers and employers, that's a chilling prospect

By Mike McNamee in Washington

PHOTOGRAPH BY TODD BUCHANAN. CHART BY RAY VELLA/BW

In Business This Week

DITED BY KEITH H. HAMMONDS

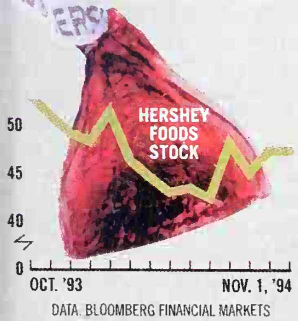
BM AND APPLE GET ERIOUS—SORT OF

PPLE COMPUTER AND IBM re likely to announce a deal ı early November—but it on't be the blockbuster ome had expected. Insiders ay the companies will reveal n agreement to develop a ommon personal computer ardware design based on the peedy PowerPC microprocesor. A common design, which nalysts say is long overdue, ould run software for both pple's Macintosh and IBM's S/2—presenting a unified ont against competing prodcts from Microsoft and Inel. Apple and IBM, however, aven't agreed on IBM licensing Apple's software for its PCs. As for earlier speculation that IBM will buy all or part of Apple? Not likely, Apple insiders say. "The more they talk," says one, "the more they argue over details."

CLOSING BELL

KISSED OFF

Hugs, the savory striped Kisses unveiled last year, haven't helped much. Neither has an 8.3% dividend hike. So how to revive Hershey Foods' lagging stock? Kenneth Wolfe, promoted to chief executive of Hershey in January, is trying a restructuring: On Nov. 1, the company said it will take a $105 million aftertax charge to trim 400 jobs over 15 months. The plan, which would meld U.S., Canadian, and Mexican operations into a single unit, aims to produce $20 million in annual savings starting in 1996. That would lift profits—which, despite a raft of new products, have stayed sluggish through the last year. Big deal, said investors, who took 50¢ off Hershey's shares on the news.



DATA. BLOOMBERG FINANCIAL MARKETS

ASTRA ADDS MUSCLE IN THE U.S.

IN THE LATEST STAGE OF ITS aggressive American expansion, Swedish drugmaker Astra on Nov. 1 agreed to pay $820 million for a 50% stake in the Merck unit that markets most of its products in the U.S. The new joint venture, Astra Merck, initially will focus on pushing Astra's blockbuster anti-ulcer drug Prilosec. But it also will get first U.S. dibs on most new products from Astra's pipeline. Over the past year, a separate Astra unit in the U.S. has hired some 350 new sales representatives to gear up for the launch of the anti-asthma drug Pulmicort.

NECK AND NECK ON THE I-WAY

MICROSOFT OR ORACLE: WHICH will control the Information Superhighway? On Nov. 2, Microsoft announced that U S West Communications will join Tele-Communications and others to use its Tiger video server in lab tests for interactive television and video-on-demand services. Hewlett-Packard and NEC, meanwhile, have agreed to make TV set-top boxes compatible with those developed by Microsoft and General Instrument. But industry sources say arch-rival Oracle already is running field tests with five telephone companies and is close to announcing two more major deals. It's also said to be negotiating a partnership with Apple to modify the Macintosh operating system for a set-top box that would challenge Microsoft's.

HEADLINER

FIELD OF PIPE DREAMS?

For co-founder Dick Moss, pitching the United Baseball League on Nov. 1 must have been like taking the mound for the nightcap of a doubleheader after blowing the first game. The lawyer and sports agent was involved five years ago in an aborted attempt to create an alternative league. Investors then, including would-be sports mogul Donald Trump, backed out.

Now, Moss must find eight backers to pony up $384,000 each, according to *USA Today*, to fund a management company that will organize the league, sell franchises, and cut TV deals. Might be a tough sell: Skeptics already are savaging the UBL as a pipe dream. Says Moss: "There's reasonable skepticism. We've got to prove our case."

Who's in so far? Fellow organizers Alan Altschuler, president of merchant banker Seaport Capital, and Howard Milstein, CEO of real estate brokers Douglas Elliman-Gibbons & Ives. Sources hint that Harlem Globetrotters owner Mannie Jackson may be interested in the UBL, which seeks minority investors. One name you won't hear mentioned: Trump.

By Carl Desens

BACK TO THE BUS FOR MIKE DOYLE

ON SECOND THOUGHT, TANDY Brands Accessories will pass. In mid-October, Tandy said it had snagged Greyhound Lines' J. Michael Doyle as its CFO, lauding his "extensive and impressive background." On Oct. 31, it announced Doyle would not come aboard after all. A source close to the bus line says Tandy pulled its offer following a *Wall Street Journal* story linking Doyle to Greyhound's many woes. Doyle, who wouldn't comment, is staying at Greyhound for now to help restructure its debt—without the CFO title.

MORTAL KOMA IN THE VIDEOGAME BIZ?

IS MINDLESS VIDEO MAYHEM passé? After a flat '93, sales of game hardware this year will drop 25%, to below 7.5 million units, according to analyst John Taylor of L. H. Alton. But the phenomenon, confirmed by retailer Toys 'R' Us, likely won't last. The current generation of 16-bit games is aging, and consumers are waiting for lower prices and more software for 32-bit systems. Already, some 32-bit games are selling, and Taylor says software sales will rise 17%, to $3.5 billion. But "it'll be 1997 before we'll see potential for significant growth," he says. We can wait.

ET CETERA . . .

- ▪ Chrysler delayed production of its crucial, all-new minivan by more than a month.
- ▪ Conseco proposed dropping its bid for Kemper to $60 a share, from $67.
- ▪ New Valley's reorganization plan, three years in the making, finally won approval.
- ▪ The price of a padded "club seat" behind Yankee Stadium's home plate: $25—up 47%.

(LEFT TO RIGHT) PHOTOGRAPHS BY RICK OSENTOSKI/ENVISION, AP WIDE WORLD; GRAPHIC BY LISA KNOUSE BRAIMAN/BW

Revolutionizing an industry happens once in a lifetime. Okay, maybe twice.

COLOR LASER COPIER 800

When the world asked for color, Canon responded with the revolutionary Color Laser Copier. Now Canon is answering today's color needs with a visionary new generation of color solutions, the Canon Color Laser Copier 800 and 700.

This new breed of copiers produces images so sharp, so vivid, they're virtually indistinguishable from the original. And Canon's new copiers are highly productive, too.

They make a swift seven full-color copies per minute on a variety of materials including card stock. Auto-feed OHP transparencies efficiently by cassette. Make multi-page documents effortlessly with the optional Recirculating Document Feeder and Sorter. And the Color Laser Copier 800 is the first color copier ever to offer *Auto Duplexing* for automatic two-sided copies.

You can also transform these new color copiers into ultrafast, full-color, plain paper printers with optional print controllers and Intelligent Processing Units (IPUs), so you can make brilliant color output directly from your computer or network.

For a free *Color Solutions Guide* that will tell you more about the new Canon Color Laser Copier 800 and 700, as well as the rest of our color copier line, call 1-800-OK-CANON. When the rest say you can't, Canon says you can.

NOW
YOU
CAN

Canon

©1994 Canon U.S.A., Inc.

DITED BY OWEN ULLMANN

ANOTHER TOUGH COP FOR THE ANTITRUST BEAT

Robert Pitofsky and Anne K. Bingaman are antitrust's odd couple. Pitofsky, President Clinton's pick to head the Federal Trade Commission, is a low-key academic nd the nation's leading New Democratic antitrust theorist. Bingaman, the Justice Dept.'s antitrust chief, is a swashbuckling, highly political, former litigator. But their talents could dovetail to produce the toughest one-two antitrust punch Corporate America has seen in years.

When Pitofsky assumes his post, probably early next year, he will energize an already hyperactive government enforcement machine. The 64-year-old Georgetown University law professor isn't talking to the press pending his Senate confirmation. But in a 1992 aw review article, he called for "tighter nforcement across the board" on mergers. And he would go after manufacturrs who set retail prices, a practice known s vertical price fixing GOP trustbusters argely ignored.

COMPROMISE. But Pitofsky also will likey leave a Clintonesque stamp on enforcement, approving mergers that would boost U.S. global competitiveness. His writings suggest he would O.K. combinaions that create troublesome levels of oncentration if they boost efficiency or spur R&D spending.

PITOFSKY: *"Tighter enforcement"?*

Even without Pitofsky, the FTC is proving a formidable nforcement power, though it often is overshadowed by Bingaman's far larger operation. Last year, the FTC brought 33 enorcement actions, the most since 1988. In October alone, it ied strings to Eli Lilly's $4 billion purchase of McKesson's PCS nit, challenged a tobacco-industry merger, and probed the ashion and auto industries.

But widely divergent views on the five-member panel have ometimes produced gridlock. For instance, the FTC was deadlocked over whether to bring antitrust charges against Microoft Corp., an action Justice later took. Pitofsky could end such stalemates. "He's uniquely able to forge a consensus with Bush appointees," says Kevin J. Arquit, a former FTC official.

Some Pitofsky associates believe that Clinton, who used Pitofsky's textbook when he taught law classes in Arkansas, might give the incoming chairman a broad portfolio. They predict he will become a one-man think tank, dispensing advice on the organization of industries ranging from defense to health care. Though Pitofsky was on the FTC during its activist Carter years, he always was a moderate, and business is not worried about his new clout. "He's one of the soundest and most experienced heads around," says Loral Corp. Chairman Bernard L. Schwartz, a member of a Pentagon task force Pitofsky chaired. That panel recently concluded that the defense industry's consolidation shouldn't be exempt from antitrust review.

VERTICAL BLIND SPOT? Pitofsky's few critics fear he'll waste time on issues such as vertical-price fixing that they believe don't harm consumers. "Bob is intelligent and sensible," says President Reagan's antitrust chief, William F. Baxter. "But he has what I perceive to be blind spots." And some analysts worry about unhealthy competition for the spotlight between Pitofsky and Bingaman. Indeed, Pitofsky headed Clinton's transition team for Justice's Antitrust Div., but Bingaman aced him out for the top job.

Not to worry, insist others, who believe Bingaman and Pitofsky will mesh well. His conciliation skills even could end messy squabbles with Justice over who gets to review high-profile mergers. With the GOP likely to make gains in Congress that could block Clinton's legislation, the President will be relying more on his regulators. That could give Pitofsky and Bingaman free reign to develop one of the strongest antitrust programs in the postwar era.

By Stan Crock and Catherine Yang

CAPITAL WRAPUP

PAYING FOR PERKS

▶ The green-eyeshade brigade at the Internal Revenue Service is hitting White House officials with hefty tax bills for free parking, even though IRS execs have found a way to minimize their own taxes on the same cherished perk. IRS officials are paying only about $100 a year in taxes because they're no longer using parking spaces reserved in their names. No such luck for senior Clinton aides. They've received notices demanding back taxes on the imputed value of their high-status White House spaces. "This is going to cost me two thousand bucks," moans one top White House official. He notes that many more Clintonites are driving themselves to work these days, now that full-time use of chauffeured government cars has been restricted to all but a few top Presidential assistants. Feeling sympathetic?

EAST DOESN'T MEET WEST?

▶ An early visit to Washington is typically *de rigueur* for a new Japanese Prime Minister. Indeed, most new heads of government have jumped at the chance to show voters back home that they can manage relations with Tokyo's most important ally. But the Foreign Ministry is having a tough time persuading Prime Minister Tomiichi Murayama to go ahead with a planned trip to Washington this winter. Murayama, who has never traveled to the U.S., has told bureaucrats that he wants to go to China first. As head of Japan's Socialist Democratic Party, Murayama has close political ties to Beijing. His reluctance to pay a call on the U.S. also mirrors Japan's growing focus on Asia.

CHRIS USHER

NEC

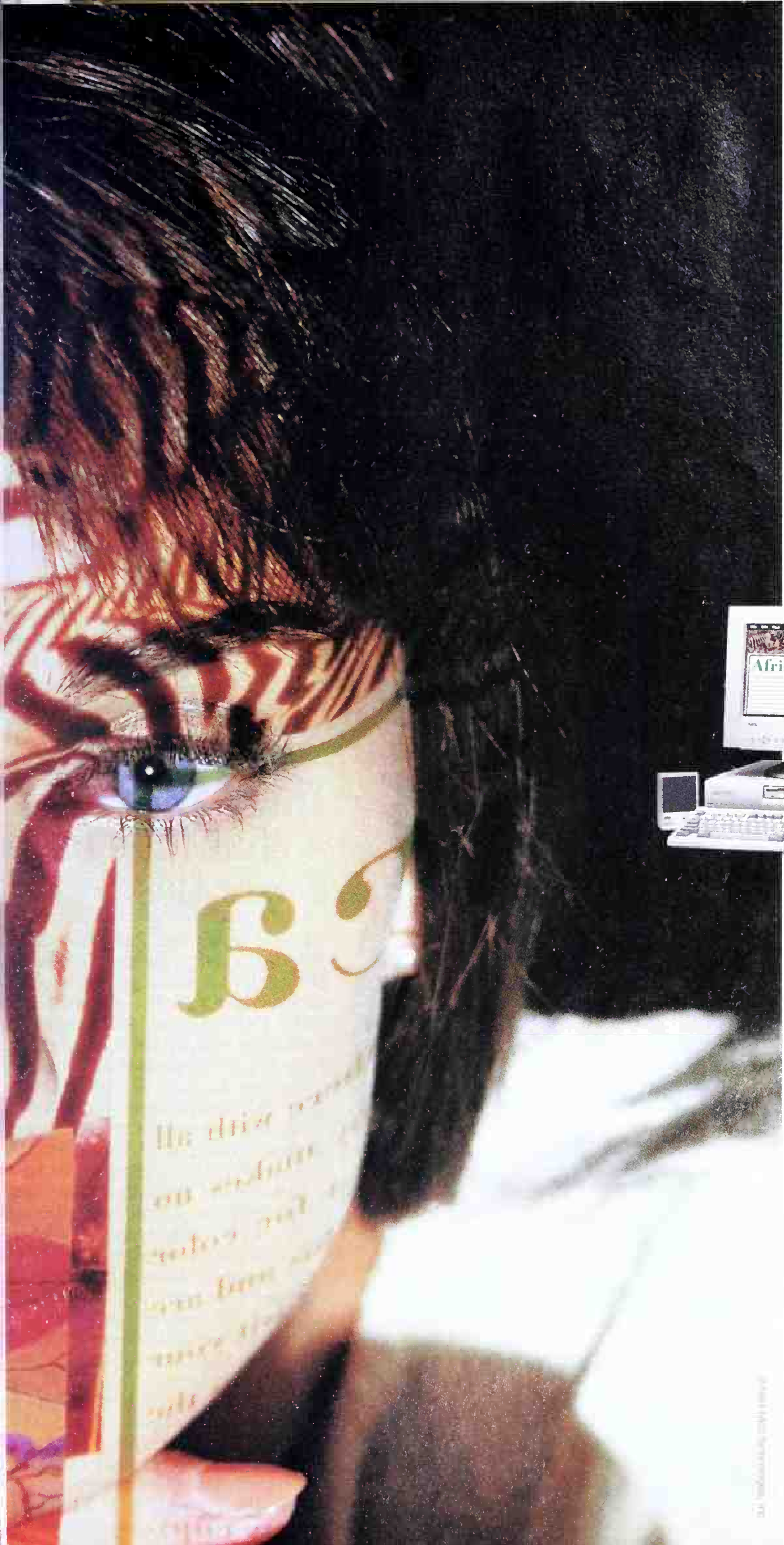
MULTIMEDIA.

ANYTHING

ELSE IS

SENSORY

DEPRIVATION.



An NEC multimedia system can have a dramatic effect on your senses. Surrounding them with sights and sounds that are bigger and brighter than anything you've ever experienced. Which is something you can expect from all our multimedia products. From our 4X CD-ROM readers—the industry's fastest—to our advanced networking technologies, everything NEC

makes is designed to push multimedia to its full potential. Of course, there are a lot of other multimedia products on the market today. But settling for anything else would be, in a word, senseless.

SEE, HEAR

AND FEEL THE

DIFFERENCE.™

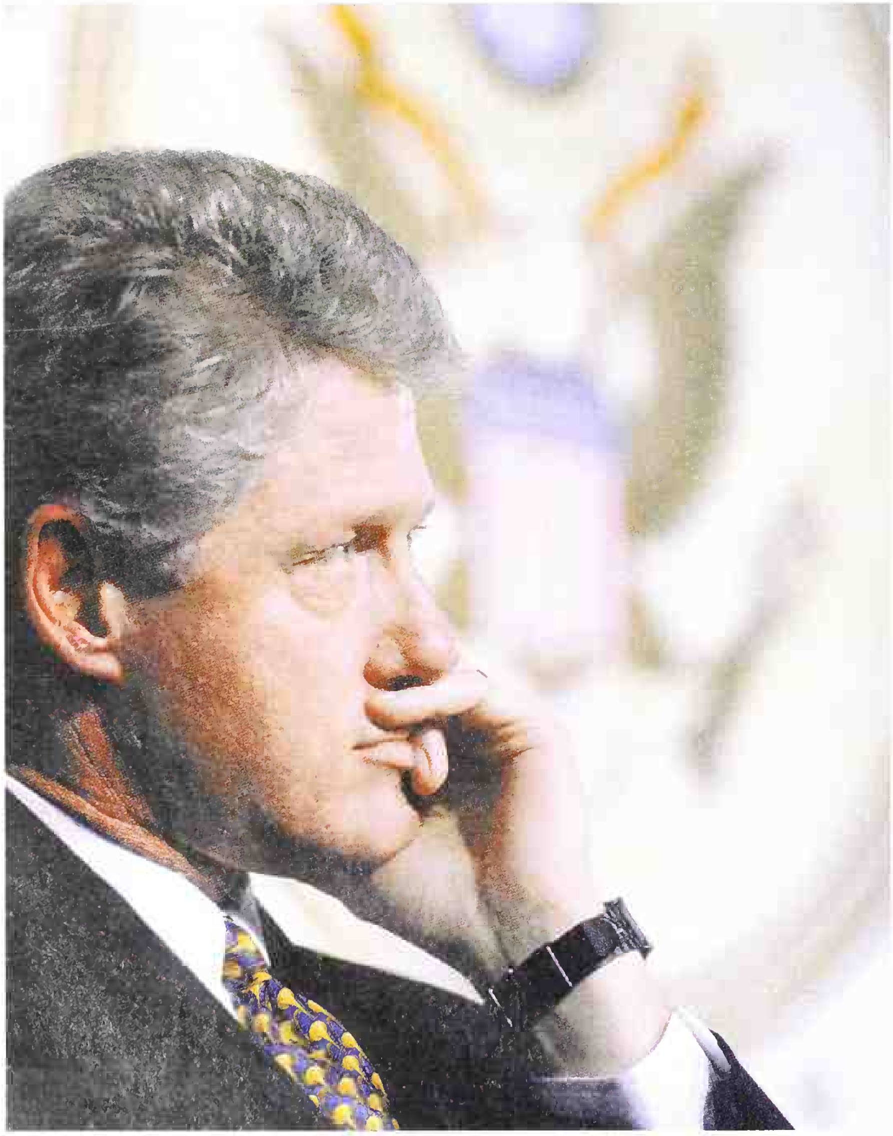
NEC

(L TO R): PHOTOGRAPHS BY SANDRO TUCCI/BLACK STAR; MARY BETH CAMP/MATRIX

FOREIGN POLICY

MARCHING TOWARD FREE TRADE IN ASIA?

The summit in Indonesia will test Clinton's–and local leaders'–vision for the region



CRUCIBLE With Congress planning to hold a crucial vote on GATT just days after the Asian summit, Clinton badly needs a triumph in Indonesia to boost his free-trade agenda

On Nov. 15, President Clinton will gather with 17 other leaders in the Indonesian mountain resort of Bogor at the second annual Asia-Pacific Economic Cooperation (APEC) summit. For Clinton, the summit is a critical test of his Pacific Rim policy: He badly needs a triumph to get his free-trade agenda back on track. At the same time, Southeast Asian leaders such as Indonesian President Suharto want the APEC gathering to be a milestone in their region's move toward free trade.

THE U.S.

A chance to forge closer ties

A year ago, when President Clinton played host at the Asia-Pacific Economic Cooperation summit in Seattle, his credibility with Asian leaders was shaky. The President was riding high at home after pushing the North American Free Trade Agreement through Congress. But Asians were scornful of his policy linking human rights and trade in China, worried about his hardball negotiations with Japan, and upset about his making APEC a U.S. show. His most vocal Asian critic, Malaysian Prime Minister Mahathir Mohamad, even snubbed Clinton by boycotting the meeting.

As the President heads to this year's APEC confab in Indonesia on Nov. 15, the situation is reversed. After Clinton lifted the U.S. embargo on Vietnam, delinked trade and human rights with China, and backed off on Japan, the Asians see Clinton as more sensitive to their concerns. But in the U.S., the President's free-trade agenda is under attack. Congress has held up approval of a new world-trade pact and forced Clinton to surrender "fast track" authority to negotiate future deals. And isolation-

UHARTO: *An all-out ampaign for open narkets in the Pacific region*

MAHATHIR: *The Malaysian leader is a vocal critic of Clinton's Asia policy*

sm could get a boost rom a new crop of rotectionist-minded embers elected to ongress on Nov. 8.

With Congress voting on the General greement on Tariffs Trade just days afer the APEC meeting, linton needs an Asian riumph to convince mericans that the U. S. can benefit from reer trade. A strong showing in Indoneia will also help Clinton when he hosts a ummit of the Americas next month in iami, where he will sketch a vision of ree trade that could expand NAFTA to he rest of Latin America. "We have a uge opportunity here," says U. S. Trade epresentative Mickey Kantor. "We have make sure that the U. S. is positioned take advantage of globalization."

Big economic opportunities are certainly at stake. Nearly a third of U. S. xports go to Asia, and 60% of U. S. imorts come from there—despite the fact at tariffs and nontariff barriers in Asia re still high. "U. S. future growth is ed directly to dynamism in this reion," says Deputy U. S. Trade Repreentative Nancy Adams.

ERTILE FIELD. For a successful APEC mmit, the U. S. must assert leadership ithout seeming to push Asia around. hat's why officials take pains to give edit to Indonesian President Suharto r a plan to create a regional free-trade one. But given the U. S. trade imbalnces with Japan and China, the Presient can't afford to spark a domestic acklash by calling for liberalized trade ith them or other countries that on't reciprocate.

To ease domestic concerns, linton will lay out the rationale r a global free-trade policy in a eech on Nov. 10. He'll argue at Asian markets are the most rtile field for U. S. exporters—d jobs. "Unless we take advange of this explosive growth in sia, there aren't going to be any od new U. S. jobs," warns James . Morgan, CEO of Applied Mateals Inc., a Silicon Valley semiinductor-manufacturing-equipent company that expects Asian siness to help it double its $1 llion in sales by 1996.

In Asia, Clinton will try to get EC leaders to address the agen of American exporters. He'll kely get a commitment to begin work on set of regional investment codes. He'll also push for a Pacific Business Forum of corporate leaders from each APEC nation. It is to meet annually and make recommendations for changes that business wants. Eyeing the region's $1 trillion market for roads, power plants, and airports, the Clintonites also want APEC to establish a task force to ensure transparency in government procurement.

To increase the chances of achieving a consensus, the U. S. is going easy on Japan, which is squirming at the notion of any deal requiring it to open its farm sector. "All we need is a commitment to increased liberalization," says a U. S. official. "Everything else will flow from that."

Handling China will present bigger headaches. China has threatened to block the U. S. agenda unless Clinton agrees to back its GATT application. Clinton will try to finesse the demand by endorsing Chinese entry only after Beijing takes steps to combat copyright piracy and enact free-market and monetary reforms.

No less daunting is Indonesia, a country with a dismal human rights record. Suharto has thrown a host of journalists and dissidents in jail in advance of the meeting. "For America's economic interests, Clinton should talk about human rights," warns Abdul Hakim G. Nusantara, head of the Institute for Policy Research & Advocacy, an Indonesian human-rights group. Clinton will raise the rights issue in closed meetings, but he'll be diplomatic in public, putting economics first.

It's a risky strategy, but doubts about Clinton's global vision have long been answered within the Administration by one word: trade. For the Salesman-in-Chief, the pressure is on to get the leaders of Asia to approve a deal that Americans are willing to buy.

By Douglas Harbrecht and Amy Borrus in Washington, with Pete Engardio in Jakarta and Joyce Barnathan in Hong Kong

CLINTON'S ASIAN GAME PLAN

Trying to extend his foreign policy winning streak

- Show Asians that the U.S. is still a major player in Asia on security and political issues
- Back plans for a Pacific free-trade zone without giving further ammunition to U.S. enemies of the new World Trade Organization
- Support human rights advocates alienating Asian leaders, including his host, Indonesia's Suharto
- Open markets for U.S. companies by gaining commitments on lower regional trade barriers; a uniform investment code; and enforcing copyright protection

DATA: BW

ASIA

Breaking down the barriers

Having spent decades overseeing one of Asia's most protected economies, Indonesian President Suharto is an unlikely candidate to lead a push for free trade. But as he prepares to host the APEC summit on Nov. 15, the military strongman is trying to make trade liberalization a big part of the Asian agenda. "We are going to see a totally different region," predicts Hadi Soesastro, director of Indonesia's Center for Strategic & International Studies.

Indonesia and many of its neighbors are joining the worldwide push for open markets. Governments are slashing tariffs, busting monopolies, and opening key sectors to foreigners. By 2003, the six members of the Association of South East Asian Nations (ASEAN)—Indonesia, Thailand, the Philippines, Malaysia, Singapore, and Brunei—plan to establish a common market. And APEC is set to call for dismantling nearly all trade barriers on goods manufactured in the region by 2020.

Asian leaders aren't aiming to create a version of the North

(L TO R) PHOTOGRAPHS BY SANDRO TUCCI/BLACK STAR, MARY BETH CAMP/MATRIX

American Free Trade Agreement or the European Union. Instead, they want to make it easy for companies to use the region as an operating base. For example, Avery Dennison Corp., a $2.6 billion California-based maker of consumer-product labels, is building an Indonesian factory to serve the region. "Indonesia isn't a big enough market," says Robert D. Fletcher, Avery vice-president for Asia. "But being able to sell freely throughout ASEAN gives us more potential."

To assure a successful summit, Suharto has sent aides crisscrossing the region. Malaysian Prime Minister Mahathir Mohamad, a critic of the U.S., hasn't endorsed the plan, but analysts doubt he will embarrass Suharto. Diplomats think China will come around. Thailand and the Philippines even want to move the APEC deadline up to 2010.

EARLY BIRDS. Making the job easier was an August decision to quicken the pace of establishing a common ASEAN market. Except for industries such as steel and cars, ASEAN members will reduce tariffs on manufactured and agricultural goods to less than 5% by 2003. A few early birds are readying for one market. P. T. Branta Mulia, Indonesia's biggest producer of tire cord, this year opened a plant in Thailand and plans another in Malaysia. It wants to use preferential tariffs to get an edge on Korean and Japanese rivals, and expects to boost sales this year by 80%, to $200 million. "Everybody has gotten the signal that barriers are falling," says Director Andry Pribadi. "So we're taking steps now."

Some multinationals are doing the same. Nestlé, taking advantage of a deal that lets it ship products from plants throughout the region at minimal duties, makes Kit Kat bars in Malaysia, Coffeemate in Thailand, soy milk powder in Indonesia, and breakfast cereal in the Philippines. Nestlé now enjoys an edge over Kellogg Co. in places such as Thailand, where Nestlé pays just 7% duty, compared with the 60% its rival pays on its Australian-made cereals. Moreover, both Procter & Gamble Co., which is expanding its operations in the Philippines, and Lever Brothers want to use a similar kind of regional approach.

Among auto makers, Toyota Motor Corp. has taken the lead in developing an ASEAN strategy. It makes steering systems in Malaysia, transmissions in the Philippines, and bodies in Thailand. Toyota will move $90 million worth of parts within ASEAN this year at reduced or zero tariffs. That's up from $7 million in 1992. General Motors Corp. recently opened small assembly plants in Indonesia and Taiwan and is planning others in Thailand and Vietnam. Its long-range goal will be for the plants to complement each other

ASTRA IN INDONESIA: *Its Toyota assembly plant is an early ASEAN project*

Local producers sense opportunity in the new order. P. T. Astra, which assembles Toyotas in Indonesia, wants to export minivans to the rest o Southeast Asia. In return it would like to import Toyota cars from Malaysia. But negotiations have dragged on for more than two years. "Each government tries to get more benefit than the others," says Astra investor-relations manager Tintin Hartini. "This has complicated the process."

To cut red tape, many multinationals are forging partnerships with local companies run by ethnic Chinese tycoons. In two of many such ventures, both Nynex Corp. and Wal-Mart Stores Inc. have formed alliances with the Charoen Pokphand Group, the Tha conglomerate, to develop projects in China and other countries in the area

While such arrangements help, the task of dismantling barriers is far from over. Lifting curbs on service industries isn't even being discussed. And while they cut tariffs on many products, some governments are maintaining their control over protected industries such as autos, steel, and petrochemicals.

Yet there's little doubt the region is marching away from protection. On Oct 30, Malaysia reduced or abolished duties on 2,600 items—including dairy products, meat, and fresh produce. Thailand has dropped its ban on imported cars. Indonesia and the Philippines have opened their telecom and energy sectors to foreigners. "There is an acceptance of free trade a a very high political level," says Lam Chuan Leong, permanen secretary of Singapore's Ministry of Trade & Industry. "It's almost impossible to imagine this trend being reversed." At the APEC summit, Asian leaders may provide the most public signa yet that they want to build free trade momentum.

By Pete Engardio in Jakarta with Joyce Barnathan in Hong Kong

SOUTHEAST ASIA'S NEW LOOK

The region is moving toward free markets and narrowing down protected industries

- Southeast Asian countries are slashing tariffs as governments encourage the growth of cross-border "growth triangles"
- Multinationals are helping to open the Asian markets through regional product development and manufacturing strategies
- Foreign corporations are forming partnerships with ethnic Chinese tycoons to overcome bureaucratic barriers
- But Asian leaders don't want to be lectured on human rights

DATA: BUSINESS WEEK

COMMENTARY

By John Rossant

THE MIDEAST BOOM WAITING TO HAPPEN

After U. S. Secretary of State Warren M. Christopher landed in Casablanca on Oct. 31, his first stop was a low-key reception for American executives in a suburb of Morocco's business capital. There, several dozen top executives from companies such as Westinghouse, Amoco, and Citicorp listened politely as Christopher glowingly reported on the Clinton Administration's diplomatic successes in the Middle East. "With the Arab-Israeli conflict coming to an end," Christopher told the executives, who were in Casablanca to attend a conference with hundreds of Arabs, Israelis, and Europeans, "the Middle East is now open for business and you have to be there."

Few deals were actually clinched in the two-day Middle East/North Africa Economic Summit, where Israeli software manufacturers huddled with Jordanian bankers and U. S. venture capitalists networked with Palestine Liberation Organization Chairman Yassir Arafat. But that wasn't the point. Rather, the event was the culmination of a growing acknowledgement among Israelis, Arabs, and Westerners that business, not politics, will drive the Middle East peace process.

ARAFAT, RABIN, AND PERES AT THE ECONOMIC SUMMIT IN CASABLANCA

AP/WIDE WORLD

> "The center of gravity of the entire Mideast economy is shifting out of the gulf toward Egypt, Israel, Palestine, Lebanon, Jordan"

FREE-TRADE ZONES. That's because governments desperately want investment to create employment that would cement the Israeli-Jordanian and Israeli-PLO peace agreements. Poverty and the resentment that it breeds are the biggest threats to these accords. Unemployment in the Gaza Strip, the breeding ground of the radical Islamic group Hamas, is running at close to 50%, while living standards there continue to decline steadily.

Stimulating the economy, through public-works projects, free-trade zones astride the Jordanian and Israeli borders, and removal of barriers to Palestinian produce, is crucial. "When you have to get up at 7 a.m. to make your shift at a local factory, you're not going to be thinking about planting a bomb," observes Leon J. Bijou, a New York-based lawyer, who wants to create a "peace bond" to help fund small-scale businesses in Gaza, the West Bank, and Israel.

The region is looking like a much better prospect for investment. In fact, countries such as Egypt, Lebanon, and Jordan could be the next hot emerging markets. Beirut is busy with an $11.2 billion reconstruction program, funded through international capital markets. The Jordanian economy is buoyant and is likely to feel immediate benefits of newly opened borders with Israel, as bilateral trade surges. In Egypt, the stock market is booming in anticipation of a multibillion-dollar privatization program.

Contrast that with the downturn in the Persian Gulf oil states, suffering from 1970s-level oil prices and mountains of debt from runaway public spending and costs accrued in the war with Iraq. The gulf seems to be losing some of its luster. Says Percy Barnevik, the CEO of Swiss-Swedish engineering giant ABB Asea Brown Boveri (Holding) Ltd.: "The center of gravity of the entire Mideast economy is shifting out of the gulf toward Egypt, Israel, Palestine, Lebanon, Jordan."

EXECUTIVES ON THE MOVE. That shift will be underpinned by some rich flows of financial aid already coming down the pipeline. In October, the European Union announced plans to increase aid programs to the Middle East to $7 billion over the next few years. And the Clinton Administration, despite a lukewarm initial response from Saudi Arabia and other U. S. allies in the Persian Gulf, recently signed on to ambitious plans to set up a $10 billion bank that would fund development projects in the Middle East.

Some executives aren't waiting. Egyptian and Israeli companies, for example, are finalizing plans for a jointly owned $1 billion oil refinery, to be located on Egypt's Mediterranean coast. When the refinery opens in 1998, products will be shipped to Israel and Palestinian areas. Nimrod Novik, vice-president of Merhav Group, the Israeli partner based in Herzliyya, says negotiations are already under way with Kuwait—which was once one of the Arab World's staunchest supporters of the boycott against Israel—about supplying crude oil.

"If there's a good opportunity to make money, business is already moving," says Novik. Now that's a pitch that reluctant American executives might understand.

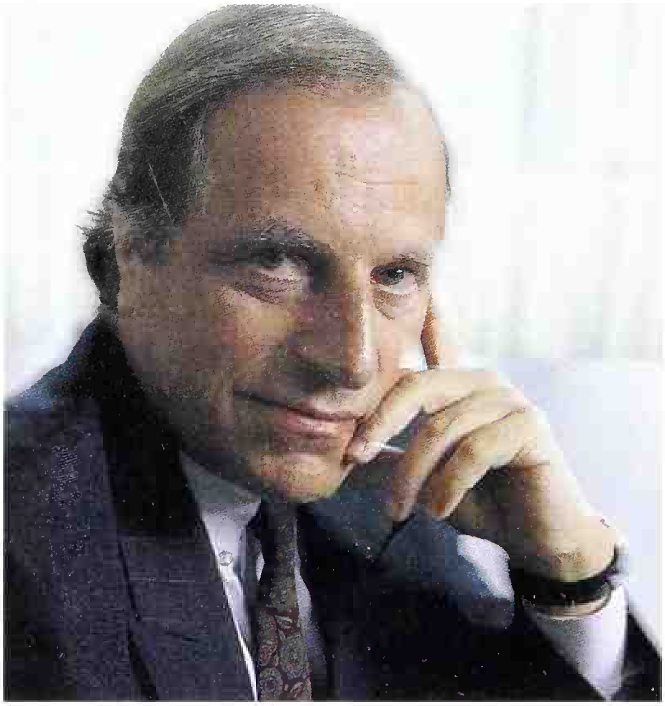
Rome Bureau Chief Rossant just returned from Casablanca.

GERMANY

PUTTING THE BYTE BACK INTO SIEMENS NIXDORF

Gerhard Schulmeyer faces a Herculean turnaround task

When Gerhard Schulmeyer agreed last spring to take on the job of turning around ailing computer maker Siemens Nixdorf Informationssysteme (SNI) instead of going to work for General Electric Co., GE Chief Executive John F. Welch Jr. didn't mince words. "Now I know you're crazy," he told Schulmeyer.



NEW STRATEGY “It's not important anymore to be big. It's much more important to be fast and innovative”

— GERHARD SCHULMEYER

Indeed, the 56-year-old German executive faces a Herculean task as head of SNI, which lost about $1.3 billion over the past four years. But after spending much of his career in the U. S. as a senior executive at Motorola Inc. and more recently as CEO of ABB Asea Brown Boveri Inc. USA, Schulmeyer wants to run a European technology company and help Europe's high-tech industry bounce back to health. Now, after a month in the top job, Schulmeyer is about to launch a radical plan, insiders say, to overhaul one of Europe's largest and sickest computer makers.

The company could certainly use a brash new boss. After years of tolerating heavy losses and eroding market share, board members at parent company Siemens want to see a dramatic reversal at SNI. The selection of Schulmeyer, an outsider to Siemens' clubby corporate culture who has no fondness for rigid hierarchies, means they are willing to embrace an unconventional cure.

MODEL. Schulmeyer's basic strategy: create a new culture that allows for creativity and change and taps the talents of young managers. "It's not important anymore to be big," says Schulmeyer. "It's much more important to be fast and innovative." If it works, the plan would help Siemens find a partner for SNI in the U. S., where the company needs to expand. More important, Schulmeyer's efforts could become a model for tackling hidebound corporate cultures and unleashing entrepreneurial spirit in Europe's other flagging technology giants.

While creating a profit-driven culture, Schulmeyer must also slash costs, rationalize SNI's products and services, and boost its marketing savvy. That's a tall order, but Schulmeyer insists he won't dodge hard decisions. "There is no room for mediocrity. We have to benchmark SNI against the best... in the world," he says. That will mean, among other things, exiting businesses where SNI can't be a market leader.

Like IBM, Siemens' computer unit was a mainframe company that was slow to recognize an industry shift to personal computers. Then, it took over rival German computer maker Nixdorf in 1990, when Nixdorf was saddled with proprietary computers in a world moving rapidly to open systems. Since the merger, Siemens has had difficulty repositioning the unit, which lost an estimated $300 million in the fiscal year that ended on Sept. 30.

Schulmeyer's proposed cultural overhaul will be an uphill climb given SNI's rigid hierarchy. He must transform a stodgy, civil service-type workforce into a lean, flexible organization in which initiative and performance are rewarded instead of seniority. But Schulmeyer is convinced that a new climate is the key to survival. The old structures have led to "delays in getting to market, high costs, and counterproductive behavior, including managers with few skills other than infighting," says Schulmeyer, who spent six months teaching at Massachusetts Institute of Technology's Sloan School of Management before returning to Germany in July. "We need flat organizations that allow managers to think again."

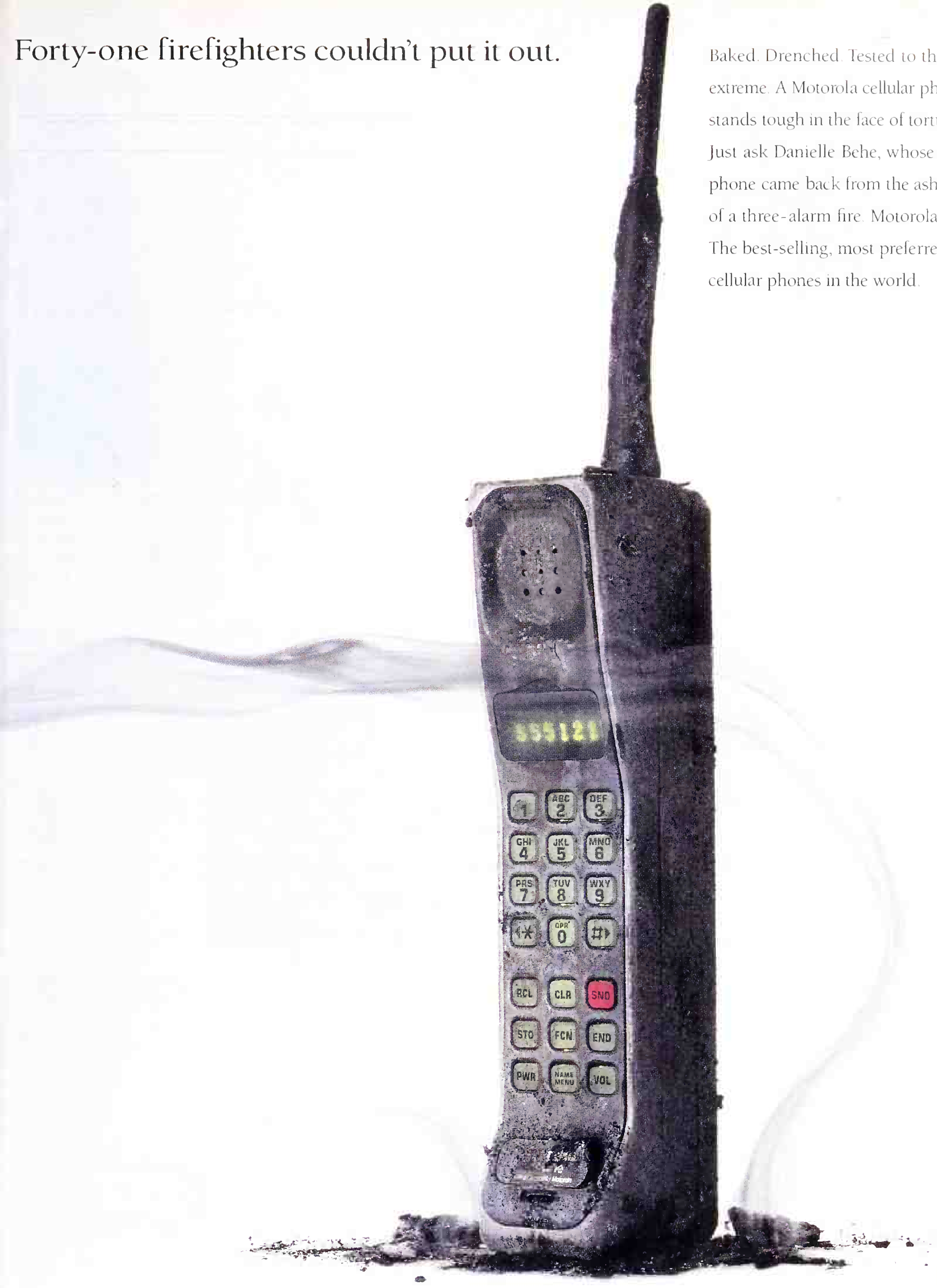
FIELD TRIP. To start, Schulmeyer plans to send 30 young managers to the U. S. for hands-on training in process reengineering. After six months, the SWAT team will return to SNI's Munich headquarters to groom a core of 300 young managers. Those 300 will then break into groups to define dozens of action plans to improve internal communications and create an environment that rewards initiative and risk-taking. Middle-level managers will then be surrounded, above and below, by people eager for change.

Analysts say Schulmeyer has a reasonable shot at pulling off one of the toughest management jobs in Europe. "His concept is good," says Gerhard Adler, managing director of market researcher Diebold Deutschland. "But his actions have to be as radical as his words." No stranger to ticklish turnarounds, Schulmeyer helped restructure an ailing Combustion Engineering after it was bought by ABB, the Swiss-Swedish engineering giant, and he was a driving force in ABB's cultural revolution. Schulmeyer's bold plan for SNI may sound extreme to some, but there's no time to waste.

By Gail Edmondson in Paris

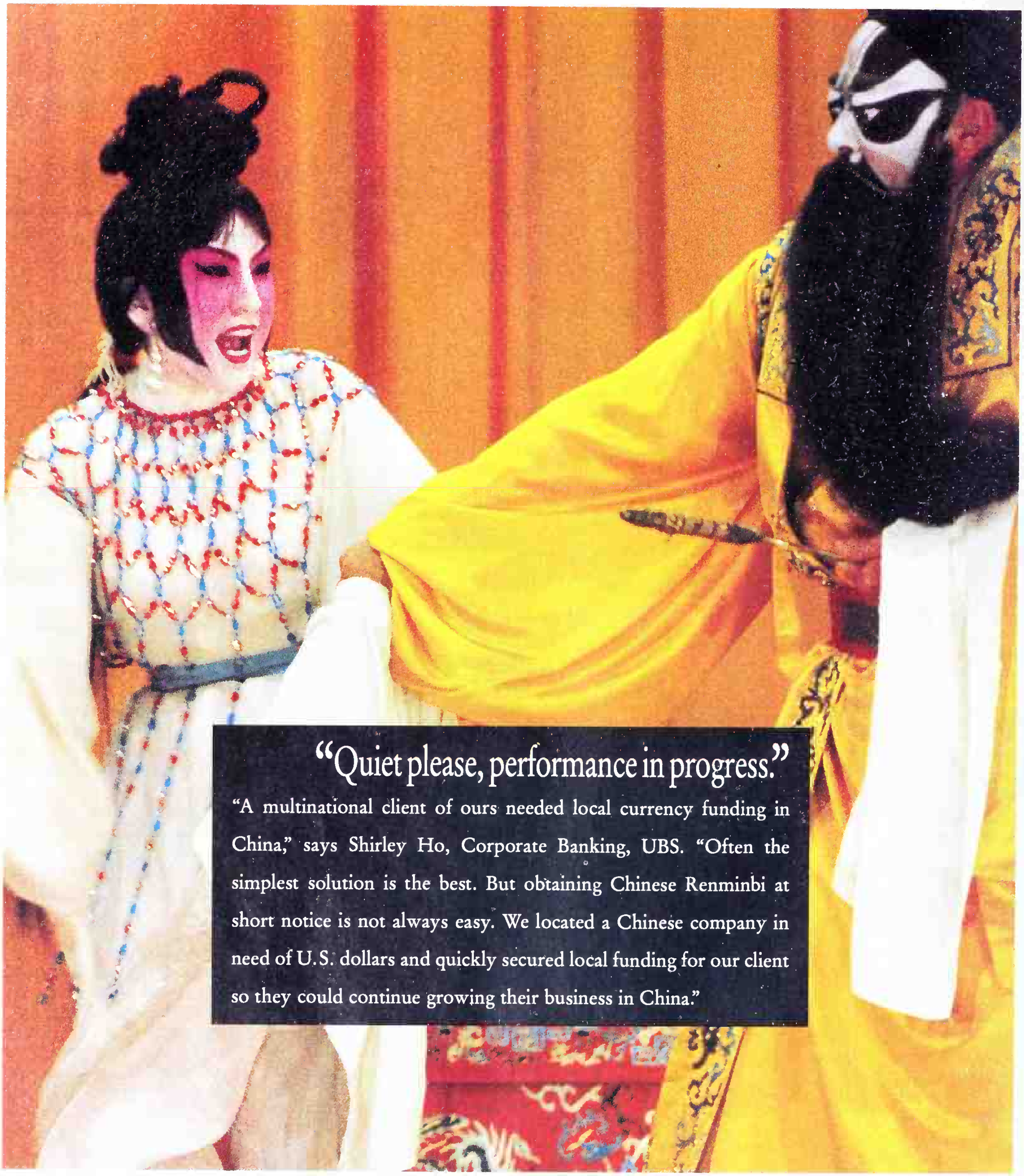
Forty-one firefighters couldn't put it out.

Baked. Drenched. Tested to the extreme. A Motorola cellular phone stands tough in the face of torture. Just ask Danielle Behe, whose phone came back from the ashes of a three-alarm fire. Motorola. The best-selling, most preferred cellular phones in the world.



Testimonial reflects actual events. 1-800-331-6456 Ⓜ and Motorola are trademarks of Motorola, Inc. ©1994 Motorola, Inc.

MOTOROLA



"Quiet please, performance in progress."

"A multinational client of ours needed local currency funding in China," says Shirley Ho, Corporate Banking, UBS. "Often the simplest solution is the best. But obtaining Chinese Renminbi at short notice is not always easy. We located a Chinese company in need of U.S. dollars and quickly secured local funding for our client so they could continue growing their business in China."

Beyond the usual.

Union Bank of Switzerland

NEW YORK, LONDON, PARIS, FRANKFURT, ZURICH, GENEVA, SINGAPORE, HONG KONG, TOKYO.
In the U.S., UBS operates through various branches and subsidiaries with headquarters at 299 Park Avenue, New York, NY 10171.

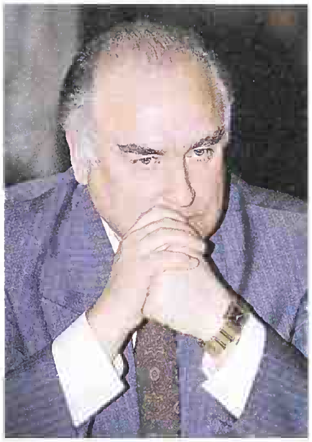
EDITED BY STANLEY REED

RUSSIA: CHERNOMYRDIN IS TALKING AUSTERITY BUT HOPING FOR A BAILOUT

The showdown was coming. On the agenda for Russia's State Duma on Oct. 27 was a vote of no confidence in the government of Prime Minister Viktor S. Chernomyrdin. But first, the stocky, 57-year-old Premier had a blunt message for legislators angry with President Boris Yeltsin's reform policies. He unveiled an unexpectedly austere draft budget for 1995 that gives short shrift to lawmakers' pet factories and collective farms. "We need to make a substantial breakthrough. Now," he said. Then the no-confidence vote fizzled.

So how serious is Chernomyrdin about putting reform back on track? The answer seems to be that he's half serious. The ruble's collapse in October after he agreed to spend 13 trillion rubles ($4.3 billion) to prop up state enterprises taught him his muddle-through tactics won't always work. "The ruble movements," says U. S. Treasury Under Secretary for International Affairs Lawrence H. Summers, "were a kind of wake-up call."

But the Premier still doesn't seem ready to force the public and his former cronies at state companies to suffer the kind of belt-tightening that might really build confidence in the economy. He's hoping the West will bail him out and implying that if it doesn't, it will share the blame the next time the economy tanks.


TIGHT CASH: *Chernomyrdin*

For now, Chernomyrdin is scrambling to put through a budget that will pass muster in Western financial circles. Although his proposal cuts spending only slightly, from $69.6 billion to $68.7 billion, it does have some promising elements. The deficit would be only 7.8% of gross domestic product, compared with 8.8% of GDP this year. And it would end the practice of financing the debt with credits from the Central Bank, whose free-spending chief, Viktor Geraschenko, got the ax after the ruble fiasco.

If the budget is approved by the Duma and the government sticks to it, economists say inflation could fall from its present 8% monthly rate to about 1% by the end of 1995. That, in turn, would help stabilize the ruble and the economy, giving Russia's fast-growing private sector a chance to really take hold. Foreign investment, now perking up, could start pouring in.

But the big unknown is where Chernomyrdin is going to get the money to plug the 77 trillion-ruble ($24 billion) deficit—if printing money is ruled out. Financing some of it through the new treasury-bill market is a possibility, but there is doubt that Russian citizens would be willing to swallow enough government paper to make much of a dent. Chernomyrdin seems to be hoping that big money will once again be forthcoming from the West and its funding agencies. The International Monetary Fund has just increased Russia's standby facility from $4 billion to $6 billion, and there are discussions in international financial circles for a $6 billion ruble-stabilization fund, pegging the Russian currency to the dollar.

MUDDLING THROUGH. While aid is increasing, such a scheme seems unlikely. It would eat up too much of the IMF's budget, and it is doubtful whether the Russians would stick tight enough to reforms to keep the money from being wasted. The Central Bank spent $2 billion in September alone propping up the ruble. It's questionable whether the U. S. and other industrialized countries want to be exposed to this kind of risk—especially when Russia is running a $12 billion trade surplus.

So, expedience and muddle through still seem to be Chernomyrdin's operating rules. He knows he has to restore shaken confidence. But he's going to do his best not to alienate his key constituencies in the ministries and state companies. And he's building on the ability to blame the West if things go awry.

By Peter Galuszka in Moscow

GLOBAL WRAPUP

CLINTON WILL WIDEN NAFTA

▶ After much dithering, President Clinton has decided to back expansion of the North American Free Trade Agreement at the mid-December Summit of the Americas in Miami. As a first step, he will endorse eventual Chilean membership in NAFTA instead of a narrower, bilateral free-trade pact with the U. S. But Administration officials are keeping mum about plans to push for hemispheric integration until after the November elections. They don't want to whip up protectionist sentiment that is already running strong in Congress.

SIEMENS GOES EAST

▶ Siemens underscored its designs on fast-growing Asian markets by choosing Singapore as the site of its first executive committee meeting held outside Germany. CEO Heinrich von Pierer announced plans to invest over $3.5 billion in Asia by 2000, with over $1 billion for China and up to $1 billion in India. Von Pierer predicted Asian business volume will double to $15 billion by the turn of the century.

A SHOCK FOR GERMAN STEEL

▶ In a move that makes German steelmakers nervous, a Czech company, Nova Hut Steelworks, is buying a $250 million minimill from a U. S. company, Tippins Inc. To date, Germans such as SMS and Mannesmann Demag, have dominated minimill technology—even in the U. S. But Tippins, with partner Samsung Heavy Industries, has come up with a cheaper and simpler way for minimills to make flat-rolled steel. A low-cost minimill could make waves in Europe's high-cost steel market.

HP Vectra VL2 PCs
HP quality in
value-priced PCs, from
$1,049

HP Vectra N2 PCs
High-performance
network-ready
PCs in a slimline
package, from
$1,429

HP Vectra M2 PCs
High-performance
PCs for the connected
office, from
$1,509

HP Vectra XM2 PCs
Exceptional 486
performance for
advanced business
use, from
$2,069

HP Vectra XU PCs
The ultimate PCs
for advanced business
and technical
applications, from
$3,749

HP Vectra Interactive PCs
Integrated multimedia
and communications
solutions for
business, from
$1,559

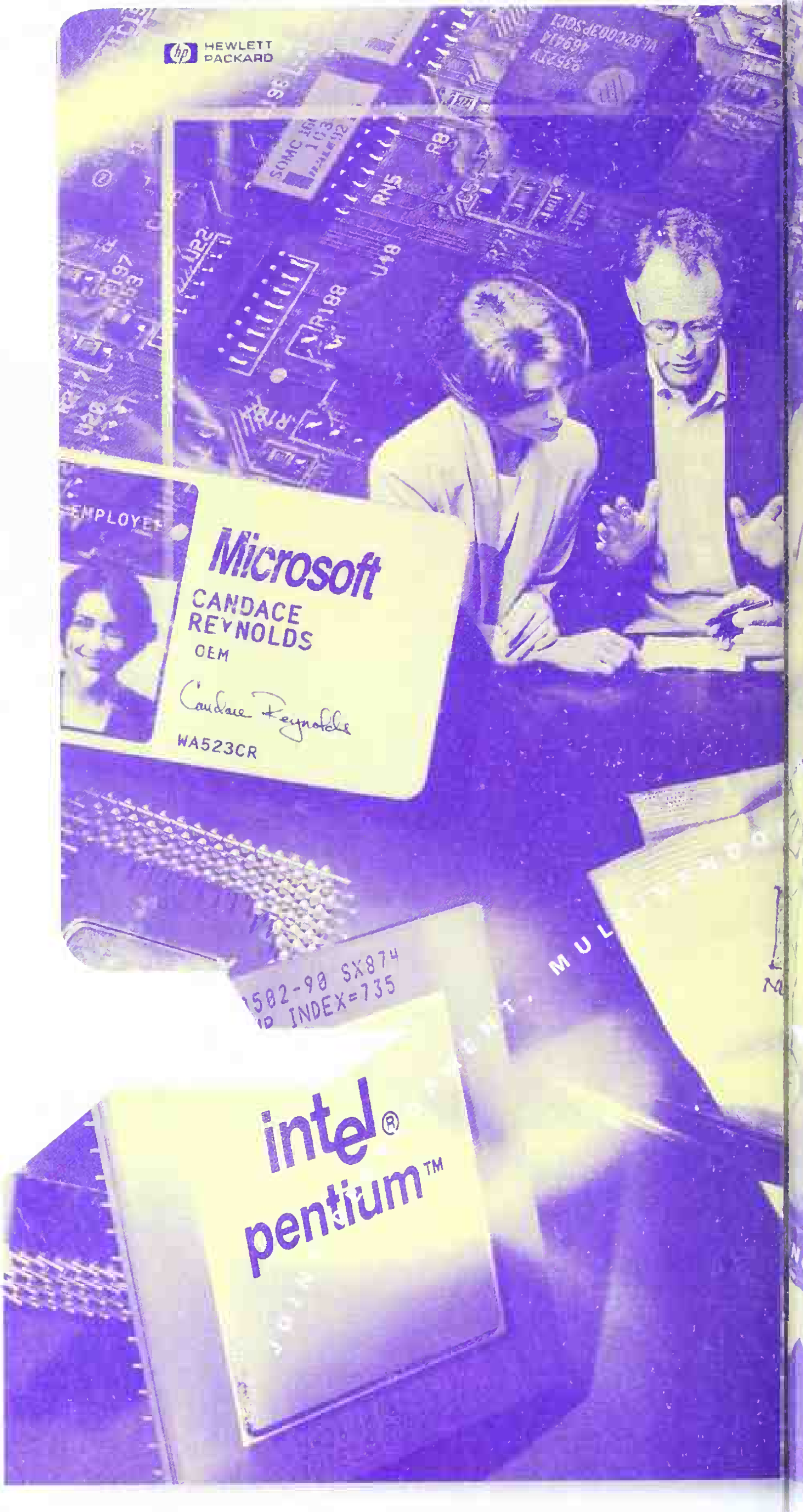
HP offers a full 3-year
warranty on all PCs,
including 1-year on-site
and 2-year carry-in.
For more information, call
1-800-322-HPPC, Ext. 8781.

intel inside

Microsoft Windows Ready to Run

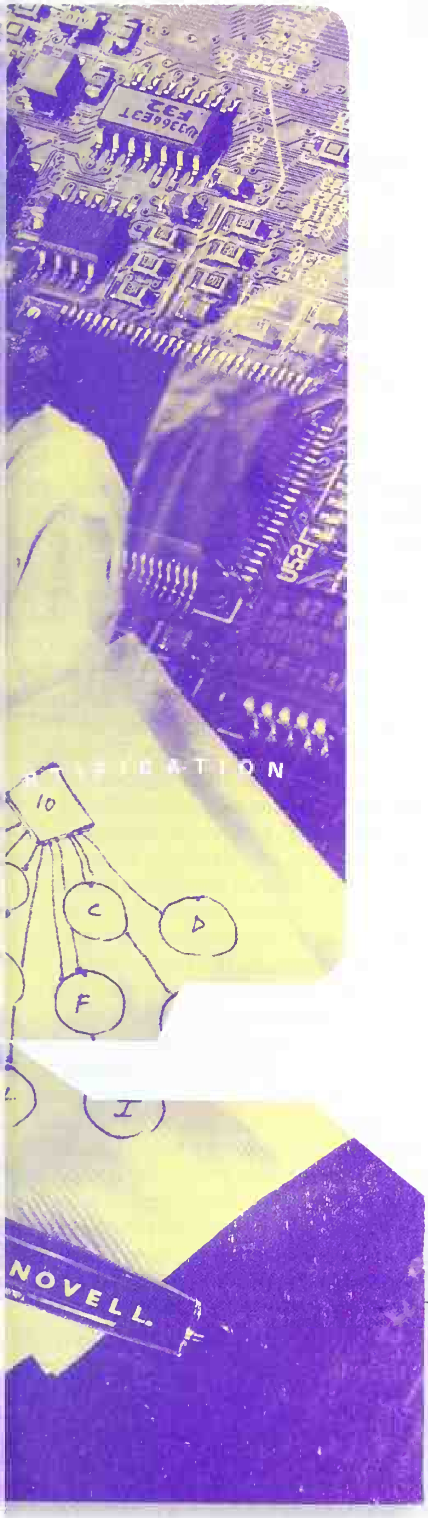
yes It runs with NetWare

HEWLETT-PACKA


HEWLETT PACKARD
EMPLOYEE
Microsoft
CANDACE REYNOLDS
OEM
Candace Reynolds
WA523CR
582-90 SX874
INDEX=735
intel®
pentium™
JOIN ... MULTIVENDO

All prices include hard disk drive (VL2, N2, M2, Interactive PCs, XM2 210MB IDE, XU 270MB SCSI-2). Prices do not include monitors. Microsoft and the Windows logo are registered trademarks and Windows is a trademark of Microso

D P Cs



You're looking at partnership in a whole new light.

If you have PCs on a network, hardware and software compatibility is undoubtedly one of your biggest concerns. You need to know who's talking to whom.

And you can start by talking to Hewlett-Packard. Together with partners like Intel, Microsoft,® Novell and others, we're developing technology that ensures true compatibility, across the board and across the network. So your PC runs everything it's supposed to, wherever it's supposed to.

Because if it doesn't work in your environment, it doesn't work at all.

HEWLETT® PACKARD

ration. Pentium and the Intel Inside logo are U.S. trademarks of Intel Corporation. *For a nominal fee, a 1-year on-site service contract can be upgraded to 3-year on-site service. ©1994 Hewlett-Packard Company PPG410.

MANAGEMENT

BONUS PAY: BUZZWORD OR BONANZA?

As more companies push incentive plans down the line, hard lessons are being learned

At first glance, Luling, La., seems like the last place you would expect to find a workplace revolution. Little more than a wide spot on a back road between New Orleans and Baton Rouge, Luling is a testing ground for a dramatic shift in the way workers are paid. At a modest-size Monsanto Co. chemical plant here, managers and workers have been struggling to find ways to link employee pay to some measure of company success. First, they tied worker bonuses to plant safety. That was risky: It might have encouraged coverups of accidents. Then, they linked pay to the plant's overall success. Workers hated that, because they had no control over what happened in someone else's product line.

TEAM TENSION? *Xel's Mudd wonders about fairness*

RAY NG

Now, after eight years of false starts and potentially dangerous turns, the folks at Luling think they may have gotten it right. They have tied most of a 5%-to-10% bonus to results at individual units. And they now reward workers for helping to prevent accidents—for example, by attending training programs.

"LIKE WILDFIRE." The Monsanto plant is in the vanguard of a gathering movement in Corporate America to push incentive pay down the line. Some proportion of pay for top managers has long been tied to corporate performance, of course. But now, a growing number of companies are asking rank-and-file workers to put a portion of their pay on the line. The schemes are varied: They may link compensation to company track records, unit performance, team success, or individual achievement. But they all have a key element in common: By offering big incentives when things go well but withholding raises, or even cutting pay, when things go sour, they're demanding that workers share in the risks and rewards of doing business.

There's a new urgency to these efforts: With inflation low and international competition strong, traditional, automatic merit pay increases are increasingly a memory. At the same time, though, companies are asking workers to do more, work harder, be more creative, and take part in decision-making. And they're promoting huge changes in the workplace, such as the shift to teams. Tying pay more closely to performance is one of the few ways companies can increase rewards to employees in a world of fierce cost pressures. If they're designed and managed properly, performance-based compensation plans will more than pay for themselves in productivity gains. "We've gotten back everything we've paid, plus," says Luling plant manager Tony L. Corley.

RESULTS At Xel, average production time has been slashed from 30 days to 3

A new survey by consultants Hewitt Associates shows that nearly two-thirds of midsize and large companies have some form of incentive pay for nonexecutives, up from 50% just four years ago. The consulting firm Towers Perrin reports that, among companies of all sizes, such schemes increased by 40% in the past two years alone. And Towers figures that the average bonus payout this year will exceed 7% of base pay even as the pool for traditional merit raises is expected to fall below 4%. "Performance-based pay is growing like wildfire," says Robert W. Hall, director of new programs at the Association for Manufacturing Excellence.

The trick, of course, is doing it right. Some of the nation's most progressively managed companies have recently had problems with their own pay-for-performance programs. At chemical giant DuPont Co., for example, a 13-member task force spent two years designing a widely celebrated "Achievement Sharing" plan for 20,000 employees in its fi

How to Make Performance Pay Work

SET ATTAINABLE GOALS
Incentive pay works best when workers feel they can meet the targets. Tying pay to broad measures such as companywide results leaves workers feeling frustrated and helpless.

SET MEANINGFUL GOA
You can neither motiva reward by setting targe employees can't compre Complex financial meas or jargon-heavy benchm mean nothing to most.

PLANNING “You can’t just slap this on an organization,” says an AmEx executive

A TIME TO SHARE: *AmEx’ Brown (center) says payouts were “like lottery day”*

REED RAHN

ers division. The program made 6% of
alary contingent on the entire division’s
nnual profits. But when a business
ownturn made the division fall short
f its profit goals for 1990, the company
ulled the plug rather than withhold
ay from a workforce that had been
hrunk from 27,000 in the early 1980s.
Morale was a factor,” says Robert P.
cNutt, manager of new compensation
nd benefit initiatives for DuPont. “Peo-
le were working harder because of the
arlier downsizing.”

DuPont’s misstep illustrates a key
esson in performance-based pay: Work-
rs must know that their individual toil
an affect overall performance goals.
hat means pushing incentives deep into
he corporation—even down to work
eams. The same message also came
hrough loud and clear for Monsanto. It
riginally tied pay to the overall per-
rmance of the Luling plant, which pro-
uces a wide range of chemicals. The
oal met strong resistance from employ-
es who felt the targets were beyond
eir control. “People didn’t feel they
ad an impact,” says Bruce Swaim, an
lectrical technician. So in 1992, the bulk
f every worker’s bonus was tied to the
erformance of groups of just 50 to 60
mployees, rather than to plantwide
chievement. “Once you feel some sort
f ownership, it works well,” says Gina
aney, a traffic manager.

ARY WORKERS. That’s why Monsanto
ow has more than 60 separate pro-
rams at various operations around the
orld. “Each one is different,” says Bar-
y Bingham, the company’s director of
mpensation. “It’s been built from the
ottom up.” By contrast, Bingham ad-
its, failed plans were almost all pushed
n units by corporate headquarters.
Every one that was screwed up was
esigned in St. Louis.”

New research supports the view that
nall is beautiful. Todd Zenger, a management professor at Washington University in St. Louis, concludes that performance gains increase by roughly 20% for each step down the organization. “Size matters a lot,” he says. “Incentive plans attached to smaller groups, be it departments instead of divisions, or divisions instead of entire corporations, tend to be more effective.”

To succeed, new pay plans must also be phased in gradually and carefully explained to often wary workers. American Express Co., for example, rolled out an incentive pay plan on July 1 for the 10,000 employees in its consumer-card and consumer-lending groups. But for a full year before the rollout, AmEx ran a closely monitored pilot program. “People who are used to having fixed compensation can be insecure about not knowing what they will earn in a year,” says Jill Kanin-Lovers, senior vice-president for worldwide compensation and benefits. “You can’t just slap this on an organization.”

The pilot was a big success—especially because about 98% of the 1,500 em-

WORKERS IN

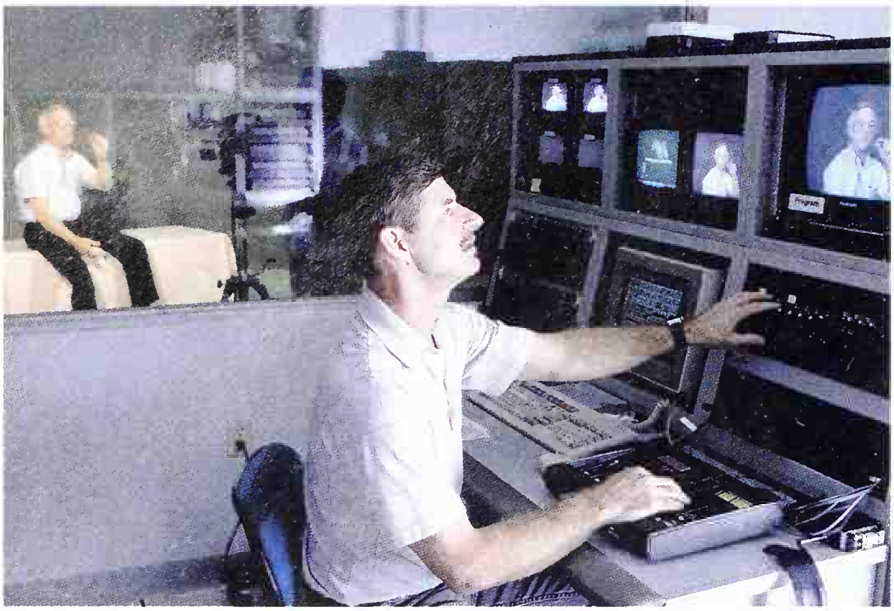
em a say in develop-
formance measures
en to their advice on
change work sys-
hase pay plans in
lly so employees have
e to absorb them.

KEEP TARGETS MOVING

Performance-pay plans must be constantly adjusted to meet the changing needs of workers and customers. The life expectancy of a plan may be no more than three or four years.

AIM CAREFULLY

Know what message you want to send. Make sure that new scheme doesn’t reward the wrong behavior. Linking bonuses to plant safety, for example, could encourage coverups.



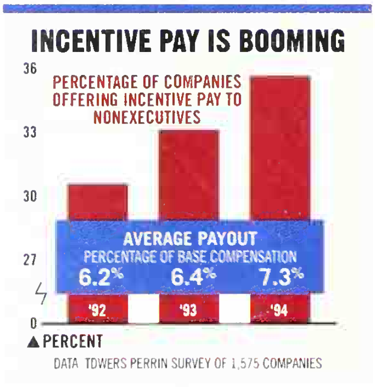
CONTROL: *Monsanto's Swaim stresses the importance of not feeling powerless*

ployees gained payouts of up to 4% of their base salaries. "I got to distribute some of the checks, and it was like lottery day," recalls Lorin L. Brown, a team leader at an American Express operations center in Phoenix. But the company also discovered that it needed to work harder to communicate the plan's goals to employees and to simplify it, basing payouts on three measures instead of six. The criteria are now customer satisfaction, employee productivity, and shareholder wealth creation.

FICKLE CUSTOMERS. Companies also need to be willing to revise their performance goals as circumstances change. Xaloy Inc., a small manufacturer of plastic-extrusion equipment in Pulaski, Va., has been tinkering with its incentive targets since adopting a bonus plan in the mid-1980s. Those targets can be remarkably specific: For example, faced with a serious production snafu at its southwest Virginia plant this year, the 300-employee company refocused the plant's bonus program to target the foul-up. The incentive system helped get the whole plant involved in solving the problem, says President Walter G. Cox Jr. "We even had people from data processing out on the shop floor."

Of course, a plan can't succeed unless it measures performance accurately. That's fairly easy for manufacturing facilities, which have tallied output, quality, and safety for years. But for services, figuring performance can be tough. Like American Express, GTE Corp. has made customer satisfaction a key component of its incentive plan. It has devised a dual-bonus system, which applies to about 25,000 telephone operations workers in Texas, California, and Florida. A key component: surveys that measure customer approval.

But customers can be fickle—and their attitudes highly subjective. That's why some union officials are questioning such links. Workers more easily accept compensation plans that provide bonuses or base-pay increases for learning additional skills. At Black Box Corp., a Pittsburgh-based marketer of computer-network and other communications devices, workers can nearly double their pay in the same job. For instance, Black Box pays starting order-entry clerks $17,000 to $20,000. As they boost their product knowledge, their pay rises to $25,000 to $28,000. Those who improve skills even more—learning another language to handle international sales, for example—can make up to $35,000 plus a bigger profit-sharing bonus.



DATA: TOWERS PERRIN SURVEY OF 1,575 COMPANIES

Black Box provides formal in-house training and will pay for continuing education. But the decision to boost skills—and pay—belongs to the employees. "They can dictate their own earning power to a great degree," says Black Box President Jeff Boetticher. And the payoff for the company? "The more skilled the workforce, the higher the level of customer satisfaction," he says.

FORMULAS It took years for Monsanto to come up with the right size for pay groups

Xel Communications, based in Aurora, Colo., is using incentive pay to foster its moves to teams. The maker of telecommunications transmission equipment paid its 300 workers an average of $500 each in profit-sharing in the last quarter. Another component gives workers a chance to earn an additional 50¢ per hour for each new task they master. The key for Xel, though, is its team-based compensation. Each unit shares a bonus based on meeting a quarterly goal, such as improving on-time delivery. The average reward is 4.5% of payroll, with top teams earning up to 10% and lagging groups getting nothing.

UNAMBIGUOUS. Employees are generally positive. William R. Walker, an assembler on one team, loves the group-based bonus: "It gives people more incentive to work harder to better their team." Still, Terri L. Mudd, a member of another team, has her doubts: "I don't know how fair that is. You can work very hard and your team does poorly, and your increase is not as much as it should be."

The payoff for Xel seems unambiguous: Average production time has been slashed from 30 days to 3, and waste as a percentage of sales has been cut in half. "The pay system doesn't stand alone," says Julie A. Rich, vice-president for human resources. "It's only in support of the teams."

And that, perhaps, is the bottom line. Performance pay can't replace good management. Throwing cash at a frustrated or bored worker solves nothing. But as part of an overall management system that aims to bring out the best in its workers, incentive pay can be more than the latest fad. It can be another step on the road to higher productivity and more competitive companies—in Luling and elsewhere around the world.

By Howard Gleckman in Luling, La. with Sandra Atchison in Aurora, Colo. Tim Smart in Stamford, Conn., and John A. Byrne in New York

PHOTOGRAPH BY STEVE KNAPP; CHART BY RAY VELLA/BW

It is pure EXCESS.

The Supra cockpit has been designed similarly to a motorcycle cowling, "wrapping" the driver in the instrument cluster for maximum control and input.

Three hundred twenty HORSES. Twin-sequential TURBOS.

Race-inspired front and rear double-wishbone SUSPENSION.

If that doesn't get the JUICES going, try this.

It's got the best POWER-TO-WEIGHT ratio in its class,

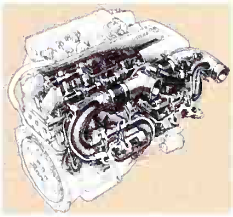
and does 0 to 60 in 4.6* seconds. The 1995 Toyota Supra TURBO.

It'll make you SCREAM at the TOP of your lungs.

And lie awake at night, DREAMING.

Call 1-800-GO-TOYOTA for a brochure and location

of your nearest dealer.



The raw, brute power of this heavy-breathing 24-valve twin-turbo will, literally, take your breath away.

TOYOTA SUPRA

I Love What You Do For Me

©1994 Toyota Motor Sales, U.S.A., Inc. Buckle Up! Do it for those who love you.

**Car and Driver* magazine test results published September 1993.

©1994 Merrill Lynch, Pierce, Fenner & Smith Inc. Member SIPC

SINCE YOU SHOULDN'T EXPECT TO GET RICH QUICKLY, MAYBE YOU SHOULD PLAN TO GROW RICH SLOWLY.

Chances are you won't become a millionaire overnight. And if a deal sounds too good to be true, it probably is.

Still, it *is* possible to grow rich. If you take control of your future by doing just six simple things:

First. Find the best partner. Just like you found the very best doctor, find the very best person to advise you. A Merrill Lynch Financial Consultant. You don't leave your health in the hands of an amateur. So don't do the same with your money.

Second. Plan. Work out a real plan with your Financial Consultant. On paper. With your assets and liabilities on one page, your long-term goals on another, and a lot of hard thinking in between. Then stay with the plan for life, making sure it changes as your life does.

Third. Save regularly. Stop spending a lot regularly and start saving a lot regularly. Pay yourself more of what you earn. Then you can put the power of compounding and dollar cost averaging to work for you.

Fourth. Diversify. Don't put all your money in one place. Spread it around—stocks, bonds, mutual funds, international investments, even real estate. That way you'll have less exposure to market fluctuations.

Fifth. Maximize tax deferrals and matched funds. Put your money in tax-deferred savings programs—IRAs, Keoghs, SEPs, annuities, and 401(k)s — and go to the max in employer-matched programs. Money that's been tax deferred grows much faster than money that's subject to taxes.

Sixth. Start now. The most important thing about a plan is that it won't work if you don't start it. Get started now and put the power of compounding to work for you sooner. The longer it works the better off you are.

Your Financial Consultant will help you figure out how much you can put away, what kind of growth you need, how to save on taxes, and where your money will do you the most good—to get what you want: like a home, a college education for the kids and a comfortable retirement.

And because Merrill Lynch has more ways to make a plan work for you than any other firm—everything from investments to insurance to mortgages—we can make sure all your money works together.

For more information, call 1-800-637-7455, ext. 8377.

You'll discover there's a difference between getting rich slowly and getting nowhere fast.

The difference is planning.

The difference is Merrill Lynch.

Merrill Lynch

A tradition of trust.

STRATEGIES

PG&E: ONE STEP AHEAD OF FUTURE SHOCK

The California utility transforms itself–before deregulation

Ah, utilities. They used to be so tame—perfect investments for those proverbial widows and orphans. But not anymore. As America's electric-power industry heads toward deregulation, fears that the high-cost monopolies will have trouble adjusting to competition—along with higher interest rates—have given investors a high-voltage shock: Over the past year, the Dow Jones utilities index has plummeted roughly 25%.

Few have been harder hit than California's Pacific Gas & Electric Co., whose stock has fallen nearly 40%, to 22. With revenues of $10.6 billion, San Francisco-based PG&E is the largest investor-owned utility in the U.S., but it's not hard to see why the stock is being punished. PG&E supplies electric power to 4.4 million customers in California—the state that is barreling fastest toward electric-utility deregulation. Says Robert D. Glynn, PG&E executive vice-president: "The world is changing at blinding speed around us."

BELLWETHER? Don't expect lamentations from Stanley T. Skinner, a longtime PG&E executive who became CEO in July. Skinner, 57, is embracing deregulation far more enthusiastically than downstate rival Southern California Edison Co. and others in the staid industry. And as its chief races to prepare the company for harsher competition, PG&E's experience is being closely watched as a bellwether for the industry's ability to adjust.

The California Public Utilities Commission dropped a bomb last April when it proposed a quick phase-in of full-scale deregulation (table). The PUC plan would allow big industrial customers to buy power from any electric supplier—including low-cost, out-of-state utilities—by 1997, with an open residential market by 2002. Local utilities would act as common carriers, maintaining lines to customers and charging other electricity suppliers fees for sending power on their electric grids.

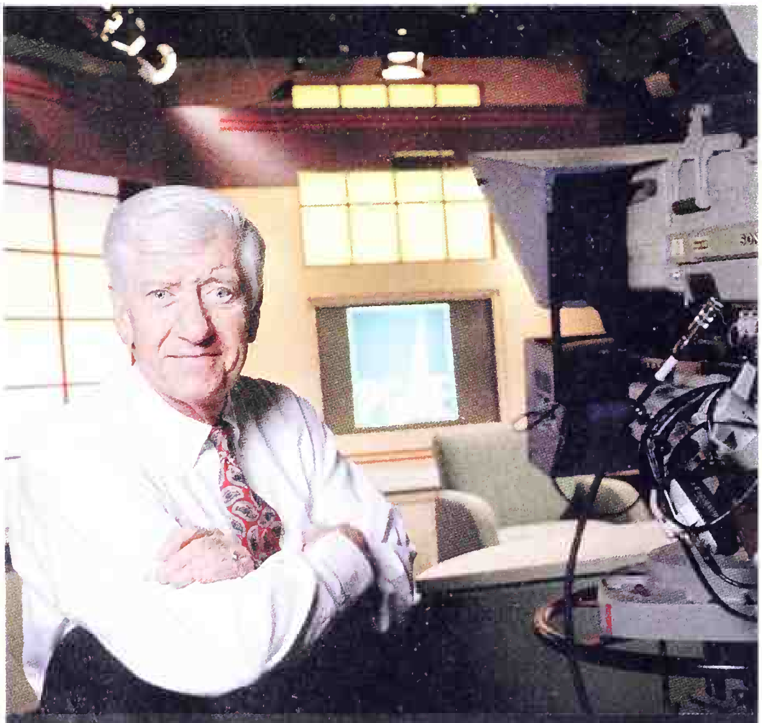
Few believe the ambitious schedule can be met, and the hotly disputed plan faces heavy political pressure. But for CEO Skinner, competition is already here. Already, PG&E has lost annual revenues of $400 million since the late 1980s as customers such as Chevron Corp. have begun generating power in-house to escape electric rates 50% above the national average—a legacy of strict environmental controls and PG&E's costly nuclear-power policy. "Our strategy is a no-brainer," Skinner says. "We've got to give better service and lower costs." If PG&E succeeds, he insists, "we won't be disadvantaged, no matter what happens in the regulatory process."

Still, PG&E has a long way to go. The high-cost utility sells power to big industrial customers at 7.3¢ per kilowatt hour. Analyst Greg Gordon of Oppenheimer & Co. figures free-market rates will drop to roughly 5¢. Already, rivals such as Portland-based PacifiCorp. sell cheap hydroelectric power for less than that.

"TREADMILL." PG&E's ability to meet those prices will depend on the deregulation timetable, but Skinner's immediate task is trimming $285 million in spending for 1995. Most savings will come from laying off 1,500 employees, on top of 1,500 cut last year. Senior executives' salaries have been frozen, and spending on energy conservation programs has been slashed by 64%, or $100 million. "PG&E is very aggressive at cost-cutting," says analyst Barry M. Abramson of Prudential Securities Inc.

Over the next five years, Skinner must zap $750 million more in annual costs. Big savings could come from not renewing contracts for alternative-energy sources that the state forced PG&E to sign. It now pays $1.6 billion—twice market rates, Skinner says—to buy wind, solar, and other kinds of power under those contracts.

Atop his computer, where he monitors employee suggestions on E-mail, Skinner sports a Nike shoe emblem that says: "Just Do It." So it's no surprise that he draws inspiration from practices used by companies in highly competitive industries and is working hard to create a



PG&E CHIEF EXECUTIVE SKINNER: *"Our strategy is a no-brainer"*

A JOLT OF COMPETITION

A proposal by the California Public Utilities Commission would rapidly deregulate the electric-power market

1996 Big corporate energy users would be able to buy direct from small, independent generating companies.

1997 Large companies freed to purchase energy from any electric utility.

1998 Midsize industrial and commercial customers allowed to shop around.

1999 Small businesses permitted to choose among energy providers.

2002 Competition to supply the residential market would also begin.

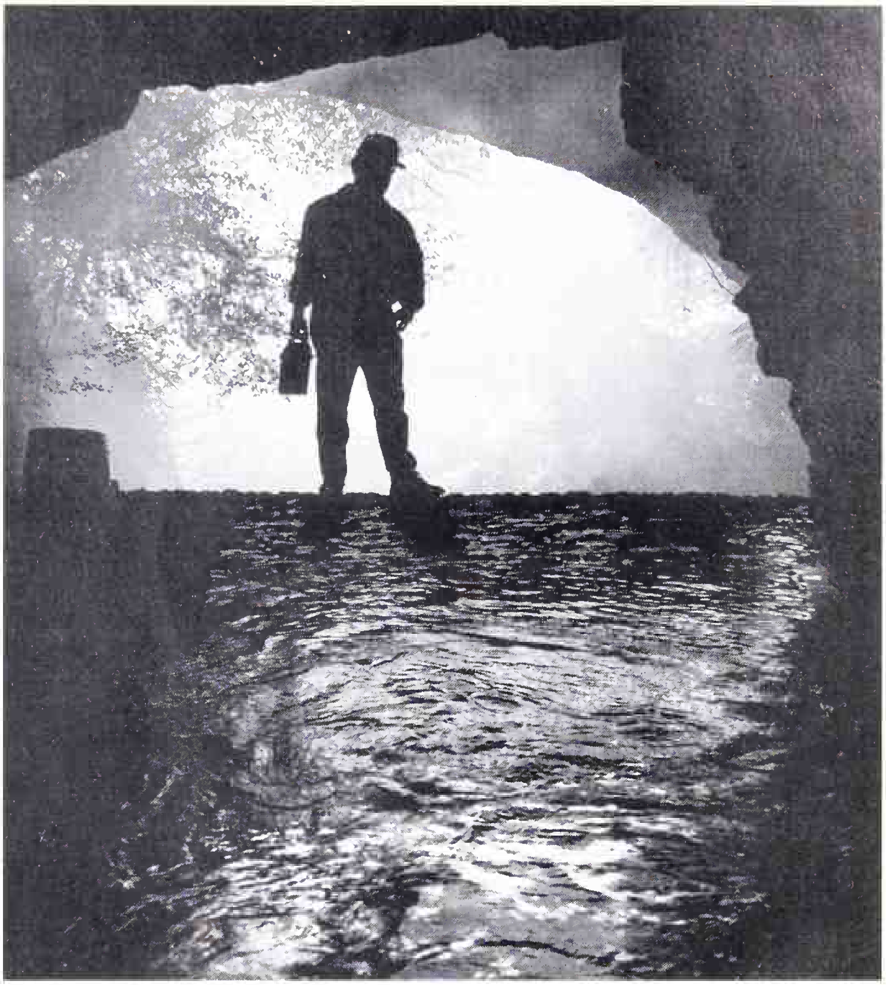
more service-oriented culture. PG&E recently launched a 24-hour, seven-day-a-week, toll-free, customer service line that was modeled on toll-free lines at catalog houses such as L. L Bean Inc. And he has brought in key nonutility recruits. The most recent hire: new marketing chief William J. Gallagher, a top sales executive from MCI Communications Corp.

Will it be enough? Relatively cheap hydropower and coal-fired producers are likely to take much business from the utility. Though PG&E seems headed in the right direction, CEO Walter H. Higgins of Reno-based utility Sierra Pacific Resources Inc. says it's "carrying 20 years of policies that have turned out to be dead weight." And rivals are cutting, too. PG&E "will be working hard just to keep what they have," says Prudential's Abramson. "They are on a treadmill."

ASSETS GALORE. To move ahead, PG&E must create new business. That's the job of PG&E Enterprises, the company's unregulated subsidiary. U. S. Generating Co., a joint venture between Enterprises and San Francisco-based engineering company Bechtel Group Inc., constructs power plants across the U. S. and plans expansion in India, China, and South America. Over time, Skinner is also banking on services to build revenues. PG&E plans to sell plant-management and energy-conservation advice abroad, and it is developing computerized power-quality systems for industrial clients. They would put a stop to momentary power outages that can cost a company such as Intel up to $9 million a year. PG&E will also provide customized billing services for power suppliers around the country. And it may even find a place on the Information Superhighway: It will provide programs to allow residential customers to manage power consumption—by encouraging them to run appliances when rates are cheaper, for example—as part of an I-way test in Walnut Creek, Calif. "We have a lot of assets that are not being put to full economic use," says Tony F. DiStefano, a former Pacific Telesis Group dealmaker who heads PG&E Enterprises.

Such plans are still in the early stages. For now, PG&E's lobbyists are busy trying to convince the PUC to extend its deregulation timetable to 2008. In return, PG&E has offered to accelerate depreciation of its Diablo Canyon nuclear plant by a rate of $200 million a year—meaning that shareholders, rather than ratepayers, would bear the expense. That won't do much for PG&E's stock price. But given the uncertainty weighing down utilities, Skinner doesn't expect PG&E's shares to rise until the PUC decides on deregulation. "It's less important what the PUC decides, as long as it decides something," he says. In other words: Just do it.

By Russell Mitchell in San Francisco



JACK DANIEL'S
OLD TIME
Old No.7
BRAND
QUALITY
Tennessee
SOUR MASH
WHISKEY
JACK DANIEL DISTILLERY
MADE IN TENNESSEE
BOTTLED AT THE DISTILLERY

Wouldn't a smooth sip of Jack Daniel's taste good about now?

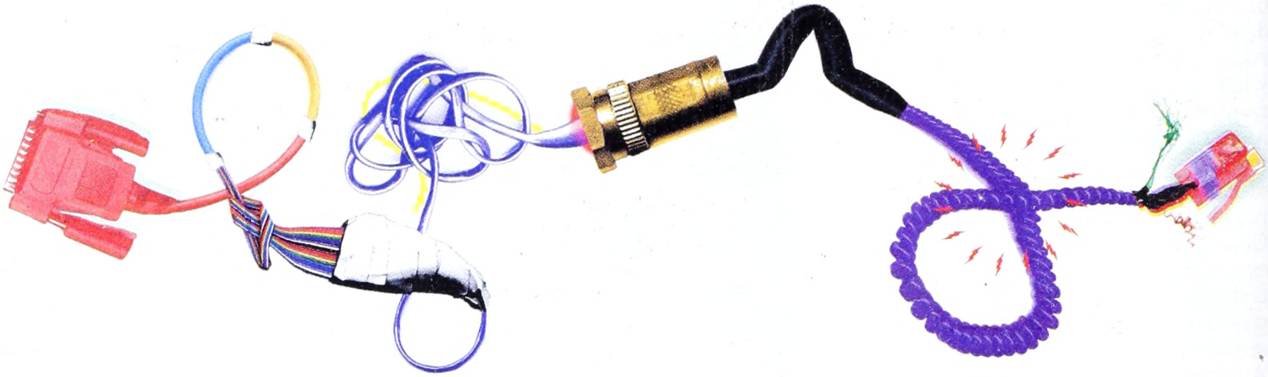
WHEN JACK DANIEL first gazed upon the pure spring water in this limestone cave, he knew he was on to something.

So he built a distillery around it. Because Mr. Jack realized right away the water he'd discovered was perfect for making his Tennessee Whiskey. For one thing, it's 100% ironfree (iron is murderous to good whiskey). This precious natural resource, along with our charcoal mellowing method, has accounted for Jack Daniel's uncommon rareness since 1866. And, we believe, for its uncommon number of customers and friends.

SMOOTH SIPPIN'
TENNESSEE WHISKEY

Tennessee Whiskey • 40-43% alcohol by volume (80-86 proof) • Distilled and Bottled by Jack Daniel Distillery, Lem Motlow, Proprietor, Route 1, Lynchburg (Pop 361), Tennessee 37352
Placed in the National Register of Historic Places by the United States Government

Some companies say they're joining forces to make international network communications simple.



In the U.S., IBM Global Network services are provided by Advantis, a joint-venture of IBM and Sears, Roebuck and Co.

We'd like to set the record straight.

There's nothing simple about having a communications network that's patched together by a collection of different companies from around the globe, each with their own technologies and their own way of doing things. Common sense suggests it would be better to have *one* global company responsible for managing your network. And that's exactly what you get with the IBM Global Network. Others may offer a "single point of contact"—but if you ask for something like global E-mail, they're likely to tell you their affiliates in Buenos Aires or Budapest aren't on line yet. Assuming they even *have* affiliates in those places. But the IBM Global Network has 5,000 network professionals and provides access to more than 90 countries. Now. So you can get a head start on the high-speed networking that'll make it seem like everyone in your corporation is working in the same office. Questions? In the U.S. and Canada call us at 1 800 455-5056 for some straight answers about international network communications.

One global network
has all the advantages

More local support
from 5,000 networking specialists worldwide

Total outsourcing
and management of SNA, multi-protocol and emerging ATM-based networks

Advanced
LAN internetworking for client/server computing

Efficient
global messaging with EDI, E-Mail and the Internet

The IBM Global Network

IBM®

INNOVATION

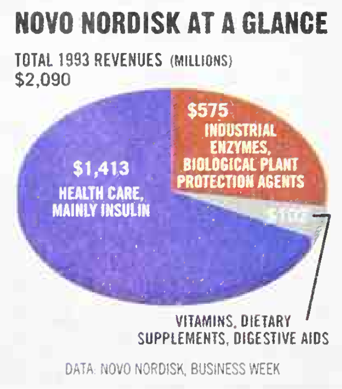
NOVO NORDISK'S MEAN GREEN MACHINE

It's at the top of a growing market: Finding natural substances to replace chemicals

When scientists at Denmark's Novo Nordisk—and even their families—go on vacation, they pack more than their swimsuits: They fill their suitcases with soil-collection kits to gather exotic, enzyme-producing microbes. It pays off. In the soil of an Indonesian Monkey Temple, the father of a Novo scientist unearthed an enzyme that is now widely used by soft-drink suppliers to change starch into sugar. In a pile of leaves at a Copenhagen cemetery, a researcher picked up a bug that produces an enzyme that can be used in detergents to help remove protein stains. "We're trying to find natural solutions to industrial problems," explains Lisbeth Anker, who heads Novo's worldwide microbe search.

CEO OVLISEN: *"I see no alternatives" to developing greener products*

Screening thousands of soil samples to find a single potential product is a bit like scouring the beach for a lost contact lens. But, with help from biotechnology, Novo has developed more than 40 industrial enzymes for everything from stonewashing jeans to ripening apples more quickly. In the process, the $2 billion company has emerged as a pioneer in "green chemistry"—finding more benign substitutes for synthetic chemicals. Decades before many rivals, Novo saw that synthetic chemicals would be attacked for harming the environment, and that enzymes could perform many of the tasks chemicals traditionally do—acting as solvents or flavor enhancers, for instance—with less cost to the environment. Its head start and innovative products have helped Novo grab a 50%-plus share of the $1 billion world enzyme market. Now, by tonnage, Novo produces more biotech products than anyone else—including its mainstay pharmaceutical products, insulin and human growth hormone.



DATA: NOVO NORDISK, BUSINESS WEEK

Today, the rest of the chemical industry is trying to catch up. Biologically based chemicals still make up just a sliver of the overall chemical market. But the public's chemophobia is escalating, while regulators continue to clamp down on which chemicals industry can use, and how. These forces, plus a heightened interest in "sustainable development"—the idea that future economic health depends on cutting pollution and using fewer natural resources—are fueling a conversion to greener alternatives by chemical makers such as DuPont, Dow, and South San Francisco's Genencor International. "Products that support sustainable development will be in demand," insists Mads Ovlisen, Novo's chief executive. "I see no alternatives."

KICKING HABITS. Fact is, enzymes are a necessary alternative for Novo, too. Margins for its mainstay drug, insulin, which commands a 44% share of the world market, have fallen since the drug went off patent decades ago. And now a shortage of insulin caused by a delay in the startup of a Novo plant in North Carolina is threatening to drive customers to Novo's chief insulin rival, Eli Lilly & Co. Investors are worried enough that Novo stock is selling at a discount to the Danish market. For all those reasons, Ovlisen wants to boost enzyme sales and make Novo less dependent on insulin.

To do that, the company is investing heavily in enzymes, which account for $575 million of its sales. This year, it spent $120 million to expand Novo Nordisk BioChem Inc., its operation in Franklinton, N.C. And in May, Novo acquired a site in China for a plant to supply enzymes to China's growing detergent, brewing, and textile industries—an investment that could reach $210 million in the next decade. At the same time, Novo is spending 10% of enzyme sales on research and development to keep rolling out innovative products.

Novo didn't set out to be a pioneer. The enzyme business began as a sideline

) the pharmaceutical business, which ill accounts for more than 66% of overl sales. For decades, Novo produced enicillin through fermentation—a proess of growing microorganisms in an rganic soup from which the enzymes ie bugs make are extracted and turned ito drugs. In the early 1960s, Novo scintists started experimenting with oth- enzymes after a Swiss company, Grüder Schnyder, developed the first etergent enzyme. Novo quickly folwed with its own product, Alcalase, a rotein-stain remover that bested chnyder's in alkaline washing condions. Within five years, Procter & Game, Unilever, and Colgate-Palmolive ad added it to detergents. Buoyed by hat success, Novo rapidly expanded to industrial enzymes.

The business, which is growing by % to 15% a year and commands preium prices for novel products, is a romising area for future growth. Enmes—natural catalysts that can speed a chemical reaction without being nsumed in the process—are biodegradble. And since they work best in mild nditions, they can require up to a third ss energy to use than many synthetic hemicals do. That helps explain why st year Novo sold $230 million worth of nzymes to the $25 billion detergent industry—an 8% gain—even as U.S. soap les fell because of price cuts.

chemophobic world is demanding that ndustrial problems be solved biologically

Novo's detergent additives are also demand because they work better. In llaboration with Novo, Procter & amble Co. developed Carezyme—a roprietary enzyme that reduces the zz buildup on fabrics. Last year, P&G dded Carezyme to its worldwide stable detergents. It now boasts of the enme's benefits with its Tide slogan: Keeps clothes looking more like new." he Cincinnati giant cites Carezyme as ie reason brands such as Cheer outerformed the market last year.

There are plenty of other instances here Novo's creativity has paid off. You don't get and keep a 50% market hare without a constant stream of innoative products," says Paul Krikler, an nalyst at Goldman, Sachs & Co. in Lonon. Take hexane, a chemical solvent sed to extract oil from linseeds and her vegetables. Since it is derived om crude oil, hexane is explosive and

How to buy something different for everyone.

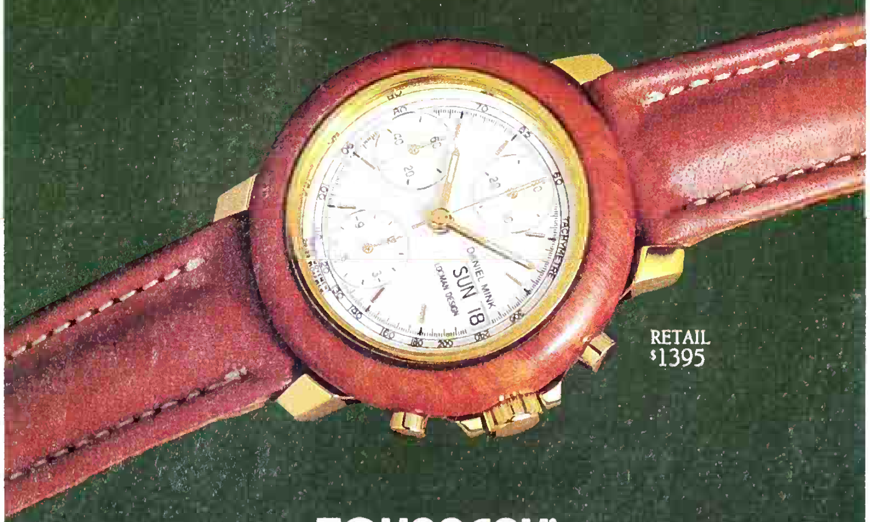
AMERICAN EXPRESS
American Express Gift Cheque
THE AMERICAN EXPRESS GIFT CHEQUE

Simple. Buy the American Express® Gift Cheque. It's different things to different people because it allows them to buy practically anything, virtually everywhere. Packaged elegantly, it is a truly distinctive and memorable gift. Available at participating American Express® Travel Service Offices, banks, credit unions and AAA Clubs. For a location near you, call **1-800-472-2804.** For more information on corporate orders (over 20 Cheques) call **1-800-700-7621.**

AMERICAN EXPRESS **Gift Cheques**

DANIEL MINK
SWISS

HANDCRAFTED RADICA WOOD COLLECTION



TOURNEAU®
New York • Palm Beach • Bal Harbour • Costa Mesa
NEW YORK • MADISON AVE. - 52ND ST. • MADOSON AVE. - 59TH ST. • 34TH ST. - 7TH AVE.
FLORIDA • PALM BEACH - WORTH AVE. • BAL HARBOR - BAL HARBOR SHOPS
CALIFORNIA • COSTA MESA - SOUTH COAST PLAZA
SHOP AT HOME: (212) 758-6234 / 1-800-348-3332

There's no telling where the next Fortune 500® leaders will come from.

Who knows, one of these kids from Anchorage, Alaska may one day design a downhill ski that revolutionizes the sport. Or develop new aquaculture techniques to harvest bigger, faster-growing Alaskan king crabs.

When that happens, they'll need more than just their vision to keep their companies strong. They'll need to manage a seemingly endless flow of information.

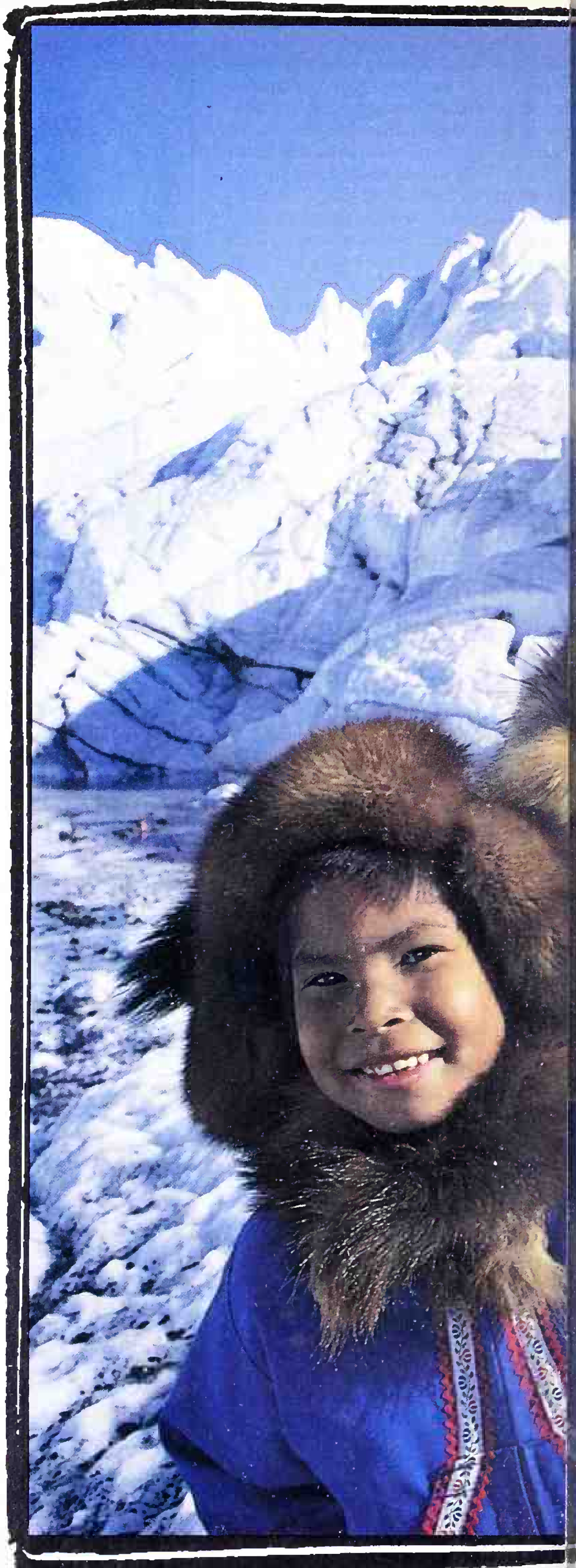
For 25 years, Martin Marietta has been helping companies do just that. From an overnight delivery company to a multi-office government agency. From a national food supplier to a video game maker.

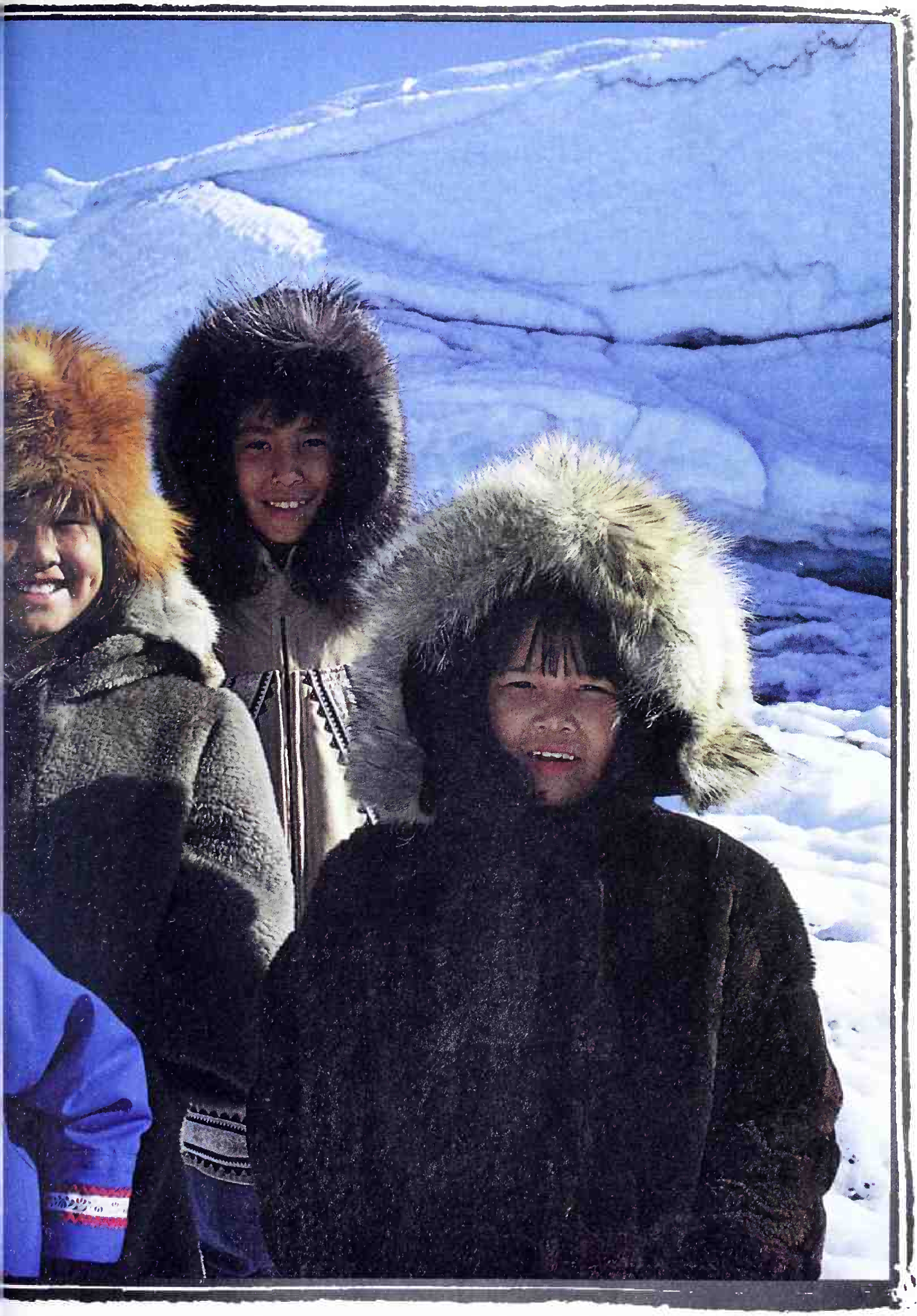
As an established systems integrator, Martin Marietta works closely with industry and government to energize aging systems, switch to advanced technologies, and implement totally new information strategies. All to ensure that our customers have the resources to stay focused on their business.

Tomorrow's business leaders will come from anywhere, just as one of these children may one day pioneer a way to tap glaciers to irrigate the arid Southwest.

The right information technology, however, will not.

MARTIN MARIETTA





© 1994 Martin Marietta Corporation

Its prescience, exploration for exotic microbes, and penchant for risk-taking resulted in Novo's 50%-plus share of the world enzyme market

dangerous to breathe. Novo's solution? An enzyme that extracts the oil from linseeds that are doused in water, which cuts the risks to workers and to the environment.

Similarly, the pulp and paper industry is coming under fire for its use of chlorine to remove residual lignin, a part of the wood that will turn yellow or brown if it's left in paper. Novo sells an enzyme that makes lignin easier to remove—cutting chlorine use by about 30%. It expects to have an enzyme to replace chlorine altogether within two years. The market for such an innovation could be worth hundreds of millions of dollars. "We're betting that industries like paper and pulp will be willing to pay for solutions to their environmental problems," says Ovlisen.

The 54-year-old Ovlisen is credited with quickly grasping, when he became president and CEO in 1981, how Novo's long-standing fermentation expertise could be harnessed to biotechnology. Biotech enables researchers to move genes from one type of cell to another: Novo's fat-splitting detergent-additive enzyme, Lipolase, for instance, was found in a strain of fungus that produced it only in minute quantities, making industrial production difficult. But Novo scientists transferred the gene to another microbe able to churn out more of the stuff.

ON THE LOOKOUT. Since most genes can be transferred to a more productive host, Novo has stepped up its hunt for novel microbes that will do everything from taking fat out of foods and mopping up toxic waste to improving the digestion of farm animals. Last year, it created a new, 30-person R&D group in Davis, Calif., that is charged with finding new enzymes in extreme environments, such as the boiling springs of Yellowstone National Park, the deep oceans, or the frozen reaches of Antar tica. That's in addition to the 550 r searchers who are already working i Denmark on enzymes and biopesticides All researchers are encouraged to ex periment with new ideas and can spen up to 20% of company time on their ow projects.

Today, Novo has a solid roster products in the pipeline (table). In th next few years, the company plans t roll out enzymes that do everythin from chewing up toxic chemicals an killing insects harmful to plants to mak ing industrial cleaning jobs easier. In creasingly, those enzymes will be de signer creations—their structure modified by genetic engineering so tha they are precisely tailored to do a par ticular task or to operate at a specifi temperature.

Novo has paid a price for its techno logical leadership. In the late 1960s, fo instance, reports that workers in de tergent plants were suffering allergi reactions fueled public fears that en zymes were unsafe. In response, P& and other manufacturers yanked en zymes from their U.S. products. Novo' enzyme sales, the biggest in the indus try, dropped 30%, from $86 million i

FOR THE LAST 15 YEARS,
PC'S HAVE BEEN IN THE NEWS.

Here's some computer technology that will never become outdated: CNN at Work.℠ With Headline News, stock tables, all the timely information on CNN, now on your PC. It's small enough so it won't interfere with your work. But big enough to help you make smart decisions. You'll need a fast 486 or Pentium™ processor-based networked PC. CNN at Work is easy to install and won't cause any trouble on your network. (Except

Harnessing Green Chemistry

By replacing harmful chemicals with environmentally safe biological enzymes, Novo Nordisk is making many industrial processes cleaner and cheaper

TODAY'S CLEAN PROCESSES...

LIPOLASE A fat-splitting detergent additive that cuts energy consumption by making it possible to wash clothes at lower temperatures.

ALKALINE CELLULASE Replaces pumice stones to create "stone-washed" denim jeans, cutting waste, energy use, and wear on machines.

PULPZYME Boosts the effect of chlorine in bleaching pulp and paper, thereby reducing the use of environmentally harmful chlorine.

NEUTRASE Replaces sodium bisulphite used in baking flour, which is now banned in many countries because it attacks vitamin B1 in the body.

NUE Used to treats hides and leathers in tanneries, cutting use of harmful sulphide by 40%.

...AND THOSE FOR THE FUTURE

GLYCOLIPIDS They dissolve fat stains, making industrial cleaning easier. Due 1995.

HAIR-CARE ENZYMES Will create permanent waves without today's harsh chemicals. Due 1998.

BT-BASED INSECTICIDES Kills larvae without harming other species, for use in agricultural products. Due 1998.

ABZYMES Antibodies resembling enzymes that can detoxify poisonous chemicals and cut through the protein coat of viruses. For use in drugs and environmental cleanup. Long-term research.

LACASSES Enzymes neutralizing toxic chemicals called polyphenols. Potential uses: alter flavors of juices and wines; clean waste water. In testing.

DATA: NOVO NORDISK

969 to $60 million in 1970, forcing the ompany to lay off 400 of its 2,100 work-rs. German and Japanese rivals ropped out of the business, but Novo ung in—eventually figuring out how o granulate the enzymes to solve the llergy problem. Yet even today Novo is nder attack by European opponents f genetic engineering, who fear that the technology cannot be adequately controlled.

Those critics, however, haven't prevented Ovlisen from plowing ahead in the use of biotechnology for Novo's drug and enzyme businesses. Indeed, it spends more on R&D than do its chief rivals, Gist-Brocades of the Netherlands and Genencor International in South San Francisco. Partly as a result, analysts estimate, Novo will earn $399 million before taxes in 1995, up 15%, on sales of $2.7 billion.

Remaining an innovator is critical. Enzymes have a short life cycle, so Novo needs to keep churning out novel replacements quickly. Meantime, rivals such as Genencor, a joint venture of Eastman Kodak, Finland's Cultor, and Genencor Inc., are becoming more formidable competitors. Genencor, which had $150 million in sales last year, just rolled out a stonewashing enzyme and is racing Novo to market with its own chlorine substitute. Novo's challenge will be to keep pumping out novel products while its cash-cow insulin business, which has financed its investments in enzymes, slows down. Under the circumstances, it's no wonder that Novo scientists are stepping up their microbe-hunting safaris.

By Julia Flynn in Bagsvaerd, Denmark, with Zachary Schiller in Cincinnati, John Carey in Washington, and Ruth Coxeter in New York

NOW IT'S THE OTHER WAY AROUND.

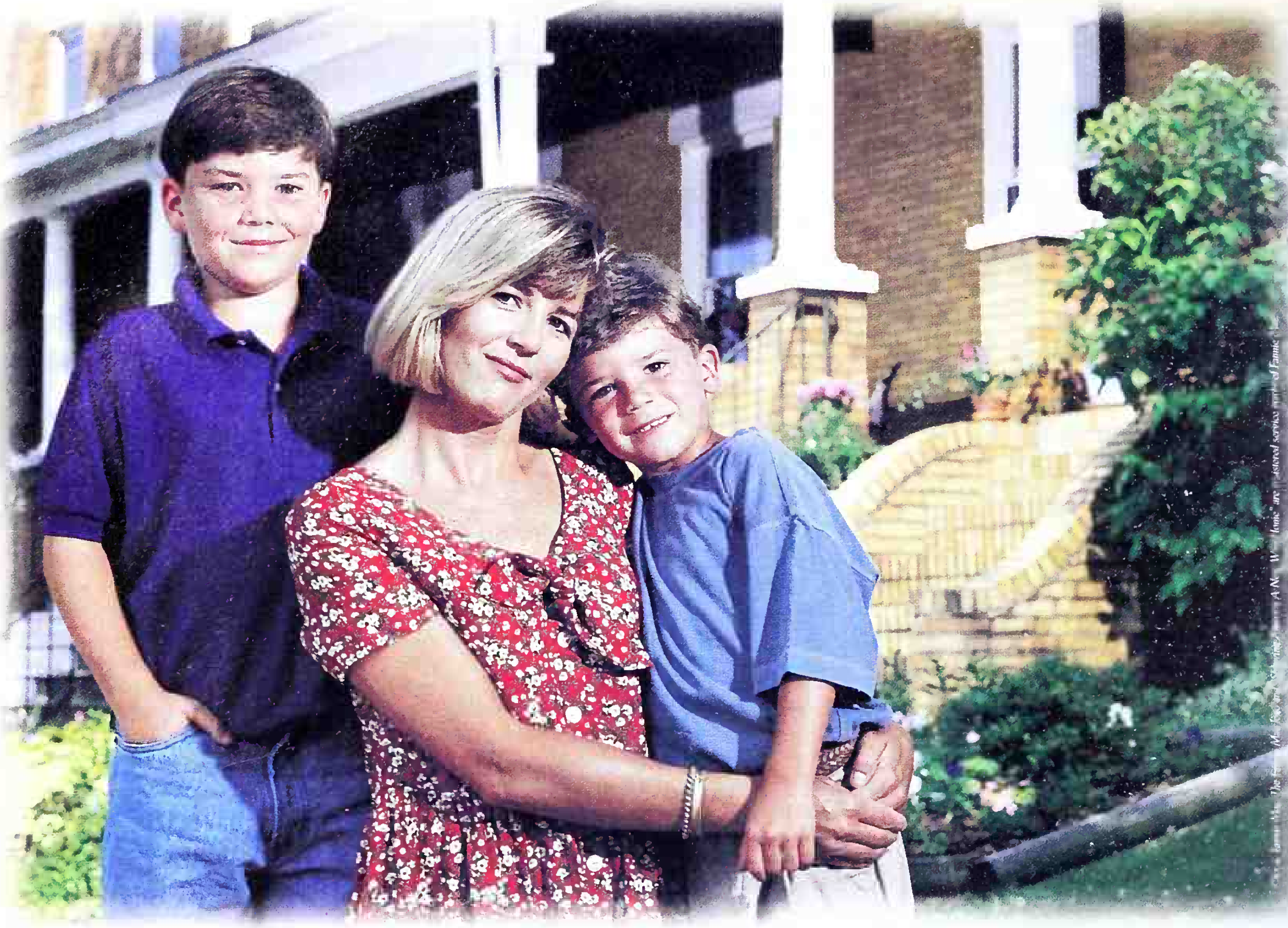
CNN at Work
CNN

for the occasional flare-up in the Persian Gulf, of course.) You can even retrieve pertinent stories by name with our Story Finder. So you can watch what you want, when you want. Call today for the biggest news in and on PC's. **1-800-538-3373 Ext.103.** CNN at Work. Because sometimes the news just can't wait until you get home.

CNN AT WORK

intel

CNN at Work in your office requires a specialized gateway connected to your network. (The Intel System for CNN at Work) and monthly



Doors are opening.

Opening to people who want to buy a home, but need more information on how to do it.

Opening to people who've had to struggle just to get access to mortgage credit.

Opening to people who've been underserved, in the city, in the country, across America.

Opening to families buying their first homes.

We're committing a trillion dollars to help finance over ten million homes.

To help people most in need. We're opening a lot of doors.

FannieMae®

Showing America A New Way Home.℠

For more information about our efforts to help people overcome the barriers to homeownership, call 1-800-548-9444

Developments to Watch

DITED BY RUTH COXETER

SALTING AWAY EXCESS HEAT

PEOPLE USED TO PUT HOT bricks between the covers to warm their beds—and may still do so in some parts of the world. But today, engineers are exploiting other materials that release stored energy. Dow Chemical Co. and Indianapolis-based IPALCO Enterprises Inc. have formed a joint venture called Store Heat & Produce Energy (SHAPE). Their goal is to develop products based on 16 different inorganic salt hydrates that store and release heat at temperatures ranging between 40F and 240F. The salts are nonflammable, don't degrade easily, and are able to store more heat than some alternative materials.

The first product, a truck heater, is due next year. When truckers pull over on cold nights, they run the engine to keep warm, which wastes fuel and increases engine wear. SHAPE's energy storage box can give out enough heat to keep the cab between 65F and 70F for eight hours, say company officials. SHAPE intends to add the material to furnaces, air conditioners, and heat pumps for commercial buyers of electricity, which will allow them to shift more of their demand to cheaper, off-peak hours.

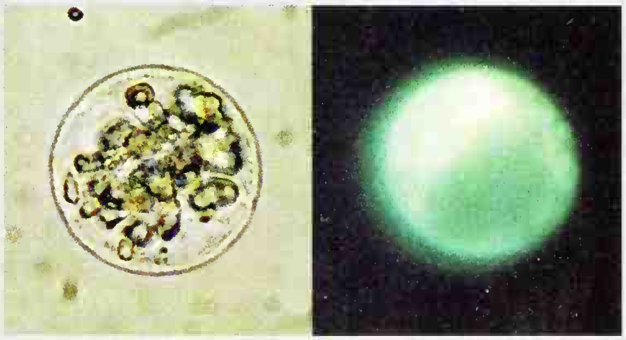
'ROM A PIG'S NTESTINE TO YOUR ,CHING KNEE

TEPHEN F. BADYLAK FEELS ke a used-parts salesman. 'rom discarded pig parts, his eam at Purdue University as developed a material to elp reconstruct damaged huian arteries, veins, ligaients, and tendons.

The process starts with the iiddle layer of a pig's small itestine, the submucosa, or IS, which is sterilized and iolded into sheets and tubes. .nimal studies showed that 'ithin weeks a tube of SIS reiodeled itself into a brand-ew ligament. And within a ear, all traces of the materil disappeared.

The material—a composite f proteins, collagen, and ioactive molecules—signals ells to migrate and differeniate into new tissue that takes .s place. Badylak speculates hat the similarity of pig and uman collagen may help preent an immune system esponse, since the two differ y just a few amino acids. Two ollaborations are under way:)ePuy Inc. of Warsaw, Ind., s developing ligaments, and 'incinnati-based Sentron Iedical Inc. is working on heria patches. Badylak estimates uman testing will begin withı a year.

A GENE THAT SIGNALS SUCCESS



GREEN LIGHT: *Orange cells and fluorescent protein*

A GREEN FLUORESCENT PROTEIN (GFP) GENE GLEANED from jellyfish may shed some light on genetic research. Randall P. Niedz, a plant geneticist with the U. S. Agriculture Dept.'s research service, borrowed the gene from Columbia University scientists, had it modified at the University of Wisconsin, and transferred it into sweet orange citrus cells. When illuminated with blue light and viewed under a microscope, the cells glowed an intense green.

Niedz hopes that the GFP gene can be hooked on to a gene that codes for a desirable trait, such as cold resistance or sweetness, and inserted back into a fruit or vegetable cell. A glowing cell would signal a successful transplant and give away the location of the gene. Paired with a DNA sequence called a promoter, which is sensitive to light or temperature, the GFP could signal when the desirable gene is turned on. Unlike commonly used chemical tests, illumination doesn't destroy the cell. So plants containing the gene could be grown so scientists can observe which parts of the plant express the gene. Anticipating the wrath of biotech nemesis Jeremy Rifkin, Agriculture Dept. scientists at the Gene Expression Laboratory in Berkeley, Calif., are trying to figure out how to delete the jellyfish gene or turn it off once its work is done.

THIS FOAM BLANKET MAY DAMPEN A CHERNOBYL THREAT

CHERNOBYL IS A NUCLEAR disaster that won't go away. Intense gamma radiation is weakening the Ukrainian nuclear power plant's damaged containment vessel, which could collapse and raise a giant cloud of radioactive dust.

What to do? Under an agreement with Ukraine's State Committee of Atomic Energy, New York-based Nuclear Shield International Inc. is figuring out how to spread a spongy foam blanket to seal the ruins in place.

Irradiated concrete disintegrates into a dangerous "hot" dust. Nuclear Shield's foam,which isn't damaged by radiation, is made mainly of polysiloxane, a silica compound, plus metal additives. While it won't stop rays, it should stay intact and keep irradiated materials from spreading. The Moscow-based Kurchatov Institute for Nuclear Physics has endorsed the material's use. Nuclear Shield is a unit of Orbit Technologies Inc.

INNOVATIONS

- To cut wind drag and boost mileage on a bus, try a 12-foot inflatable tail, says Texas Tech University engineer Herbert J. Carper. It is approved for use in Arizona.
- Soon baking soda may clean uranium-contaminated soil. Los Alamos National Laboratory researcher Don A. York found that a soda solution can leach out 92% of the radioactive material.

THE INTERNET

How it will change the way you do business

You've heard of the Internet, right? Last year, this very public and amorphous collection of computer networks exploded as the techno-fad of the decade—a peculiar blending of the personal computer and citizen's band radio, it seemed. The Internet was where millions of friends and strangers could chat and "flame" each other about every topic under the sun, from sex to Spam and Superman. It let people browse through thousands of on-line libraries, play new types of games, and trade software.

But did you know that an all-new, very serious, and very grown-up Internet is emerging? That the Internet is getting much easier to use, even for nontechnical people? That it's shedding its old, frumpy look for glitzy graphics, sound, and even video? And that now, new software and imaginative services are making the Internet one of the most exciting places ever for doing business?

EASY JUMPS. Just turn on, dial in, and see for yourself. Boot up a program called Mosaic in your desktop computer, and with the mere click of a few graphical buttons you can see the future of the Internet—on a virtual stroll through what's easily its hippest, most exciting "neighborhood." It's a collection of 7,000-plus independently owned computers that work together as one in an Internet service called the World Wide Web. These computers, called Web servers, are scattered all over the world and contain every imaginable type of data. But thanks to the high-speed Internet circuits connecting them and some clever cross-indexing software, Mosaic lets you jump from one Web computer to another effortlessly—creating the convincing illusion of using one big computer.

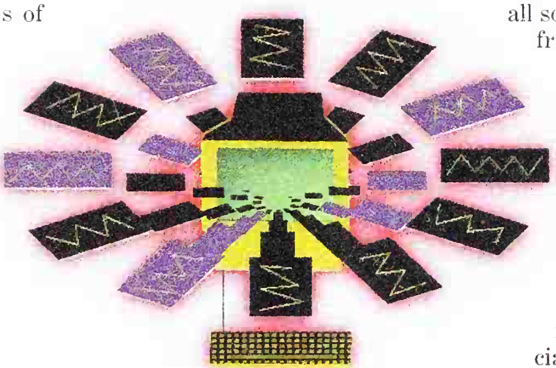
Try it. Click on Mosaic's "What's New on the Web" menu item. That whisks you over the Net to a Web server at the University of Illinois' National Center for Supercomputer Applications. In seconds, Mosaic has retrieved a biweekly list of the servers most recently added to the Web by dozens of corporations, merchants, colleges, government agencies, and even grammar schools.

A listing for something called WWW Paris catches your eye Because that title appears in bold type, you know that clicking on it will activate an invisible "hyperlink" across the Web and summon forth additional pages of information—in this case, direct from a computer in Paris. Voilà! In seconds, Mosaic displays a new screen listing all sorts of goodies available over the Net from the WWW Paris server: street and Metro maps, photos of city sights museum listings. The new page even lets you jump—again, with a mouse click or two—to other Web computers run by schools government agencies, and other institutions in and around Paris

Perhaps the City of Light has put you in the mood for shopping Head for one of the Web's growing number of electronic malls and specialty stores—700-plus, at last count Internet Shopping Network, recently bought by TV's Home Shopping Network Inc., is taking orders for computer gear. Hello Direct is selling telephone accessories (page 86). Click over to Mammoth Records and you can grab concert schedules and download digitized singles and video clips from groups called Chainsaw Kitten and Machines of Loving Grace—all gratis.

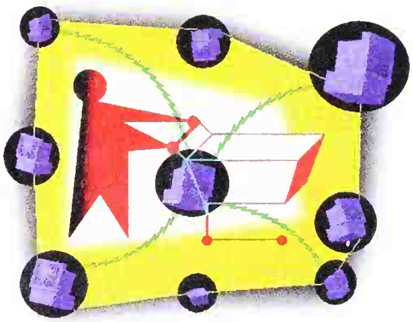
That's just a taste of how easy it is to surf the Internet these days. The arcane codes and network addresses once required to search the Net's scattered resources are now buried under colorful user-friendly screens and lively graphics. With the Web and "Web browser" programs like Mosaic, the Internet is finally turning into a network for the masses, not just a clubhouse and playground for engineers and hobbyists.

VIRTUAL PARTIES. And it's that fresh friendly face that's making the Net a splendid medium for electronic commerce. From corporate giants—IBM, AT&T, Ford, Merrill Lynch, J. P. Morgan, Bank of America, Dun & Bradstreet, J. C. Penney, Mitsubishi—to hundreds



PUBLISHING

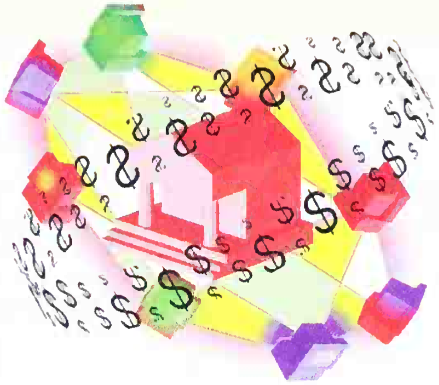
IBM produces an electronic magazine. Others are working on newsletters and books



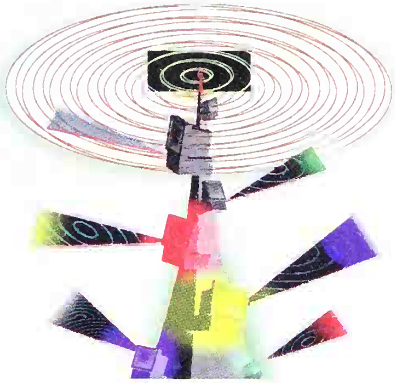
SHOPPING

Home Shopping's computer store has 15,000 items. Others sell Moroccan rugs and cars

ILLUSTRATIONS BY JOHN HERSEY



COMMERCE
GE provides technical data. There are 21,000 commercial Internet addresses



BROADCASTING
Experimental setups are moving digitized audio and video snippets to PCs–a hint of what's to come

ADVERTISING
Companies from IBM to Volvo and BofA are promoting goods and services with interactive ads

of startups, businesses the world over are jumping onto the Net or getting ready to. All told, some 21,700 commercial 'domains," the Internet equivalent of storefront addresses, are officially registered, up from about 9,000 in 1991.

Some of these companies are simply experimenting—throwing a few pages of company or product information onto the Web for public viewing. Tupperware runs virtual Tupperware parties. The Rolling Stones' Voodoo Lounge on the Web plugs he group's records. IBM has what amounts to an electronic version of its *THINK* magazine (page 83)—with articles about the company and its products and esearch activities.

ONE MARKET." Some companies, however, are doing something far more ambitious. They're laying the groundwork for ntirely new ways of doing business—dealing directly with suppliers, industrial customers, and potentially millions of n-line shoppers. In Silicon Valley, a group of electronics manufacturers that includes Intel, Hewlett-Packard, IBM, and Apple Computer is building CommerceNet, an Internet marketplace for electronics goods and services. If it develops s planned, it could just about eliminate ll paperwork between participating companies—everything from simple purchase rders and invoices to resumés and product specifications.

"With the Internet, the whole globe is ne marketplace," says Bill Washburn, ormer executive director of Commercial nternet Exchange, a joint venture that uns one of the Internet's major trunk ircuits. The Net's information-rich Web ages can help companies reach new customers, Washburn says. But it also will reate "all kinds of opportunities to save noney." By linking buyers and sellers nd eliminating paperwork, "the cost er transaction will go through the oor," he predicts.

That's why corporations are so ager to exploit the Net. They an use it as a tool for marketing, sales, and customer support. And as a low-cost alternative to fax, express mail, and ther communications channels. And as a way of establishing a new ongoing relationship with customers. Volvo and Alfa Romeo are using the Web to zap hotos and information about new ars to virtual tire-kickers. J. P. Morgan & Co. offers clients access to its isk-management database. Hyatt Hotels Corp. promotes hotels and resorts, providing discounts for those who say they saw it n the Net. GE Plastics is leading General Electric Co.'s foray with 1,500 pages of technical data on the Web to help customers use its resins. Xerox Corp. allows customers to try out oftware across the Internet, and computer buyers can log nto a Digital Equipment Corp. Alpha computer to find out how quickly it can run their programs.

Even law firms are getting into the act. Boston-based Hale & Dorr is using the Net to speed up and cut the costs of some routine work. If a client company needs a contract for a foreign distributor, say, it can fill out an electronic questionnaire and send it over the Internet to a Hale & Dorr computer. Expert-system software then constructs a draft document from boilerplate text. A lawyer reviews the document, makes necessary changes, and ships it back over the Net to the client—complete with a list of recommended lawyers in the other country. "We see the Internet as one aspect of new technology that's critical to delivering legal services to clients," says Mara G. Aspinall, director of client services.

FALLING BACK. No, it can't deliver 500 channels of interactive TV. But for now, and most likely for a few years to come, the Internet is about as close as you'll get to the Information Superhighway. And with continuing improvements to the nation's telecommunications circuits, on which the Internet rides, the Internet itself "will blend into the future era of interactive television," predicts former Silicon Graphics President James H. Clark, now chairman of Mosaic Communications, an Internet startup intent on bringing millions of people onto the Web with an inexpensive version of Mosaic.

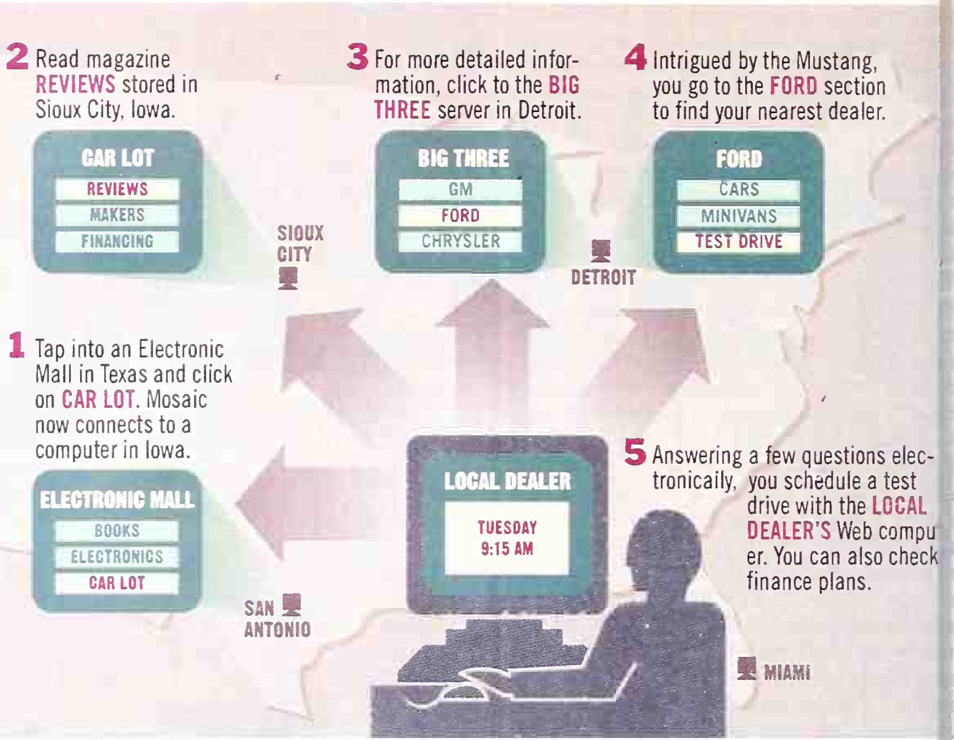
Indeed, with high-profile broadband network experiments such as Time Warner Inc.'s Orlando project falling behind schedule, the Internet is the place to be today if you want to learn how to do business in the 500-channel future. "The Internet is where we're going to learn what it takes to gain people's attention in a crowded, confused, and conflicting [electronic] environment," says Jeff Gentry, president of Home Shopping Network's HSN Interactive unit. "All savvy retailers are thinking about it."

In fact, when it comes to almost anything but video on demand—electronic shopping, banking, publishing, information services—the Internet looks like the medium of choice. Why? Because it's evolving into the world's first digital-information utility—an all-purpose network that, within limits, lets anyone send anything digital to anyone anywhere. Already, Internauts have set up live, digitized "radio" broadcasts and are distributing—albeit slowly—digitized snippets of video. Several companies are extending the Internet's reach with links to pager services, too.

No wonder big businesses are studying the Internet and why operators of on-line services—America Online, CompuServe, Prodigy Services, for instance—are in a frenzy to give their subscribers better access to it. They need to live with the Internet or risk being overwhelmed by it. "It's undeniably

CLICKING YOUR WAY 'ROUND THE WEB

The World Wide Web is a software scheme that's making the Internet easy to use. Just click with a mouse on graphical buttons and you can browse through thousands of multimedia documents, or Web "pages," stored all over the world. The name Web reflects the fact that each document is linked invisibly to related documents in other computers. Using a Web browser program such as Mosaic in your PC, here's how you might jump around the Web one day to buy a new car in Miami:



1 Tap into an Electronic Mall in Texas and click on **CAR LOT**. Mosaic now connects to a computer in Iowa.

2 Read magazine **REVIEWS** stored in Sioux City, Iowa.

3 For more detailed information, click to the **BIG THREE** server in Detroit.

4 Intrigued by the Mustang, you go to the **FORD** section to find your nearest dealer.

5 Answering a few questions electronicaily, you schedule a test drive with the **LOCAL DEALER'S** Web compu er. You can also check finance plans.

the new competition," says Mark Walsh, president of General Electric's GEnie Services.

The numbers tell why. It has taken the on-line giants a decade to reach their current level of business—about 6 million subscribers total. But the Internet's population has jumped from an estimated 1 million individuals in 1988 to more than 20 million today, with hundreds of thousands joining each month. Within a year, Internet access may well be a given on new PCs. It's already built into IBM's OS/2 Warp operating system and will be part of Microsoft's Windows 95.

Cover Story

And because every person who signs on can be a producer as well as a consumer of information, the Internet constantly grows richer in content, too. "The value of the network increases exponentially with each new network connection," says Marc Andreessen, vice-president for technology at Mosaic Communications.

DOUBLING UP. Another feature of the Internet is that it knows no geographic bounds. Internauts are logging on from Brooklyn to Bangkok. From 3.2 million computers around the world today, the Internet is expected to swell to more than 100 million machines in five years. Already, the network reaches 75 countries with full service. Computer owners in 77 more countries are able to send and receive simple Internet E-mail. The number of Web servers is doubling every few months.

To a remarkable degree, all of this has come about spontaneously—accidentally, even. Nobody owns the Internet. It's not guided by any singl company or institution. The result is a technical, social, an now commercial phenomenon—a wide-open hothouse of inno vation where scientists and now executives try out thei best ideas. Says Bill Fitzgerald, president of Tech 21 Inc., a Internet consulting firm in Eatontown, N.J.: "The Net is a amazing collection of very bright people all pulling together.

It all began with some brilliant design decisions in the lat 1960s. Back then, the Pentagon asked computer scientists t find the best way for an unlimited number of computers t communicate—without relying on any single computer to b traffic cop. A centrally managed network, defense strate gists reasoned, would be too vulnerable to nuclear "decapita tion." So, betting on a new communications technology calle packet-switching, the Pentagon in 1969 funded the Arpane Initially, it linked just four research labs, letting scientists an engineers test networking technology.

Quickly, the Arpanet expan ed to dozens of universities an corporations, which added man refinements. They built pr grams to help people exchang E-mail, tap into remote dat bases, run supercomputers at distance, and brainstorm vi electronic bulletin boards. Per haps the most powerful innova tion was the communication protocol that gave the Interne its name. The Internet Prot col (IP) allows any number computer networks to link u and act as one. It works jus like the global mail system, i which dozens of independen authorities collaborate in mov ing and delivering one anoth er's letters. Address a lette properly, affix the correct post age, and you can be sure, mor

A NICKEL TOUR OF THE WEB

Anyone using a Web browser program such as Mosaic, Cello, or Lynx can visit these corporate sites on the World Wide Web. Just enter the appropriate code and you're there:

MILLER GENUINE DRAFT http: //www.mgdtaproom.com

DUN & BRADSTREET http: //www.dbisna.com

IBM http: //www.ibm.com

GENERAL ELECTRIC http: //www.ge.com

AT&T http: //www.att.com

HELLO DIRECT http: //www.hello-direct.com/hd/

Also, comprehensive lists of business Web sites are available at these addresses:

http://www.directory.net/dir/directory.html

http://www.openmarket.com

RAY VELLA/MAW

r less, that it will arrive. There's no need to worry about who vill carry it or what route it will travel.

The full set of Arpanet protocols, known as TCP/IP (Transnission Control Protocol/Internet Protocol), tore through he academic and research communities and then into commerial computing with products such as Sun Microsystems Inc. vorkstations. By the late 1980s, there were millions of computers and thousands of networks using TCP/IP, and it's from heir interconnections that the nodern Internet has emerged.

Today, the Internet compriss 48,000 different networks round the world—some coverng entire geographic regions, uch as the Northeast U. S., and thers connecting only a single ollege campus. So well do they ll work together that a reearcher in Japan can browse ne files of a computer at Georia Institute of Technology just bout as easily as a Tech stuent can. The Japanese user nay see only a few seconds' dey as his messages move to and om Atlanta across a series of ntermediary networks.

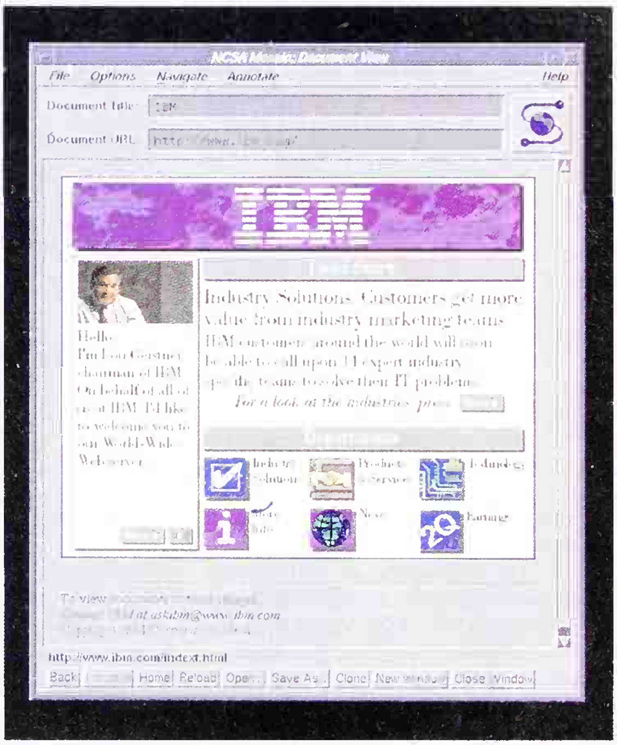
LAT RATE. By agreement, all of he Internet's subnetworks nove each other's traffic at no harge to the others. As a reult, its users essentially pay a at fee, based on the length of me they're connected to a local ubnetwork and the potential apacity, or bandwidth, of that onnection. In contrast, most ther networks have charged ustomers according to the numer of messages they actually enerate or receive.

In fact, the Internet's unique echnology and pricing scheme nsure that it will be around, in ne form or another, for many ears to come. One of TCP/IP's nost significant features, for intance, is that it isn't tied to any ingle computer or communicaons technology. Internet traffic an move over almost any physal channel—telephone lines, able-TV setups, satellite links, vireless phones, or high-speed ber-optic trunks. And while the Net's first computing "nodes" vere mainframes and minicomuters, it's now taking advanage of every advance in microrocessor technology.

For all its brilliance, however, he Internet does have limitaons. While creating a system o survive a nuclear attack, Aranet designers weren't thinkng about electronic commerce. o the Internet still lacks secury features, which makes busiesses wary of trusting it with data such as credit-card numbers needed for on-line shopping. Plugging these gaps is the focus of much Internet activity today (page 88).

Still, many businesses aren't waiting to establish their presence on the Internet. Within a year, Dun & Bradstreet Corp. plans to sell and deliver credit reports over the Net. Its R. H. Donnelly unit, meanwhile, plans to create a World Wide Web-based yellow pages. By simply clicking on an ad, a view-

AND LEADING THE NEWS IN IBM'S CYBERZINE ...



CLICK ON BLUE: *"A way to open up the company"*

Big Blue is jumping onto the Internet's World Wide Web as a means of getting its message across to customers, investors, the public, and its staff quickly and inexpensively—and in a digitally hip manner. "This is a way to open up the company to the world," says John Patrick, a marketing communications manager at IBM's Networked Applications Services unit, who is overseeing the company's foray into public cyberspace.

IBM's "home page," a sort of table of contents for its World Wide Web server, offers pathways to a wide selection of information—some of it practical, some of it designed just to enhance Big Blue's image. There's a greeting from Louis V. Gerstner Jr., complete with a digitized picture of the chief executive. There are the company's latest earnings reports, rundowns on research projects and new products, a catalog of software items, and stories on how various customers are using IBM machines. Viewers of this page need only click with a mouse on the words appearing in bold, blue type and within seconds they'll be viewing additional information on that topic.

Y'ALL COME BACK. Like many companies, IBM is determined to make its home page a popular spot on the Web, a place to which people will return again and again just to stop by and see what's new and interesting there. And that means coming up with a continuing stream of new articles and graphics—much like producing a regular magazine or television show.

Currently, the company's main feature story here is about how an IBMer named Don Nix is using multimedia computers to teach reading to children at a long-neglected school in Harlem. Click on a graphical button and you can hear a digitized recording of the kids singing a song about Rosa Parks and the Birmingham bus boycott.

To help keep the stories flowing, Patrick has named a home page editor and rounded up a small staff to help him scout out stories within IBM and turn them into material for the Web. He also has laid down rules for how all IBM units should format information for presentation on the Web. Journalism 101 for the Information Age.

By John W. Verity in New York

The current feature story is about using multimedia to teach children to read er could be shunted instantly to that advertiser's Web computer—to browse an electronic catalog and perhaps place an order. One day, Donnelly's server might sort movie listings to show viewers only those that are convenient to them—or entice them with 30-second digitized previews.

Even now, some companies are actually making sales on the Net. One pioneer is Robert Redford's Sundance Catalog Inc., which sells American handicrafts. In September, the Park City (Utah) mail-order house went live on the Web with a colorful 230-item electronic catalog that can automatically pass data to its back-office computers. When a browser decides on an item—a fringed jacket, say—she just clicks on a "buy" button and it's added to an electronic order form. When ready, the consumer verifies the order, entering shipping and credit-card information.

RAZZLE-DAZZLE. Then, another series of Internet interactions begins. Computers at Evergreen CyberMart, a consulting firm that has been hired to manage Sundance's Internet operations, completes the virtual paperwork in a matter of seconds, checking credit-card limits and Sundance's inventory computer to make sure all items are in stock. It can remind the customer of a past-due balance, send a seasonal greeting, or try to "cross-sell" related items—a scarf to go with the jacket, perhaps. When the transaction is complete, Evergreen's computer automatically updates Sundance's accounting, inventory, and shipping systems, too.

There's more than technological razzle-dazzle at work here. Traditionally, it has cost mail-order companies from $10 to $15 to process a telephone or mail order, says Rodney Joffe, president of American Computer Group Inc., a direct-marketing service bureau that is helping to sell Evergreen's services. Over the Internet, Joffe says, that cost falls to $4.

The Internet, it seems, has the potential to help reengineer all sorts of businesses—for a lot less than using private networks. Trane Co., a LaCrosse (Wis.) maker of heating and air-conditioning systems, had revamped its manufacturing so it could build custom-designed commercial air-conditioning systems in as few as 6 days—down from 36. But it still took up to 46 days to get the paperwork done using a mainframe-based network from IBM. The solution: Install powerful desktop computers in Trane's 120 field locations and connect them via the Internet for exchanging sales bids and other documents. Even salespeople's laptops will be on the Net. Using Internet instead of creating its own network will shave costs by at least 25%, says Dave Norton, a Trane system strategist.

Right now, the biggest Internet business may simply be providing easy access to the Net. In the U.S. alone, this market will grow to $1 billion in 1996 from $47 million las
year, says Joel Maloff, an Internet veteran and consultan
based in Dexter, Mich. Now, companies such as Delphi Inter
net Services, UUNet Communications, and Performance Sys
tems International are leading the way, but Maloff and oth
er experts reckon that regional Bell companies, cable-T
operators, major long-distance carriers, and perhaps eve
Microsoft Corp. will jump in.

One major opportunity for the phone companies: The Na
tional Science Foundation in 1995 will stop funding NSFnet
which is the Internet's main cross-continental trunk line, o
backbone. The NSF has leased gobs of transmission capacit
from telephone companies and created a backbone that con

READY OR NOT, THE ELECTRONIC MALL IS COMING

Advertising on the Internet. Just a few months ago, the very idea caused Internet veterans to gnash their teeth. The Internet community had thrived—both socially and technically—precisely because of its implicit ethic: Give as much as you take. Where else could a university researcher, say, offer thousands of colleagues copies of her new database program and then enjoy a flood of comments and improvements in return—at essentially no charge to anyone? Madison Avenue, with its one-way messages and penchant for mass-market overkill, would seem the very antithesis of the Internet culture.

Today, though, the Internet is becoming a hotbed of advertising and commercial activity, and yet its culture seems to be surviving. Advertisers are experimenting with ways to get their messages across on the World Wide
Web, an Internet service that del
screens of eye-catching graphics a
text to computer owners using a
ing program called Mosaic. But th
zero interference to the Net's bul
boards, E-mail, or other services
cause Internauts don't see any co
cial messages on the Web unless t
actively seek them out.

And there's the rub for adverti
how to get people to find and then
at an Internet ad. For one thing,
no good road map for the Net—n
tial or even conceptual plan to rel
Worse for advertisers, there are n
the conventional ad spaces—no bi
boards, no magazine or newspape
pages, no airtime.

WEBBED FEES. One answer: Creat
there there. Build useful and inte
ing virtual spaces to draw potenti
shoppers *en masse*. With millions
new Internauts entering the Net
looking for a shortcut to all its go
a dozen companies are creating "e
tronic malls" and other "places" o
Web that provide easily understo
doorways into the Net. O'Reilly &
ciates Inc., for instance, charges c
nies $250 and up to be listed in its
bal Network Navigator (GNN) con
which Internauts can browse at n
charge and use to locate and jump
whatever interests them elsewhe

When consumers see an ad, tho
will they bother to click on it? On
you offer them useful information
something novel, it seems. One O'
client, Worldview Systems Corp.,
ing with Fodor's Travel Publicati
Inc., uses GNN to advertise and sc
electronic orders for customized t
itineraries. The ad gives the cons
as much—or as little—informatio
they need to start planning a vac
Internauts also like the latest tec
goody. Thousands downloaded a 6

MADISON AVE.: ON-RAMP TO THE I-WAY

Some Internet advertising agencies and their clients

THE ONLINE AD AGENCY NEW YORK	Esprit, N.Y. Apple Tours, Radical Media
INTERNET DISTRIBUTION SERVICES PALO ALTO, CALIF.	Hello Direct, Silicon Graphics, Informix
MESSNER, VETERE, BERGER, McNAMEE, SCHMETTERER, EURO RSCG NEW YORK	Volvo USA, MCI
OPEN MARKET CAMBRIDGE, MASS.	Ipswitch, Digital Equipment
O'REILLY & ASSOCS. SEBASTOPOL, CALIF.	Fodor's Travel, QuoteCom

Entrepreneurs lead, giants follow. Almost every computer and software maker is plunging into the Internet

ects regional TCP/IP networks across the country at essential-
no charge. The obvious candidates to take over that func-
on are the telephone companies themselves. "We're con-
inced that what's needed is a commercial Internet that has
ecurity, privacy, reliability, and instant response," says Rich-
d S. Bodman, senior vice-president at AT&T.

After Internet access, companies helping to commercialize the Internet constitute another growth industry. Dozens upon dozens of startups are betting that the Internet can spawn the next crop of Microsofts and Compaqs. "I haven't seen this much excitement since the early days of the PC industry in 1981," says David Cole, former CEO of Ashton-Tate Corp., a PC software pioneer and now an Internet entrepreneur.

Like the IBM PC standard that sparked the 1980s technology boom, the Internet represents a wide-open market in which all kinds of new products and services may bloom and where a startup may have just as much chance as an IBM. "The Internet is the Wild West of technology," says Donald Gooding, research partner at Accel Partners, a venture-capital firm that has invested in a half-dozen Internet-based companies. "Nobody has written the rules yet."

Cole's startup, Navisoft, is building software that uses the Web as a medium for electronic publishing. For as little as $15,000 in hardware and software, says Cole, anyone can publish on the Web using Navisoft's package. Cole is targeting magazine, newspaper, and newsletter publishers.

Meanwhile, Premenos Inc. and other software developers are working on programs to turn Internet into a low-cost alternative to private "electronic data interchange" (EDI) networks. EDI setups, such as the one run by General Electric's Information Systems unit, have been moving electronic business forms between companies for the past decade—letting General Motors Corp., for example, automatically post orders in a subcontractor's computer. That could be done on the Internet now, for about half the cost, but businesses seem reluctant to switch until they're sure that their EDI traffic is safe on the Net.

NETIQUETTE. If companies simply want to advertise, though, there are a dozen agencies ready to help. The Online Ad Agency, operating out of New York's TriBeCa district, is one of the startups targeting the Internet market (page 84). It's a tricky assignment, though. Even now it's still a major breach of netiquette to blanket personal mailboxes or public bulletin boards with advertising messages. "You have to be very careful," says Edward W. Sznyter, whose Market dot NET company plans to help publishers promote books over the Internet.

The big consumer-brand marketers are also gearing up—in large part because on the Web the medium definitely is the message: The Web is hip, and being there may help brands refresh their images. Miller Brewing Co. recently launched the Miller Genuine

THE ONLINE AD AGENCY
THE NEW YORK WEB
SONY

NG FOR SUCCESS: *Online Ad's Chase (center) teamed up with New York*
Stephan and David Moscovic "to bait the cyberhook"

LARRY FORD

gitized video from Oscar Mayer
Corp., for example.
u've got to bait the cyberhook,"
arry Chase, president and
er of the Online Ad Agency, a
York startup. Working closely with
ew York Web, an Internet consult-
m in Manhattan's hip TriBeCa dis-
Chase has signed clients such as
el maker Esprit, 1-800-Flowers,
adical Media, a video-production
ny. He came to the Internet after
of consumer-goods copywriting at
eedham Worldwide Inc. and
& Rubicam Inc. Stephan and David Moscovic were Parisian artists before founding New York Web, where they design information for display on the Internet. One recent client: Mario Cuomo, running for reelection as governor of New York.

So far, Internet ads are being composed mainly by startups, most of them with roots in Silicon Valley, not Madison Ave. But if the Net should prove as effective a medium as they believe, the big guns will start jumping into the game quicker than you can say World Wide Web.

By John W. Verity in New York

Draft Tap Room—a trove of lifestyle articles and graphics on the Web. Even better than their hipness is the net surfers' demographic profile. Ogilvy & Mather Direct, a New York ad agency, dubs them "techno-savvies." Their vital statistics: 80% are male; median income, $54,000. Hours per day spent on-line: one or more.

Looking is one thing, buying's another. So far, on-line shopping has not been a winner for network operators such a Prodigy and America Online. Forrester Research figures tha on-line shopping will generate only about $200 million in revenues this year—not even a drop in the $1.5 trillion bucke U. S. consumers spend in stores and mail-order channels

Internet could change that. On commercial services, th network operator controls content and the link with consumers. On the Web, a business runs its own show, offering a much information as it likes and creating a direct dialogu

HELLO DIRECT, GOOD-BYE MAIL ORDER?

Catalog of Telephone Productivity Tools
HELLO Direct
No More Scrunching!
Also Inside

ELECTRONIC CATALOGER: *"The customer can keep going deeper and deeper" into a product, says Chuck Volwiler*

The idea of selling merchandise over computer networks had always intrigued mail-order industry veteran Chuck Volwiler. As co-founder and vice-president for marketing at Hello Direct, a supplier of high-end telephone gear in San Jose, Calif., he had investigated the possibility of selling over CompuServe and Prodigy in the early 1990s. But he decided against it. "I was disappointed with the graphics quality and the cost," he says. "I knew nobody who'd been able to make it pay for itself."

Early this year, though, the Internet began to beckon. A program called Mosaic, used to search the Net's World Wide Web, was making it possible to distribute near-photo-quality images to ordinary personal computers. And millions of people—mostly the technically savvy types who are prime Hello Direct prospects—were piling on to the Net. So, with help from Internet Distribution Services Inc., a company in nearby Palo Alto that wrote the appropriate software, Hello Direct put up an electronic catalog describing some popular products. One best-seller: the HelloSet headset, which keeps hands free and necks straight and uncramped.

INSTANT UPDATES. The advantages of selling via electronic catalog go well beyond eliminating some postage and printing costs: Hello Direct will continue to print catalogs for years to come. The real plus is the fast, two-way flow of information between supplier and customer. "The customer can keep going deeper and deeper," summoning up additional information about a complex product, says Volwiler. And by automatically tracking their paths, Hello Direct can learn which products are getting the most attention—and, perhaps, why that's so. If it proves to be necessary, Hello Direct can update its catalog almost instantly. And the electronic catalog works both ways: Customers now send E-mail suggesting product improvements and asking for technical support.

"We've been real happy," says Volwiler. Now, the company has begun working with American Computer Group Corp., a mail-order service bureau that will process orders arriving over the Net from customers' computers. Someday, Hello Direct may be able to say good-bye to 1-800 sales forever.

By John W. Verity in New York

WILLIAM

Most service providers offer a road map.

But how many are willing to dig in and help pave the road?

To help you reach your business goals, Unisys Services do more than point the way. We provide concrete means for getting you there. In fact, we join you in the trenches.

Unisys *Systems Integration* ties together all the elements of your information environment. Unisys *Information Planning* services help you develop a pragmatic, information technology plan; our proven approach emphasizes real-world results. Unisys *Education* services bring out the best in people and technology. And Unisys *Outsourcing* manages your operations so you can focus on your core business.

cus·tom·er·ize \ kŭs'-tə-mə-rīze' \ *vt* **1:** to make a company more responsive to its customers and better able to attract new ones **2:** to customerize an organization's information strategy, e.g., to extend systems capabilities to field locations and other points of customer contact and support **3:** what Unisys Corporation does for a growing roster of companies, and government agencies, worldwide ***syn*** see CUSTOMER SERVICE, COMPETITIVE EDGE, BUSINESS-CRITICAL SOLUTIONS, REVENUE GENERATION

It's all based on our CUSTOMERIZE philosophy for creating a pro-customer culture fully supported by your information strategy.

Call us at 1-800-874-8647, ext. 186. Ask how the down-to-earth approach of Unisys Services can help you drive your business as far as you want it to go.

UNISYS

We make it happen.

© 1994 Unisys Corporation

with customers to learn what they're thinking. Observing how consumers browse its Web pages, "we can change our catalog on a dime," says Rick Schwartz, manager of marketing communications at Paper Direct, a seller of paper and software.

That suggests big changes ahead for business. It's true that as an electronic agora, the Internet is still under construction. But with all the innovation, fresh thinking, and entrepreneurial zeal concentrated on the Net, it seems clear that this nebulous but vast setup will become one of the busiest business districts the world has ever known.

By John W. Verity in New York, with Robert D. Hof in San Francisco and bureau reports

SHIELDING THE NET FROM CYBER-SCOUNDRELS

Dozens of companies are cooking up broad strategies to thwart hackers

In 1988, an insidious self-replicating computer virus penetrated the computer system at the University of California's Berkeley campus. Known as the Internet Worm, the virus wriggled out of control for days, corrupting thousands of computers on the Internet. Last February, the Computer Emergency Response Team (CERT) at Carnegie Mellon University, which monitors Internet security, warned network administrators that a band of intruders had stolen tens of thousands of Internet passwords. In July, the Lawrence Livermore National Laboratory conceded that an employee had used its computers to distribute pornography. The number of Internet "incidents" reported by CERT reached 1,300 last year, up from 50 a few years earlier.

These episodes serve as a reality check: The Internet, which promises electronic intimacy with millions of potential customers, may also be fraught with bugs, snoops, and questionable characters. "The opportunities for creative fraud are vastly greater than they used to be," warns Peter G. Neumann, principal scientist at SRI International in Menlo Park, Calif.

Hackers may be licking their chops at the idea of lots of new Internet computers to break into, but dozens of companies are cooking up ways to thwart them. The first line of defense is access control—keeping unwanted visitors out and company secrets in. Trusted Information Systems in Glenwood, Md., Harris Computer Systems in Ft. Lauderdale, Fla., and Digital Equipment Corp. are among the companies that build fire walls—secured gateways between private networks and the Internet.

Basically, all traffic must pass through the fire wall. "When you visit some businesses, you stop at the front desk, and if you are approved, you walk in. Other times, you have to wait for somebody to come out to meet you," says Steven M. Bellovin, a senior researcher at AT&T Bell Laboratories and co-author of *Firewalls and Internet Security*. "Or you hand [a package] to the mailroom, and never go in. All of those models are used in fire walls." The Sidewinder fire wall from Secure Computing Corp. in Roseville, Minn., lets businesses strike back by feeding an intruder false data or tracing him back to his computer.

Once businesses allow messages to come through the fire wall, they still have to make certain they are authentic. Did the order come from the person or company whose name is on it? Was it tampered with en route? Has it remained confidential? Internet messages must be "hermetically sealed," insists Gerald H. Taylor, president of MCI Communications Corp.

Cryptography addresses most of these concerns. Cryptographers apply mathematical algorithms to garble messages and create "digital signatures," the equivalent of fingerprints. One popular method: the public-key encryption concept developed by the founders of RSA Data Security Inc. in Redwood City, Calif. RSA has a joint venture with Enterprise Integration Technologies Corp., based in Palo Alto, Calif., the operator of CommerceNet, a fledgling electronic marketplace on the Internet. The venture, called Terisa Systems, is aimed at securing transactions on World Wide Web servers. RSA's encryption is also licensed to a number of software makers.

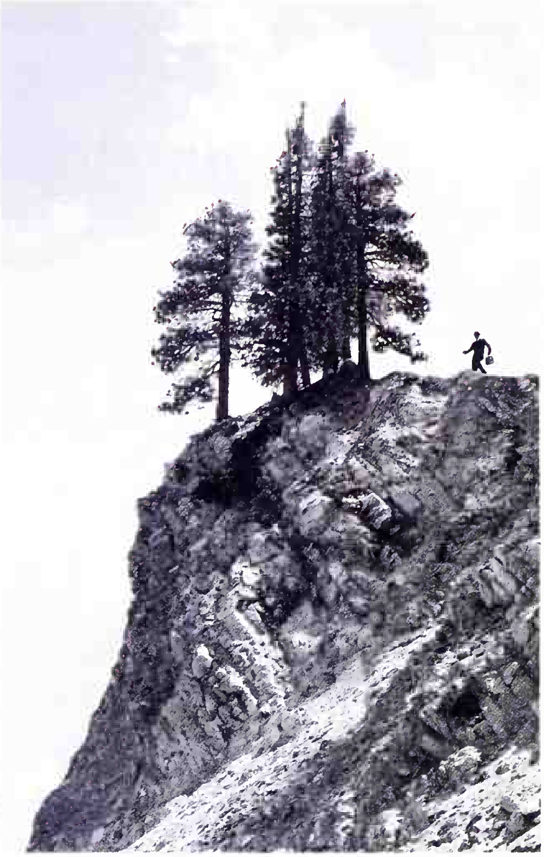
ACCESS CARDS. In some security schemes, electronic "tokens" are issued to authorized Net users. Digital Pathways Inc. in Mountain View, Calif., produces a handheld authentication calculator known as SecureNet Key, which uses DES (Data Encryption Standard). This month, National Semiconductor Corp. will unveil PersonaCard, a card that fits into a computer's PCMCIA slot. And Security Dynamics Inc. in Cambridge, Mass., has created an access-control card called SecureID that generates a random code every 60 seconds. Users must present the latest code to gain entry.

The federal government is also concerned about security on the Information Superhighway and is working on its own solutions. But Uncle Sam is adding a great deal of uncertainty by limiting international use of powerful encryption techniques in the name of national security. For now, that leaves it up to Corporate America to make its virtual outposts secure.

By Edward C. Baig in New York, with John Carey in Washington

NOT SEEING *THE VALLEY FOR THE TREES* CAN RESULT IN SHORT-SIGHTED *AND UNFORTUNATE* DECISIONS.

◆



MANAGING MONEY BASED on short-term goals can be enticing, but often leads to undesirable outcomes. So, at Putnam Investments, we do not time markets nor make abrupt shifts in asset allocations. Rather, we manage money with a long-term perspective. Through both systematic decision-making and fundamental research, coupled with a dedication to optimizing capital markets, we have sought consistent, strong investment performance for more than 50 years for our over 350 institutional clients and 3 million individual investors. At Putnam, we realize that the valleys can be negotiated as easily as the trees, given the proper vision.

A TIME-HONORED TRADITION IN MONEY MANAGEMENT

PUTNAM
INVESTMENTS

BOSTON · LONDON · TOKYO

IMMIGRATION

SEND YOUR HUDDLED MASSES, AND A HOT & SOUR SOUP

Undocumented Fujianese are thriving in the U.S.

The flow of immigrants from China has been good business for Liu Xi-long. A gangly 37-year-old who emigrated illegally from China's Fujian province in 1991, Liu works in Indiana for a Fujianese-run company that supplies food and equipment to Chinese restaurants in the Midwest. As more Fujianese move to the area, his client list is booming—from 10 restaurants two years ago to more than 200 today. "Wherever restaurants open, that's where we'll be," he says.

Liu is part of a growing number of Chinese making the transition from undocumented immigrants to successful entrepreneurs. At a time in America when resurgent nativism has sparked calls to withhold public services from illegal immigrants, the Fujianese experience provides a case study of how many of the individuals who flock to these shores progress.

"BENIGN CYCLE." First, they try to achieve self-sufficiency early. Then, as they move up the income ladder, they save so they can start their own businesses one day—usually a business just like the others that members of their ethnic group own. The Fujianese have found work in a thriving economy of restaurants and related businesses. And today, competition is so intense that they are opening restaurants in new markets from Texas to Indiana.

A province of 31 million on China's southeastern coast, Fujian has a long history of sending people overseas. Since the 1980s, Fujianese have been coming to the U.S. in growing numbers. Now, as they make their way from immigrant ghettos in New York to interior states, they are following a pattern established in the late 1800s by immigrants from Europe. The behavior of such newcomers is rebutting arguments that immigrants are costly for the American economy, argues Julian L. Simon, a sociologist at the University of Maryland. By providing inexpensive services to consumers and buying goods from local businesses, "they're part of a cumulative, benign cycle," he says.

福
湘
園
NEW AMSTERDAM
CHINESE RESTAURANT
964
FREE DELIVERY
TEL: 662-8881/871
OPEN
662-8881
317

HARLEM HAVEN: *Competition is fierce in New York*

Fujianese like Liu have succeeded thanks largely to an extensive support network—just as Koreans and other Asians have also depended on ethnic contacts when starting out. Within days of arriving in New York and applying
for political asylum, Liu got a job fro
a Fujianese employment agency as a
assistant cook in a Long Island resta
rant. A few months later, he was mana
ing real estate in Manhattan's Chin
town. He then landed his current jo
for a Fujianese-backed company th
made him its manager in Indianapoli
Liu, who has received asylum, live
there with his wife and son.

The exact number of Fujianese e
trepreneurs is hard to determine, as a
ademics are just starting to pay atte
tion to them. But immigratio
advocates, restaurant groups, and co
munity officials report a surge in th
past three years. About 100,000 Fuj
anese live in New York, and 10,000 t
20,000 more will arrive this year. Man
borrow money from relatives
pay "snakeheads," the smu
glers who charge $30,000 to g
Fujianese to the U. S. Most the
get work in restaurants or rela
ed businesses. They are leg
workers, since they receiv
work authorization after apply
ing for political asylum. Withi
two years, most become deb
free, says Ko-lin Chin, a socio
ogist at Rutgers Universit

Savings rates can reach 90
of income among the Fujianes
says Chin. In part, that's b
cause recent arrivals sometime
avoid tax payments (althoug
some businessmen, such as Li
pay their taxes). But the natu
of ethnic networks also allow
many immigrants to save o
room and board and other cost
With savings of $30,000 or so i
startup capital, a Fujianese in
migrant can open a tiny tak
out in the New York area. Mo
adventuresome types range
far as Texas. Fujianese are mo
ing "anywhere there is a sho
ping mall," says immigratio
lawyer Yee Ling Poon.

TAKE-OUT WARS. To be sure, not all Ch
nese immigrants are managing to mak
it in America. According to the 19
census, Chinese immigrants had a 10.4
probability of being on welfare, co
pared with 7.4% for native-born Ame
icans, says George Borjas, an economi
at the University of California at Sa
Diego. Critics also fault the Fujianes
for creating a demand for even more i

Fujianese are smuggled into the U.S. for $30,000. Most work in restaurants and are debt-free in two years

If your doctor says you've got symptomatic benign prostate enlargement, help can be in the palm of your hand.

Many men mistakenly believe that an enlarged prostate is treated the same way for all men. But today there are more options than ever. By speaking frankly about your symptoms, you and your doctor can decide what is appropriate for you.

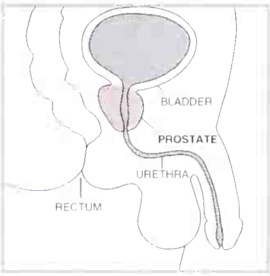
Is this you?	Yes	No
Do you get up more than once or twice a night to urinate?	☐	☐
Do you often have sudden, uncontrollable urges to urinate?	☐	☐
Do you have a hesitant or slow urine stream?	☐	☐
Do you have a frequent need to urinate?	☐	☐

If you answered yes to even one question, tell your doctor. Your symptoms may be caused by a condition called benign prostate enlargement (BPH). But remember, only a doctor can evaluate your symptoms and their possible causes. *While BPH is not cancer and does not lead to cancer, the two conditions can exist at the same time.*

Symptomatic BPH can be treated in several ways. In addition to surgery and monitoring the condition with regular checkups, now your doctor has oral prescription medicines. One oral medicine is PROSCAR, the only medicine for the treatment of symptomatic BPH that can shrink the prostate.

PROSCAR works by blocking a hormone that can cause the prostate to enlarge. *But it is important to know: PROSCAR doesn't work for everyone. Although the prostate may shrink, there may not be an improvement in urinary symptoms. However, in clinical studies with PROSCAR, some men have seen an improvement in their urinary symptoms after 2 weeks. Others have found that PROSCAR took up to several months to help them.* Because all men are different, you and your doctor will need to determine how PROSCAR is working for you.

Today you don't have to live with the discomfort of symptomatic BPH. Ask your family doctor or a urologist if PROSCAR is right for you. For free information that will help you discuss your symptoms with your doctor, call 1-800-261-8186.



The prostate surrounds part of the urethra, the tube that carries urine from the bladder. As the prostate enlarges, it can squeeze the urethra and cause urinary problems.

For the treatment of symptomatic BPH

PROSCAR® 5mg
(FINASTERIDE)

The only medicine that can shrink the prostate.

MERCK

Please see the patient information on the next page.

©1994, Merck & Co., Inc.
All rights reserved.
J4PO47(302)-MKP4032-8186

PATIENT INFORMATION ABOUT PROSCAR® (Prahs-car)
Generic name: finasteride (fin-AS-tur-eyed)

PROSCAR is for the treatment of symptomatic benign prostatic hyperplasia and for use by men only.

Your doctor may prescribe PROSCAR if you have a medical condition called benign prostatic hyperplasia or BPH. This occurs only in men.

Please read this information, as well as the leaflet which accompanies your medication, before you start taking PROSCAR. Also, read the leaflet each time you renew your prescription, just in case anything has changed. Remember, this leaflet does not take the place of careful discussions with your doctor. You and your doctor should discuss PROSCAR when you start taking your medication and at regular checkups.

What is BPH?

BPH is an enlargement of the prostate gland. After age 50, most men develop enlarged prostates. The prostate is located below the bladder. As the prostate enlarges, it may slowly restrict the flow of urine. This can lead to symptoms such as:

- a weak or interrupted urinary stream
- a feeling that you cannot empty your bladder completely
- a feeling of delay or hesitation when you start to urinate
- a need to urinate often, especially at night
- a feeling that you must urinate right away.

Treatment options for BPH

There are three main treatment options for BPH:

- **Program of monitoring or "Watchful Waiting".** If a man has an enlarged prostate gland and no symptoms or if his symptoms do not bother him, he and his doctor may decide on a program of monitoring which would include regular checkups, instead of medication or surgery.
- **Medication.** Your doctor may prescribe PROSCAR for BPH. See **"What PROSCAR does"** below.
- **Surgery.** Some patients may need surgery. Your doctor can describe several different surgical procedures for BPH. Which procedure is best depends on your symptoms and medical condition.

What PROSCAR does

PROSCAR lowers levels of a key hormone called DHT (dihydrotestosterone), which is a major cause of prostate growth. Lowering DHT leads to shrinkage of the enlarged prostate gland in most men. This can lead to gradual improvement in urine flow and symptoms over the next several months. However, since each case of BPH is different, you should know that:

- Even though the prostate shrinks, you may NOT see an improvement in urine flow or symptoms.
- You may need to take PROSCAR for six (6) months or more to see whether it helps you.
- Even though you take PROSCAR and it may help you, it is not known whether PROSCAR reduces the need for surgery.

What you need to know while taking PROSCAR

- **You must see your doctor regularly.** While taking PROSCAR, you must have regular checkups. Follow your doctor's advice about when to have these checkups.
- **About side effects.** Like all prescription drugs, PROSCAR may cause side effects. Side effects due to PROSCAR may include impotence (or inability to have an erection) and less desire for sex. Each of these side effects occurred in less than 4% of patients in clinical studies. In some cases side effects went away while the patient continued to take PROSCAR.

Some men taking PROSCAR® (Finasteride) may have a decrease in the amount of semen released during sex. This decrease does not appear to interfere with normal sexual function. Rarely, some men have reported breast swelling and/or tenderness or allergic reactions such as lip swelling and rash.

You should discuss side effects with your doctor before taking PROSCAR and anytime you think you are having a side effect.

- **Checking for prostate cancer.** Your doctor has prescribed PROSCAR for symptomatic BPH and not for cancer—but a man can have BPH and prostate cancer at the same time. Doctors usually recommend that men be checked for prostate cancer once a year when they turn 50 (or 40 if a family member has had prostate cancer). These checks should continue while you take PROSCAR. PROSCAR is not a treatment for prostate cancer.
- **About prostate specific antigen (PSA).** Your doctor may have done a blood test called PSA. PROSCAR can alter PSA values. For more information, talk to your doctor.
- **A warning about PROSCAR and pregnancy.**

  PROSCAR is for use by MEN only.

  PROSCAR is generally well tolerated in men. However, women who are pregnant, or women who could become pregnant, should avoid the active ingredient in PROSCAR.

  If the active ingredient is absorbed by a woman who is pregnant with a male baby, it may cause the male baby to be born with abnormalities of the sex organs. Therefore, any woman who is pregnant or who could become pregnant must not come into direct contact with the active ingredient in PROSCAR.

Two of the ways in which a woman might absorb the active ingredient in PROSCAR are:

Sexual contact. Your semen may contain a small amount of the active ingredient of the drug. If your partner is pregnant, or if you and your partner decide to have a baby, you must stop taking PROSCAR and talk to your doctor. If your partner could become pregnant, proper use of a condom can reduce the risk of exposing her to your semen (discuss this further with your doctor).

Handling broken tablets. Women who are pregnant or who could become pregnant must not handle broken tablets of PROSCAR. PROSCAR tablets are coated to prevent contact with the active ingredient during normal handling. If this coating is broken, the tablets should not be handled by women who are pregnant or who could become pregnant.

If a woman who is pregnant comes into contact with the active ingredient in PROSCAR, a doctor should be consulted.

Remember, these warnings apply only if the woman exposed to PROSCAR is pregnant or could become pregnant.

How to take PROSCAR

Follow your doctor's advice about how to take PROSCAR. You must take it every day. You may take it with or between meals. To avoid forgetting to take PROSCAR, it may be helpful to take it the same time every day.

Do not share PROSCAR with anyone else; it was prescribed only for you.

Keep PROSCAR and all medicines out of the reach of children.

FOR MORE INFORMATION ABOUT 'PROSCAR' AND BPH, TALK WITH YOUR DOCTOR. IN ADDITION, TALK TO YOUR PHARMACIST OR OTHER HEALTH CARE PROVIDER.

MERCK

© 1994, Merck & Co., Inc.
West Point, PA 19486
J4PO47(302)-MKP4032

legal immigration by starting more an
more new restaurants.

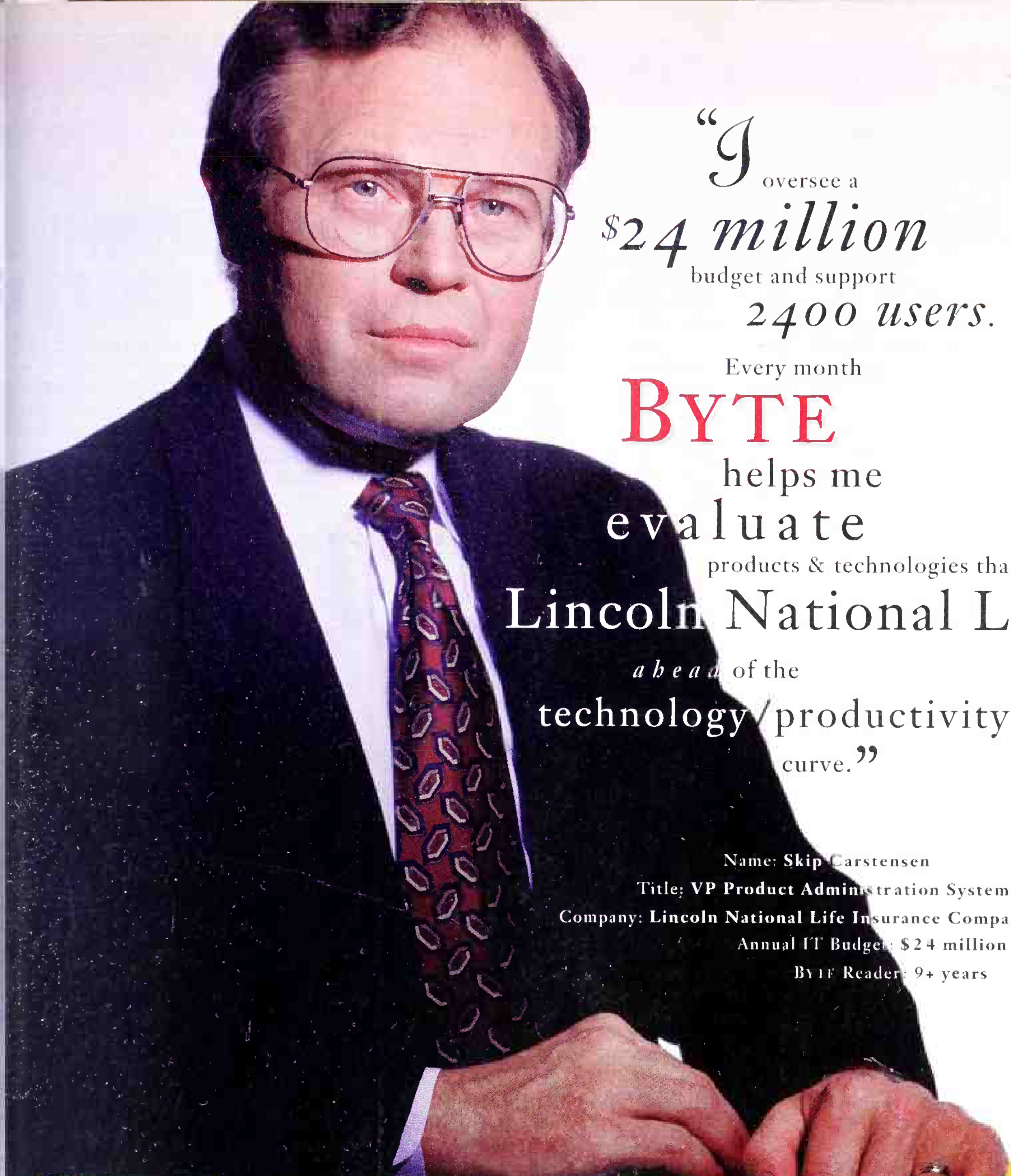
The proliferation of such take-out
has led to savage competition. In June
Li Naifu, a 51-year-old Fujianese wh
immigrated illegally in the 1980s, opene
his New Amsterdam take-out on th
outskirts of Harlem, near several othe
Fujianese shops. Li, who proudly note
that he follows all laws and regulation
in his clean but tiny take-out, serves u
Chinese food as well as fried chicke
Still, he was forced into a price war wit
his neighbors. "We can just manage t
pay our monthly bills," sighs Li, now
legal resident who runs the restaura
with six other family members.

That sort of competition is leadin
many Fujianese to leave New York. On
Fujianese smuggled to the U. S. in th
late 1980s sold his Queens take-out ear
ly this year and moved to Rocheste
N. Y. "A friend from Fujian was up her
and told me it was better than in Ne
York," he says. Others have followe
Chinese restaurants "are springing u
like crazy," reports Dan Carlo of th
Western New York Restaurant Assn
WIDER NET. The demand has led to a
expansion of the Fujianese support ne
work. Henry Chau, a Chinese-Amer
can who runs a software business i
Queens, N.Y., recently opened a co
sulting service for Fujianese eager
set up restaurants in the Southeast a
Midwest. "Before, most Fujianese did
care about this information," says Cha
who provides clients with market da
about shopping malls. "But the comp
tition, which is so intense, forces them
get more information."

Instead of opening new restaurant
Fujianese sometimes buy existing on
from other Chinese owners who a
moving on to other ventures. This su
gests that the Fujianese, too, may eve
tually find themselves moving on to ot
er money-making businesses.

But for now, these new immigran
from southeastern China are following
familiar script. Wang Hong (not his re
name) arrived in New York two yea
ago, thanks to a fake passport provid
by snakeheads. Wang, a Christian w
has applied for asylum, has made his w
up from dishwasher to assistant cook
head cook. Along the way he has worke
in Detroit, Baltimore, and New Jerse
He now makes $2,100 a month and h
paid off his debts. Wang says he will so
have a restaurant of his own. "I'll nee
$40,000," he says. "That'll take two mo
years." His confidence might seem fo
hardy, but thousands of Fujianese b
fore him have shown it can be don

By Bruce Einhorn in New Yo



"I oversee a $24 million budget and support 2400 users. Every month BYTE helps me evaluate products & technologies that keep Lincoln National Life *ahead* of the technology/productivity curve."

Name: **Skip Carstensen**
Title: **VP Product Administration Systems**
Company: **Lincoln National Life Insurance Company**
Annual IT Budget: $24 million
BYTE Reader: 9+ years

57 HIGH-POWERED SYSTEMS REVIEWED
BYTE
Pournelle's Product Awards
Object-Oriented Databases Come of Age
A Nifty Multiprotocol Print Server for Ethernet LANs
First PowerPCs
Apple's Power Macintosh and IBM's Power Personal Systems
EXCLUSIVE
IBM's PowerPC product plans, plus Power Mac vs. Pentium benchmark results
SPECIAL REPORT
CPU Wars: Should you move from CISC to RISC?
PLUS
Intel pushes the 80x86 envelope

BYTE readers set the agenda for corporate Information Technology purchases. Their recommendations can take your products to the top – or leave them at the door. Why? Because BYTE readers are the *technology experts.* They define the short list. They specify brands. They tell the buyers what to buy.

Want to get your product in front of Skip? Advertise in BYTE. And reach more than a half-million technology experts who drive the IT buy.

BYTE Because the *Experts* Decide.

See for Yourself: To find out more about the buying power of BYTE readers, call 603-924-2618 and ask to see our *Information Technology Buying Process* video.
BYTE, One Phoenix Mill Lane, Peterborough, NH 03458.

COMMENTARY

By Karen Pennar

UNEMPLOYMENT: THE NATURAL RATE ISN'T NATURAL

Here's one more timeworn economic dictum it should shortly be possible to toss onto the ash heap of bad prognostications: Unemployment can't fall much below 6% without igniting a new round of wage increases and pushing the inflation rate up.

That level of unemployment is known as the "natural" rate, and for two decades the dictum seemed to hold true. There was little experience during that period with the jobless rate under 6%, except for a flirtation with 5% in 1988-1989—and inflation did creep up. But in the 1990s, recent history will not be a guide.

Yes, the economy has been growing at a healthy 4.2% rate over the past four quarters. But those ominous signs that worriers in the financial markets look for in the wake of strong growth haven't appeared. Instead, it's clear that inflation is tame, wages are quiescent, and labor markets are far from tight. No one knows for sure, but the unemployment rate could fall to 5% over the next couple of years, and perhaps even as low as 4½%, before wages and prices start to accelerate.

"MOVING TARGET." This would be happy news indeed—and not impossible to realize. Yet few people believe it can happen, and the markets and the Federal Reserve Board may well prevent it from happening—by pushing interest rates up and killing off growth. That would be a tragedy.

The key to achieving a much lower natural rate lies in simply maintaining slow and steady gains in employment. "If you try to gradually approach a natural rate, the experience will be a lot different than if you blow away and get there quickly," says Lawrence F. Katz, a Harvard economist and a former chief economist at the Labor Dept. Seconds his Harvard colleague James L. Medoff: "The natural rate should be something we should be moving toward gradually." Medoff figures the jobless rate can float gently lower without igniting inflation, to 5.4% in a year, 4.9% in two years, and even as low as 4.5% at the end of three years.

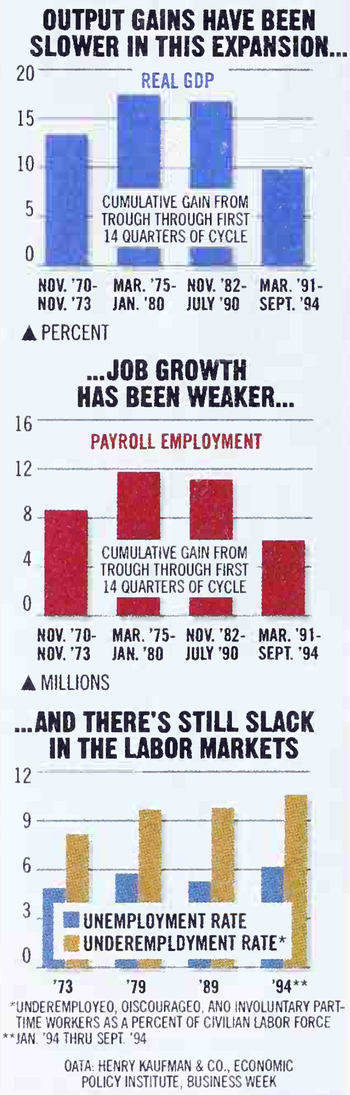
Sound too good to be true? Not necessarily. So far in the expansion, employment gains have been both modest and gradual. Labor market conditions have definitely tightened in certain cities, such as Memphis and Salt Lake City. But nationwide, there's still a lot of slack, with more people working part-time who have no desire to and more people working in temporary service jobs than was the case in other expansions. Layoff announcements are still common, and manufacturers have put more workers on overtime rather than hire new ones.

The slow growth in payrolls tells the story. About 6 million jobs have been created so far during this expansion, compared with anywhere from 8 million to 11 million by this point in previous expansions. Unattractive as this employment picture may be, it nonetheless puts the economy right on the track toward a lower natural rate of unemployment.

The outlook for the economy suggests there should be enough demand over the next couple of years to buoy hiring. Despite healthy growth over the past four quarters, output has not bounced back after recession nearly as smartly as in other cycles (chart), so there's still growing room in the economy. Gail Fosler, chief economist at the Conference Board, figures that output could rise about 4% in 1995. As Europe revives, that should boost demand for U.S. exports, and manufacturers will need to add labor.

But that won't happen in a hurry. It could take three years or more to hit a 4½% jobless rate—a level not seen since 1973. There have been so many huge structural changes in the U.S. economy lately—new labor-saving technologies, shrinking white-collar payrolls—that businesses' hiring plans are sure to be measured. And minus strong bargaining power, workers are unlikely to set off the wage-price spirals that made headlines in the 1970s. "Can you imagine anyone going to their employer and saying, 'I want a 5% raise or I'll quit'?" asks Lawrence Mishel, an economist at the Economic Policy Institute in Washington. "If you can't imagine that, you can't imagine wage inflation developing."

It's that kind of restraint, though, that could spell better news for more American workers. More and more economists are coming around to the view that low wage inflation is for real, and that a lower natural rate is achievable. But for the natural rate to move markedly lower, the bond market and the Fed will have to be convinced. If the jobless rate continues to fall without generating inflation, even they will conclude that attention must be paid.


OUTPUT GAINS HAVE BEEN SLOWER IN THIS EXPANSION...

...JOB GROWTH HAS BEEN WEAKER...

...AND THERE'S STILL SLACK IN THE LABOR MARKETS

*UNDEREMPLOYED, DISCOURAGED, AND INVOLUNTARY PART-TIME WORKERS AS A PERCENT OF CIVILIAN LABOR FORCE
**JAN. '94 THRU SEPT. '94

DATA: HENRY KAUFMAN & CO., ECONOMIC POLICY INSTITUTE, BUSINESS WEEK

Senior Writer Pennar writes frequently on economics.

ALAN BASEDEN

ENTREPRENEURS

UNFAMOUS AMOS NO LONGER

Continental Cablevision's quiet founder is joining the I-way fray

Becoming a billionaire without inheriting a good chunk of your fortune is rare. Doing so without celebrity s rarer still in this voracious media age. f you've never heard of Amos B. Hostet- er Jr., the co-founder and chairman of Continental Cablevision Inc., don't feel ll-informed. Though he has created more personal wealth than John C. Malone, the combative chairman of Tele-Communica- ions Inc. (TCI), Hostetter is relatively unknown outside the cable industry.

Unfortunately for the intensely private media baron, there are no strangers on the Information Superhighway. And it appears that events have con- pired to force Continental's 57-year-old chairman to join the mating dance in- pired by the notion that phone service and cable TV will eventually be delivered over one wire. Sources close to the alks say Hostetter is negotiating with Baby Bell U S West Inc. to sell a 20%- o-30% stake in privately held Continental for nearly $2 billion. Such a price would value the company at more than 6 billion. Less its hefty $3 billion in debt, Hostetter's 39% stake may be worth more than $1.2 billion, once new quity is figured in.

BIGGER IS BETTER. Neither U S West nor Continental, based in Boston, will omment. But industry sources speculate that Hostetter is talking to other potential partners—including GTE Corp. The two companies already collaborate o provide GTE's MainStreet interactive V service to 540,000 Continental sub- cribers.) Most observers feel that a Continental-U S West match makes the most sense, if only because U S West lready owns 25.5% of Time Warner nc.'s cable and entertainment proper- ies. In the race to provide hybrid cable- elephone service, size is an asset. And troika of U S West, Time Warner, and Continental could provide a weighty ounterbalance to the alliance between long-distance carrier Sprint Corp. and hree of the nation's largest cable companies—TCI, Comcast, and Cox Cable. Sources say Hostetter is also negotiating to acquire the cable systems of Providence Journal Co.

HOSTETTER: *A deal with U S West?*

One issue in the U S. West talks is the notion of control. Sources speculate Hostetter wants to retain authority over his company for several more years, and some wonder whether U S West is willing to give him as much rein as he would like. Hostetter and his Amherst College fraternity brother, H. Irving Grousbeck (now a Stanford B-school professor), started Continental from scratch in 1963. And Hostetter has held tight to Continental's equity over the years, despite countless opportunities to go public. Every other big cable company has traded ownership for financing flexibility—notably Malone, who has used his public stock strategically to fuel growth. "Amos," says one rival, "has had the guts to stay private."

Cable reregulation, however, has forced Hostetter's hand. With the government trying to hold rates down, operators have little incentive or capacity to make the infrastructure investment needed to remain competitive at a time when when everyone from phone companies to direct broadcast satellite operations promises to enter the market. Hostetter has said he considered going public but couldn't get a good price. And given the rate environment, banks aren't willing to provide what he needs for the long run. Already, Continental's balance sheet is among the most leveraged in the industry (chart). Add it all up, says Malone, and "Amos needs capital."

MODEL CITIZEN. Friends and associates say Hostetter has been disillusioned by the government's taking away some of his bargaining power. "I think he feels more personally wounded than anybody else," says Jim Robbins, president of rival Cox Cable. The reason is simple: While the shoddy behavior of any number of cable companies has provoked the government's zeal, Continental has always been a model citizen. It leads in customer service and promoting community-affairs programming. And Hostetter has been instrumental in backing such good-faith efforts as C-Span and Cable in the Classroom, which provides free service with no advertising.

Indeed, many consider Malone and Hostetter the industry's alter egos: If Malone's frontiersmanship and TCI's spotty service history have been a lightning rod for regulators, Hostetter's eloquent testimony before Congress and his company's spotless record have been exemplary. Most observers say that TCI has cleaned up its act to a large degree and that Malone has always gotten a bad rap. Nevertheless, says Monty Rifkin, who built the company that eventually became Time Warner Cable, "there are some bad operators. But the cable bill is like a fishing net: It catches a lot of dolphins along with the tuna."

Hostetter himself is a rare mixture of entrepreneurial zeal and Yankee conservatism. Known as Bud, he grew up in fashionable Short Hills, N. J., the son of a Wall Street executive. After the

Cable's Top Five

	SUBSCRIBERS* IN MILLIONS	ANNUAL REVENUE IN BILLIONS	LEVERAGE**
TCI	10.9	$4.2	5.5
TIME WARNER CABLE	9.0	2.2	3.9
CONTINENTAL	3.2	1.2	6.5
COX	3.1	1.2†	3.9†
COMCAST	3.0	1.1	3.9

Revenue and leverage as of Dec. 31, 1993 †1994 est.
*Transactions pending **Ratio of debt to cash flow
DATA: PAUL KAGAN ASSOCIATES; COMPANY REPORTS

Pingry School, he graduated from Amherst in 1958. Friends there remember him as a golden boy: a varsity tennis player, well dressed, and supremely confident—though not to the point of arrogance. "He was aloof," recalls Nancy Howard, a high school admirer, "but that only made him more attractive."

After graduating from Harvard business school in 1961, Hostetter went to work for a venture-capital firm called Cambridge Capital Corp. where he became involved with a small cable company in Keene, N. H. Both he and Grousbeck were looking for a business to run, and, says Grousbeck, "he said we ought to look at cable." Armed with maps, a compass, and data about the reach of various TV markets, they identified two towns in Ohio underserved by the networks. So they packed their bags and moved. **GETTING WIRED.** Over the years, with a few notable exceptions, Hostetter has eschewed the acquisition strategy of many other operators. He built the company mainly by winning franchises and stringing cable. Grousbeck left in 1980, when Harvard offered him a professorship (he moved on to Stanford in 1985). But Hostetter only redoubled his commitment to the industry, becoming a forceful advocate for cable. He has taken a leading role in every phase of the industry's dealings with government, from the battle to win space on telephone poles to the push for rights to offer telephone service on a national basis.

For all of that, however, Hostetter is fiercely independent and willing to take risks. He has taken on an enormous load of debt to finance growth and preserve his equity. And in the mid 1980s, he took on personal leverage to buy out a stake he had earlier sold to Dow Jones & Co. He's also persnickety when it comes to contracts and deals. Winston "Tony" Cox, chairman of Showtime Networks Inc., is a great admirer, but he nonetheless chafes at Continental's stubborn bargaining style. "For all their sophistication and poise and charm," Cox says, "they get more than fair value.

> Hostetter is a rare combination of entrepreneur and Yankee conservative

Jay Ricks, Hostetter's former lawye remembers a time in the 1970s whe Hostetter and Chicago entrepreneu John Johnson entered a joint bid to pr vide cable to parts of the Windy City Continental would manage the system Johnson would be an investor. At th 11th hour, however, Ricks says Johnso demanded the contract be changed t give the Chicago executive a say in man agement. Johnson later backed dow from his demand, but Hostetter was s repelled by the late-game pressure tac tics that he walked away from the dea and never looked back.

"He has a very emotional attachmen to his company," says Ricks. Which i why he isn't likely to pull back soon, n matter who his equity partner turns ou to be. Hostetter didn't marry until hi late 40s, and his two children are still i school. His only real bow to wealth is vacation house in Nantucket. One migh guess he would be willing to step bac and enjoy his success. "Amos is gettin old," jokes Malone, "and you can tell hin I said that." But not too old to drive hard bargain to guide the company h built into the future.

By Michael Oneal in New Yor

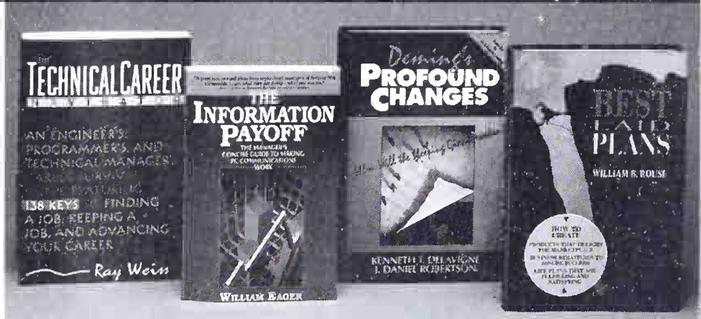
BUSINESS STRATEGIES THAT SPELL SUCCESS

THE TECHNICAL CAREER NAVIGATOR
An Engineer's, Programmer's, and Technical Manager's Career Survival Guide
Raymond G. Weiss
An innovative guide that shows technical professionals how to survive and thrive in today's competitive workplace by building up their skills and capabilities.

THE INFORMATION PAYOFF
The Manager's Concise Guide to Making PC Communications Work
William B. Eager
"Finally, a book that explains the technology and benefits of electronic communications in plain English, with an emphasis on practical, real-world applications." —*Tom Martin, Managing Director, Federal Express*

DEMING'S PROFOUND CHANGES
When Will the Sleeping Giant Awaken?
Kenneth T. Delavigne and J. Daniel Robertson
Foreword by W. Edwards Deming
Shows company executives and technical managers how to change—using Deming's principles—in order to improve the quality of products and services and boost employee morale.

BEST LAID PLANS
William B. Rouse
How to create products that sell and business strategies that succeed—while increasing personal satisfaction both on and off the job.


TECHNICAL CAREER
AN ENGINEER'S, PROGRAMMER'S, AND TECHNICAL MANAGER'S
138 KEYS TO FINDING A JOB, KEEPING A JOB, AND ADVANCING YOUR CAREER
Ray Weiss
THE INFORMATION PAYOFF
WILLIAM EAGER
Deming's PROFOUND CHANGES
KENNETH T. DELAVIGNE
J. DANIEL ROBERTSON
BEST LAID PLANS
WILLIAM B. ROUSE

From Prentice Hall

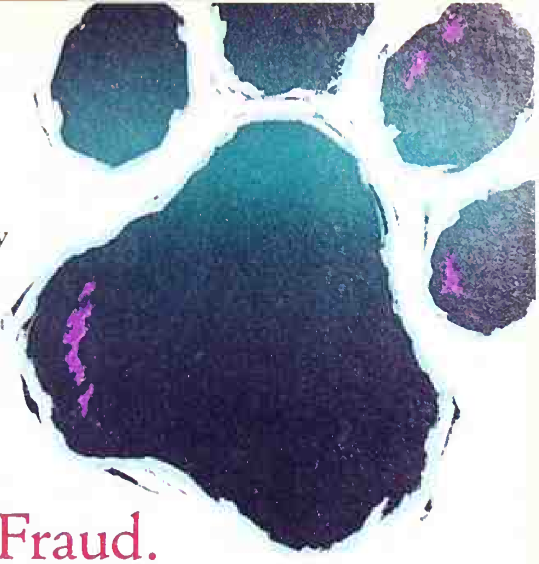
Fax or mail this coupon to: The McGraw-Hill Bookstore, 1221 Avenue of the Americas, New York, NY 10020. Order by phone in NY at 212-512-4100 or fax this coupon to us at212-512-4105.
Fax or phone orders delivered within 10 days!

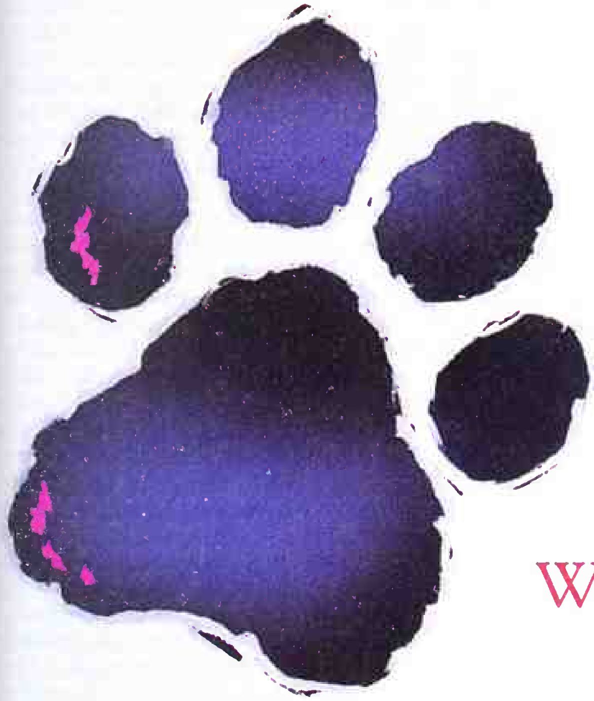
☐ Yes! Please rush me:
___ BEST LAID PLANS, *250 pp., 0-13-300054-0, $24.95*
___ THE INFORMATION PAYOFF, *224 pp., 0-13-158296-8, $24.95*
___ THE TECHNICAL CAREER NAVIGATOR, *270 pp., 0-13-148396-X, $19.95*
___ DEMING'S PROFOUND CHANGES, *288 pp., 0-13-292690-3, $24.95*
☐ Check or money order: please add applicable sales tax, plus $3.50 for U.S. postage and handling.
Credit cards accepted: ☐ Visa ☐ AMEX ☐ MasterCard ☐ Discover

Account No. ________________ Exp. Date ________
Name ________________
Address ________________
City ________ State ______ Zip ______

BW11941

THE McGRAW-HILL BOOKSTORE—SERVING TODAY'S PROFESSIONALS





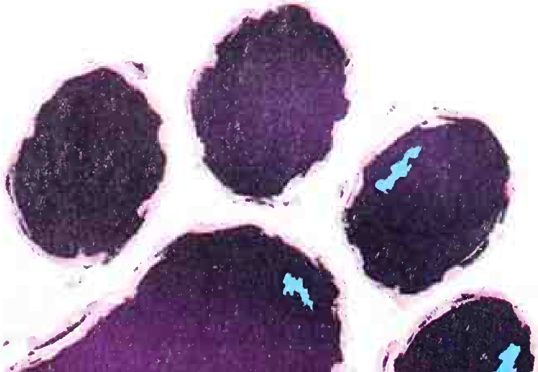
Most Companies Try To Avoid Fraud. We Look For It.

Our Special Investigative Units track down and aggressively prosecute fraud wherever they find it. Not just because fraud costs the insurance industry billions every year. But because Workers Compensation fraud adds to the already high cost of doing business for all industries. Including yours. So fraud actually costs more than money. It can cost jobs. If you're interested in flexible, cost-effective ways to stop it in its tracks, talk to Liberty Mutual.

LIBERTY
MUTUAL®

FACING THE ISSUES THAT FACE OUR CUSTOMERS™

© 1993 Liberty Mutual Insurance Group/Boston



ROSENBERG: A MAVERICK'S EYE FOR THE BOND CYCLE

MARKETS & INVESTMENTS

NO, BOND BULLS AREN'T EXTINCT

Some savvy contrarians are moving big bucks back in

Joseph Rosenberg, the guy Larry Tisch counts on to mind upwards of $25 billion of his corporate empire's money, is going against the grain again. A year ago, Rosenberg, a frequent contrarian, feared a major decline and was heavily into cash while everybody else was betting on bonds. Then, the bond market crashed. Now, he is betting on bonds while almost everybody else is avoiding them like the plague. "We've had one of the biggest rises in interest rates in history," says Rosenberg, who recently shifted 90% of Loews Corp.'s pension fund into bonds. "But now that you can lock up yields you haven't seen in three years, people are afraid to put their toes in the water."

In truth, however, Rosenberg is not really alone. The chief investment officer of Loews and its CNA Financial Corp. insurance subsidiary is only one of sev-
eral money managers and econc
mists who now believe that th
bond market's travails are practi
cally over (table). They concede tha
bond yields may still climb a quai
ter of a percentage point, to abou
8.25%, especially if the Federal Re
serve hikes short-term rates o
Nov. 15. But they are not waitin
for long-term yields to top out. Wit
30-year Treasuries already yieldin
a hefty five percentage points mor
than the current rate of inflation–
about 3%—they are purchasin
large quantities of government an
municipal debt for their pensio
funds, mutual funds, and even thei
personal portfolios. "I don't knov
of an alternative investment that'
more attractive," says Rosenberg
at 61 a self-described "determine
guy" who bikes 40 miles on week
ends to work off the tensions of th
market.

SPIRIT OF AUSTERITY. Rosenber
and other bulls hope that Treasur
yields may fall back toward 7% o
even 6.5% by late 1995 or '96, givin
them a choice of taking capital gains o
holding onto bonds with above-marke
interest rates. Either option could b
pleasant indeed. Zero-coupon Treasurie
now yield 8.4% in maturities as short a
15 years. And with AA and AAA-rate
tax-free municipal bonds yielding 6.75%
muni investors can earn aftertax return
"in the low teens," says Jane N. Wyatt
chief investment officer at Minneapolis
based Voyageur Asset Management. It'
no wonder, then, that Joe Deane,
Smith Barney Inc. senior vice-presiden
who manages several muni funds, is dra
matically increasing the duration of hi
$3.8 billion portfolio. Last fall, Dean
slashed his holdings of long-term debt
shrinking the average duration to 1
years. But in October, Deane reverse
course, extending the duration of hi
portfolio to about 22.

The bulls base their case on the prem
ise that the inflation worries that hav
given the bond market one of its wors
years in history are way overblown

The Case for Bonds

HIGH REAL YIELDS
At 8%, yields on 30-year U.S. Treasuries are 5 percentage points over the inflation rate. That's 2.5 percentage points above the historical spread.

+

LOW INFLATION
Bond yields suggest that U.S. inflation will rise to 4.5% next year, from 3% now. But inflation could stay low amid global competition and high productivity.

+

SLOWING ECONOMY
The economic recovery is losing momentum after 43 months. High interest rates are dampening demand for new homes—a harbinger of possible broader economic weakness.

=

FALLING RATES
Save for the inflationary 1970s and periods of war, U.S. bond yields have rarely exceeded 7% over the past two centuries. Yields on Treasuries could plunge back to 6.5% next year.

DATA: BANC ONE INVESTMENT ADVISORS CORP., DKB SECURITIES CORP.

PHOTOGRAPH BY LARRY FORD; GRAPHIC BY RAY VELLA/BW

Right now, long-bond rates suggest that inflation will spike up to 4.5% or more as soon as next year. But Anthony Chan, chief economist at Banc One Investment Advisors Corp., based in Columbus, Ohio, insists that inflation will remain around 3% because "our business cycle is reaching maturity" after 43 months of expansion. That's "fairly old," given the 48-month length of an average U.S. recovery. As a result, Chan expects the U.S. gross domestic product to expand 2.8% in 1995, perhaps a full point under the rate for 1994. Signs of a slowdown may already be appearing. Rosenberg, for instance, says some builders are finding new-home orders down by 15%.

STILL SLIDING. Even if the expansion still has legs, bond bulls maintain that inflation will remain subdued. They say the government underestimates productivity growth in such newer industries as biotechnology and semiconductors. And many expect consumer spending to slow next year, taking pressure off manufacturers whose U.S. plants are operating near capacity. That, and the relentless shift of factory jobs to cheaper plants in Latin America, Asia, and Eastern Europe, will help put a lid on labor costs which, DKB Securities Corp. Chief Economist Philip Braverman estimates, are responsible for 70% of manufacturing costs. On top of that, he says, the spirit of austerity that took root in the last recession is quite alive. "Everyone is cautious about hiring and spending," he says.

Many contrarians are also sanguine about America's twin deficits—trade and budget. Both have weighed on the dollar in 1994, producing paranoia across Wall Street whenever the greenback took a tumble. But the U.S. bought large sums of dollars on Nov. 2 to hold their value up. And Morgan Stanley & Co. economist Stephen S. Roach expects that the dollar, still "sharply undervalued," will fuel "a significant turnaround in U.S. foreign trade" by 1995. The budget deficit, meanwhile, may end up at $160 billion for the current fiscal year, some $7 billion below Administration estimates. At 2.4% of GDP, the deficit now compares favorably with Germany's 3.7% gap. "International investors will begin looking at U.S. bonds with interest," says Hung Q. Tran, managing director of Deutsche Bank Research in Frankfurt. "We're looking at a friendlier atmosphere."

But hardly an ebullient one. Bonds rallied briefly after the government reported on Oct. 28 that inflation was low and inventories high. But the market soon resumed its slide. It may take more convincing evidence of a slowdown to win Rosenberg and other bond bulls a wider following. But that's not stopping them from plunging in.

By William Glasgall in New York

WHAT'S IN A NAME? ASK BRUCE McNALL'S BANKS

Based on little more than his rep, they lent him $300 million

McNALL: *Smiling all the way to bankruptcy court*

HARRY BENSON

Bruce P. McNall billed himself as a self-made man. He reveled in telling the press how he had built up his boyhood love of coins into a fortune. And reporters ate it up, chronicling a $225,000-a-month lifestyle that included a Maserati and glamorous friends. His interests included film production and sports teams such as the Los Angeles Kings hockey team. Now, as the remnants of McNall's purported $133 million empire grind their way through federal bankruptcy court, it's becoming obvious that journalists weren't the only ones beguiled by the Bruce McNall story.

In a Big Hole

EXPOSURE TO McNALL	MILLIONS
CREDIT LYONNAIS	$121
BANK OF AMERICA	40
MERRILL LYNCH	37
EUROPEAN AMERICAN BANK	28
IBJ SCHRODER	9
TWENTIETH CENTURY-FOX	7.5
REPUBLIC BANK	2

DATA: U.S. BANKRUPTCY COURT FILINGS

Betting on little more than McNall's glitz, financial heavyweights such as Bank of America, Merrill Lynch and French bank Crédit Lyonnais lent or assumed debts of more than $300 million to McNall and his varied business enterprises for what now may be largely a pipe dream. Most of those institutions are not likely to end up with more than 10¢ on the dollar. "He had a very good reputation in the entertainment and sports world when we made these loans," admits Peter B. Skelton, an executive vice-president at Bank of America, which lent McNall $60 million. "Reputation is extremely important."

The McNall episode, indeed, is a case study of how reputation can cause financial institutions to relax their standards of due diligence. They extended McNall large undercollateralized, and even uncollateralized, personal loans. European American Bank lent him $28 million in unsecured loans but has been able to seize only a McNall bank account of $4,783. The banks relied on documentation that included doctored income tax returns and inflated net asset statements, raising questions as to the depth of due diligence.

GUILTY PLEA. And on repeated occasions, the banks allegedly allowed individuals linked to McNall to put valuations on his assets, which turned out to be worth far less than he represented. Joanna Orehek, vice-president of McNall Sports & Entertainment Inc., pleaded guilty on Aug. 23 to falsifying tax returns and financial statements that a federal indictment says inflated "by millions of dollars" the true value of McNall's holdings. A lawyer for McNall declined comment on this story.

The largest McNall creditor is Crédit Lyonnais, which lent him $121 million for his horse-breeding and film-production units. The bank relied on invoices for horses purportedly owned by McNall's Summa Stable Inc. to value the collateral for one of the loans, a $10 million personal line of credit for McNall. In October, C. David Rossen, who ran Summa Stable, pleaded guilty to federal charges that he participated in a complicated scam to defraud Crédit Lyonnais of $10 million by falsifying invoices and inventories. Crédit Lyonnais relied on a supposed outside expert, Nassar Equine Appraisal & Management Services, to corroborate the values. But Nassar Equine's owner was actually McNall's chauffeur. "We thought we were taking every appropriate precaution," says a Crédit Lyonnais official. But he says he was "furnished false data."

Bruised By Bruce?

	MISTAKE	WHO MADE IT
1	Accepting false financial statements	Just about everyone he borrowed from
2	Accepting insufficient collateral for loans	Crédit Lyonnais
3	Extending McNall unsecured, unsecured personal loans	Bank of America and European American Bank
4	Allegedly allowing a McNall crony to appraise three coin funds	Merrill Lynch, which was administrative general partner of the coin funds
5	Allowing McNall to control collateral after he had defaulted on loans	Bank of America, which got $5 million less up front than it could have

DATA: BUSINESS WEEK

Merrill Lynch & Co., the administrative general partner of three rare-coin limited partnerships managed by McNall, had similar troubles. A class action by shareholders in one of the funds alleged that, while Merrill claimed the coins would be valued by "an independent third-party appraiser," in fact "one of the persons chosen by the defendants was a long-time customer of McNall and appeared in McNall's promotional tapes offering testimonials." The suit has since been settled, and Merrill has promised to return money invested in the partnerships and has put aside $37 million. The coins may turn out to be worth much less than originally represented to investors. Merrill declined comment on fund asset valuations.

SLEIGHT OF HAND. Merrill is trying to locate 399 coins that were among the assets in one of the funds. In its management agreement with McNall, Merrill allowed McNall to maintain physical possession of the coins. As of June, 1993, Merrill Lynch cited the purchase value of the coins at $3.3 million. Merrill says the problem is still under investigation.

The Bank of California may have lost $5 million due in part to another alleged sleight of hand by Orehek, according to federal court documents. The bank lent McNall the money to acquire coins. But instead, say documents, Orehek relabeled coins belonging to one of the Merrill funds with labels of McNall's Superior Stamp & Coin Co. That fooled bank auditors. The bank declined comment.

Asset control was an issue for the Bank of America, which lent McNall $100 million, $20 million of which was an unsecured, personal loan. The other $80 million was collateralized by the Los Angeles Kings. When McNall fell badly behind on debt payments last December, BofA declined to seize and liquidate the collateral. Instead, it allowed McNall to control the property and handle the sale. "McNall's reputation was still very good at the time," says Skelton. "If we would have gone into bankruptcy, it would have damaged the team."

But that didn't turn out to be a good idea. BofA outside counsel Robert L. Morriso testified that McNal threatened to scuttle th sale of the Kings unles BofA agreed to forgiv $40 million of the mone he owed the bank. Th bank went along. Further, because of delay in making the sale, BofA received $5 million les than it might have.

In the end, McNal will leave most of hi red-faced lenders holding worthless paper "The banks made incredibly stupid loans," says William Graysen, a criminal attorney for a forme McNall employee. "They believed in th power of Bruce McNall." True believers, though, aren't always the best people to work in the loan department.

By Nanette Byrnes in Los Angele

DEALS

THE MERGER UNION PACIFIC IS OUT TO DERAIL

A Burlington-Santa Fe stock swap threatens its dominance

Union Pacific Corp. chief Drew Lewis has never been one to run from a fight. As Transportation Secretary under Ronald Reagan, he busted the air-traffic controllers union. As head of the UP, a job he will reluctantly give up when he turns 65 in 1996, he has doggedly maintained his railroad company's dominance in the West for the better part of a decade. So, after rivals Santa Fe Pacific Corp. and Burlington Northern Inc. threatened his railroad's hegemony last summer by agreeing to create a new No. 1 rail carrier in a $2.6 billion stock swap, Lewis figured it was time to take off the gloves again. On Oct. 5, he topped the Burlington offer with a $3.4 billion stock bid. After Burlington countered with another bid, UP hiked its offer on Oct. 30 to $3.8 billio and UP says more sweeteners may b on the way. On Nov. 2, Santa Fe rejected the latest UP bid.

In launching the first hostile railroa industry takeover battle in years, Lewis has embarked on an unusual "spoiler" campaign

WHY UP WANTS TO BE THE SPOILER

Union Pacific Corporation
Santa Fe

- A Burlington Northern-Santa Fe combination would become the leading carrier in the West, dramatically increasing competition for Union Pacific, which prides itself on being No. 1
- A Union Pacific-Santa Fe merger, though unlikely due to regulatory hurdles, would command vast market power
- The intense bidding war would make an eventual Burlington-Santa Fe merger more expensive. That would likely weaken the combined company

DATA: BUSINESS WEEK

GRAPHICS BY ROB DOYLE/BW

that could benefit UP regardless of the outcome. And in a bizarre twist, Lewis, according to UP, checked himself into an alcoholic treatment center Oct. 24 for at least four weeks. That leaves the battle to three recently elevated lieutenants, including heir apparent President Richard K. Davidson, who are pursuing t vigorously.

UP appears to have fashioned a multipronged strategy. Lewis' immediate goal s to persuade Santa Fe holders to reject the Burlington merger when the matter comes to a proxy vote on Nov. 18. Then UP might have a shot at taking over Santa Fe itself. Even if that fails, Lewis has already made a merger more expensive for Burlington: On Oct. 27, BN boosted its offer to $3.2 billion, saying that was its final offer.

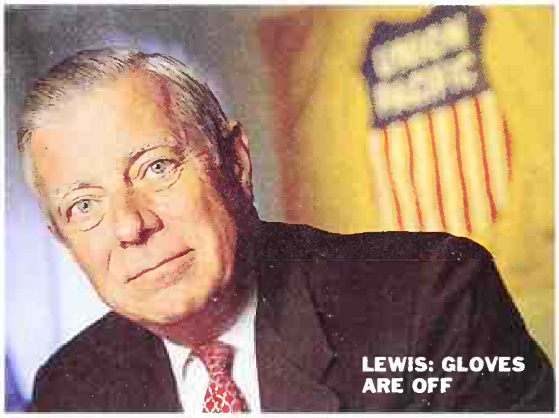
Santa Fe Chief Executive Robert D. Krebs, who stands to get the top job at a merged Burlington-Santa Fe, thinks UP is running scared. "The UP figured out they would have a real competitor in the West," he says. "Once that happened, they started looking for ways to combat that. They figure the tack they've taken would benefit them one way or another."

Some critics say Lewis will be happy f he can just keep Santa Fe and Burlington apart for as long as possible. "They just don't want anyone else to get them. The cheapest thing in the world is o hire a bunch of lawyers and stall the thing," says Neil Goldschmidt, a former Transportation Secretary under Jimmy Carter and former Oregon governor. For Lewis, "every day the Union Pacific doesn't have competition is a good day."

SAFER BET. "This is not a defensive maneuver but an offensive acquisition to fill in strategic areas in our railroad," insists Davidson. "This will fill in our weak links in the Western part of the U.S."

Even if Lewis loses on all fronts, he's likely to return to complicate life for his rivals. When they undergo regulatory scrutiny at the Interstate Commerce Commission (ICC), the old Washington hand is sure to try to force his competitors to give up lines or invite other carriers in to preserve competition. "He's got a lot of cards yet to play," says an executive at a rival East Coast carrier.

That may be true. But in the immediate battle for shareholder votes, analysts and shippers appear to be in Burlington's yard. Analysts are urging shareholders to O.K. the Burlington purchase on Nov. 18, saying the sweetened $3.2 billion stock deal is a safer bet than Lewis' last-minute $3.8 billion offer. They argue that the ICC would probably take the full permitted 31 months to review a UP takeover. It would likely raise more serious antitrust issues than a BN-Santa Fe deal, which could be wrapped up by early 1996. "If I had to vote today, I'd vote for BN," says PaineWebber rail analyst Anthony B. Hatch.



LEWIS: GLOVES ARE OFF

DAVIDSON: HEIR APPARENT

UP'S VIEW "This is not a defensive maneuver but an offensive [one]," says Davidson. So even if Lewis loses, he'll look for new pressure points

Many shippers passionately favor the Burlington-Santa Fe plan. Says Robert A. Sieffert, transportation manager for Stamford (Conn.) American Maize-Products Co.: "The UP deal is the worst thing that could happen in the West. They are already the dominant carrier."

A BN-Santa Fe linkup, shippers contend, promises cheaper, more convenient "single line" service. The Adolph Coors Co. figures it would save as much as 24 hours on packaged-beer shipments between its Golden (Colo.) plant and California, if it can stop handing off beer between the two lines. Moreover, it would shift much of its cargo from the highway to BN-Santa Fe, says Coors logistics manager Terrance L. Priest.

The Union Pacific's pride and business would unquestionably be hurt by a stronger rival. A combined Burlington-Santa Fe could steal some Northern plains coal traffic bound for New Orleans, for instance, leaving UP with just the final leg into the port. More important, Burlington would gain direct access to the fast-growing Mexican markets through a Santa Fe connection at El Paso, where UP also operates.

UP argues that a marriage with Santa Fe would offer similar advantages to shippers. Gulf Coast petrochemical companies, for example, could ship directly to California. And by linking Southeastern and West Coast markets, UP would pick up business that now moves on rival Southern Pacific, which UP once tried to acquire. "Today, we're not in that ballgame," says Davidson.

CAPTIVE SHIPPERS. UP is also worried that one of the Eastern lines might someday try to build a transcontinental system and leave UP out in the cold. Admits Davidson: "I wouldn't be telling you the whole truth if I said that hadn't gone through our minds, about the relative attractiveness of being the largest."

But because a UP-Santa Fe deal would result in more overlapping rail lines and monopoly control of traffic, it could be barred altogether by regulators. "The Union Pacific proposal would make a huge number of shippers captive," says former Transportation Secretary Goldschmidt. "The UP won't be allowed to do it," he asserts. The last time the agency reviewed a major merger—the proposed joining of Santa Fe and Southern Pacific in the mid-1980s—it was shot down as anticompetitive. Santa Fe executives say they have learned from that. The Burlington deal, they say, is far more of an "end-to-end" merger where competing parallel lines would be less significant. UP executives say they would bend over backwards to allay ICC concerns by letting in competing carriers and leasing or selling off parallel tracks.

UP may never get the chance if Santa Fe holders pick Burlington. But it's clear that no matter how the vote turns out, this won't be the last Burlington, Santa Fe, or the ICC hears from Lewis.

By Joseph Weber in Philadelphia and Susan Chandler in Chicago, with Christina Del Valle in Washington

(TOP TO BOTTOM) PHOTOGRAPHS BY KATHERINE LAMBERT, TIM KELLY

INVESTMENT MANAGEMENT

GE'S PENSION FUND VENTURES TO BE DIFFERENT

It is backing some risky businesses. And making a bundle

When veteran CBS Inc. radio executive George Sosson got the entrepreneurial bug in 1992, it was hard to find backers to help him acquire radio stations in small-to-medium markets. Advertising was in a slump, and most financiers didn't see the future in radio that Sosson did. Not so General Electric Co.'s pension fund. "The reception was surprisingly enthusiastic," says Sosson. "I happened to come to them when prices had fallen to historic lows. GE recognized this was attractive."

ONE COOL PLAY: *Diversifying with Dreyer's*

ANDY FREEBERG

The Spice in GE's Pension Portfolio

DOUBLETREE GE pension fund bought Guest Quarters stake in 1988, became majority owner in 1991, and merged with Doubletree in 1993. Even after IPO, GE fund owns 38% of Doubletree, worth $130 million.

DREYER'S GRAND ICE CREAM The fund bought $101 million of convertible bonds in tandem with GE Capital, which, if converted to equity, represents 16% of the California ice-cream maker.

CALLAWAY GOLF GE fund took a $4 million stake in the maker of Big Bertha drivers. Eventually owned more than 60% of company. This clubmaker earned the fund nearly $200 million. Still owns 5%, worth $65 million.

FAIRFIELD COMMUNICATIONS GE fund joined former CBS radio executive George Sosson in acquiring radio stations in small-to-medium-sized markets such as New Orleans. Has invested $40 million to date.

DATA: BUSINESS WEEK

The pension fund ponied up half the $54 million to back Sosson's Fairfield Communications, and when a chance arose to buy more stations for $100 million, GE Investments—the unit that manages the pension fund—dug into its pockets again. This time, though, the banks were eager to lend. "Having the GE people at the table brought instant credibility and toughness," says Sosson.

PERKY RETURNS. For GE, such a venture—an "alternative investment" to buying securities on the open market—perks up returns on the $38 billion fund. Unique in managing most of its pension assets in-house, GE since 1988 has also offered its services to outsiders who now have $8 billion with the company. The pension funds of American Airlines, Chrysler, and Xerox are in GE's alternative investments. "There's no question they're out on the curve," says Hewitt Associates consultant Kenneth G. Johnson.

These alternative investments account for 10% of GE's pension funds, about twice as much as at most large corporate pension funds. Officials would not disclose returns but said alternative investments earn 4 to 5 percentage points above the Standard & Poor's 500-stock index—about 14% to 15% a year. A rough calculation shows that this produces nearly $200 million more a year than if it were put into stocks and bonds. On the bulk of the money that is invested in both U.S. and foreign stocks and bonds, GE officials say they have beaten the S&P 500 since 1987, when their current strategy was put into place.

Not all the deals are a hit. For instance, the fund lost $40 million backing a children's clothing outfit and a defense electronics company. Even some of its winners were underwater for a while.

The key to GE's alternative investment strategy is diversification. The fund put up $32 million for an undisclosed stake in Fantastic Foods, a California health food company. It also bought $101 million of convertible bonds issued by Dreyer's Grand Ice Cream Inc. And it has invested in a genetic engineering company and a medical technology company alongside star venture capitalist Kenneth G. Langone.

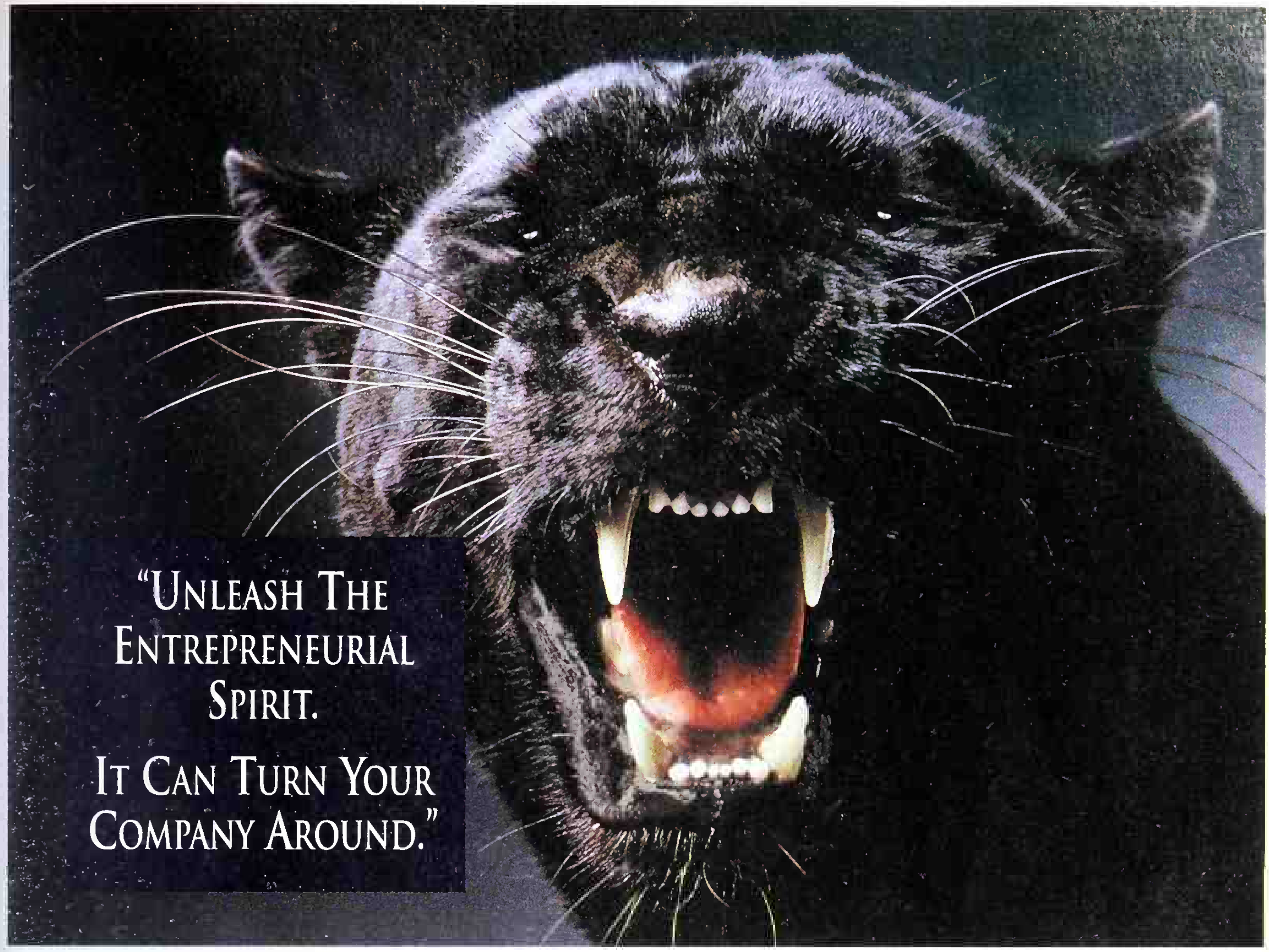
The biggest score to date, though: Callaway Golf Co. GE was an early bac er, putting in $4 million in 1988 to buy third of the company at a little over $ a share. It later upped its stake to mo than 60% when Callaway needed mone to start making its popular Big Berth drivers. When Callaway went public a $20 in 1992, GE Investments cashed i All told, GE has made "close to $200 mi lion" on the deal and still has a 5% hol ing, says John H. Myers, an executiv vice-president at GE Investments. G even lent aerospace engineers to hel design Big Bertha's head.

HANDS-ON. This readiness to take an a tive role helped its real estate inves ments through a hard time. The fun bought into the Guest Quarters hot chain in 1988 and became a majorit holder when other players, includin Westinghouse Credit Corp., backed o during the real estate crash of the ea ly 1990s. "The hotel business was goin through some gut-wrenching changes says David W. Wiederecht, vice-pres dent for real estate operations. And th investment was not an instant winner

But in 1992, the fund managers de cided that the industry would conso date and that their hotel business had t become larger to survive. So GE joine former Olympics organizer Peter V. Ue berroth and former United Airlines In CEO Richard J. Ferris in merging Gues Quarters with Doubletree Hotel Cor The fund also employed some familia GE techniques: cutting layers of ma agement and slashing overhead.

Lots of pension funds have deep poc ets, but not all have GE's reservoir operating experience. Says golf-gea maker Ely Callaway: "GE likes to sa they provide more than money, the provide knowledge, too." That jus might be the edge that allows the pe sion fund to keep ahead of the crowd.

By Tim Smart in Stamfor


"Unleash The Entrepreneurial Spirit.
It Can Turn Your Company Around."

Alert to every opportunity. Quick to pounce. Proud to carry off the prize while the competition fumes. This fierce entrepreneurial spirit now drives many of America's largest companies, turning them into powerful global competitors once again.

Chemical shares the entrepreneurial need to move swiftly. We'll help you seize opportunities that can vanish in a flash—from acquisitions to debt restructuring to managing currency exposures, and more.

To fund your initiatives, we can arrange bank financing through Chemical Bank or access the public or private debt markets through Chemical Securities Inc.

As leaders in global loan syndication, we know how to meet aggressive timetables and bring complex financings to a seamless close.

Chemical can work with you as banker, advisor, and trading and investment partner worldwide, building an association that benefits us both.

That's our own entrepreneurship, unleashed to help you make the most of your opportunities.

CHEMICAL

EXPECT MORE FROM US.℠

© 1994 Chemical Banking Corporation

Chemical Bank and Chemical Securities Inc. are separate subsidiaries of Chemical Banking Corporation.
Chemical Securities Inc.-Member NASD/SIPC

BY GENE G. MARCIAL

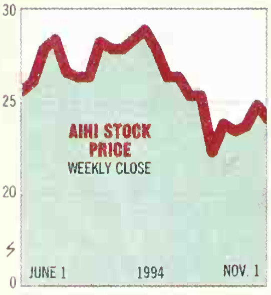
AN AUTO-PARTS MAKER REVS UP

When the market gets tough, money manager Karl-Olof Mills cheers. That's because his style of investing works wonders in down markets. No, Mills is no short-seller. But you won't catch him going after stocks that depend on the market for a boost, such as cyclicals. So why is he so high on Automotive Industries Holding Inc. (AIHI), a supplier of equipment to the definitely cyclical motor trade?

The answer is simple, says Mills, a portfolio manager at Jurika & Voyles in Oakland, Calif. Automotive Industries "will grow even when the industry slackens," he says.

The company makes interior trim and molded plastic parts for cars, vans, and trucks. They are "the lowest-priced in the business—and are of the highest quality," says Jurika & Voyles analyst Irene Hoover. Automotive Industries has been a beneficiary of outsourcing, she adds. Its biggest customers are Ford (47% of sales), General Motors, Chrysler, and Japanese carmakers with U. S. plants: Honda, Nissan, and Isuzu Motors. Toyota is a customer of its unit in Britain.

GATHERING SPEED?



EARNINGS PER SHARE
1996 Est. $2.60
1995 Est. $2.34
1994 $1.80
1993 $1.41
1992 $1.11

FISCAL YEAR ENDS JAN 1

DATA. BLOOMBERG FINANCIAL MARKETS, ZACKS INVESTMENT RESEARCH

With just 6% to 7% of the market, the company trails Textron and United Technologies, both of which own big auto-parts units. But one speculation may soon spur more interest in Automotive Industries: Either Textron or United Technologies may make a buyout or merger bid for the company, says one big investor. Look for a price of 40 when that happens, says this buyout pro. A spokesman for the company declined comment.

True, many investors link the company with Detroit's ups and downs, and this has put a damper on the stock. In truth, however, earnings growth has been impressive. At 24 a share, Automotive Industries "is very cheap—it has been growing at about 20% a year and sells at only 10.6 times our 1995 estimate of $2.25 a share," says Mills. He's betting on the stock hitting 35 in a year.

HOW THE STOCK STACKS UP

	AIHI	S&P MID-CAP 400 INDEX
P/E RATIO	14.6	18.8
YIELD	0	2.1%
PRICE CHANGE, JAN 1-NOV. 1	-16.7%	2.2%

DATA. BLOOMBERG FINANCIAL MARKETS

Jurika & Voyles has outscored the Standard & Poor's 500-stock index, says Mills. In 1993, its 23% gain beat the S&P's 10%. So far in 1994, Jurika is up 3.5% vs. the S&P's 1.3.

USG: READY FOR A HOUSING REBOUND?

More than a year after emerging from bankruptcy in May, 1993, USG—formerly U. S. Gypsum—North America's largest producer of gypsum wallboard and other building materials, has recaptured some very solid Street support. And pros are betting that the stock, now at 19, will win back some of its old glory and hit 50 in two years.

"Its main selling point is a very good product," says investment manager Seth Glickenhaus. That'll be "a good bet in the next housing boom," he adds. Glickenhaus believes that interest rates will soon top out and that housing will be a big winner. "When that happens, USG shares will shoot up like a rocket," he asserts.

USG was a victim of the 1980s takeover rage. The company had to sell assets and incur a $2.5 billion debt in a recapitalization to stave off a hostile takeover. USG won that battle but had to go into bankruptcy to survive. In late October, USG agreed to pay $30 million to settle two asbestos property-damage lawsuits brought collectively by a group of U. S. school districts. USG remains a defendant in about 47 other asbestos cases. Even so, Glickenhaus thinks it will be in the black starting this year, earning $2.50 in 1994 and $3.75 in 1995.

When its stock resumed trading—in 1993, at 12 a share—early supporters took it as high as 35 by March, 1994. The market's pullback brought it back down, along with other housing issues. But at its current price, the stock is drawing attention not only from the usual vultures but also from reputable investors. Apart from Glickenhaus, big supporters include Fidelity Management & Research, which has accumulated 12% of USG, and Capital Growth Management, which owns 7%.

Analyst Richard Spiegel of S&P figures sales of gypsum products will show solid gains through 1995. Operations should benefit, he says, from recent steady increases in gypsum wallboard prices.

CATCHING THE TELECOM WAVE

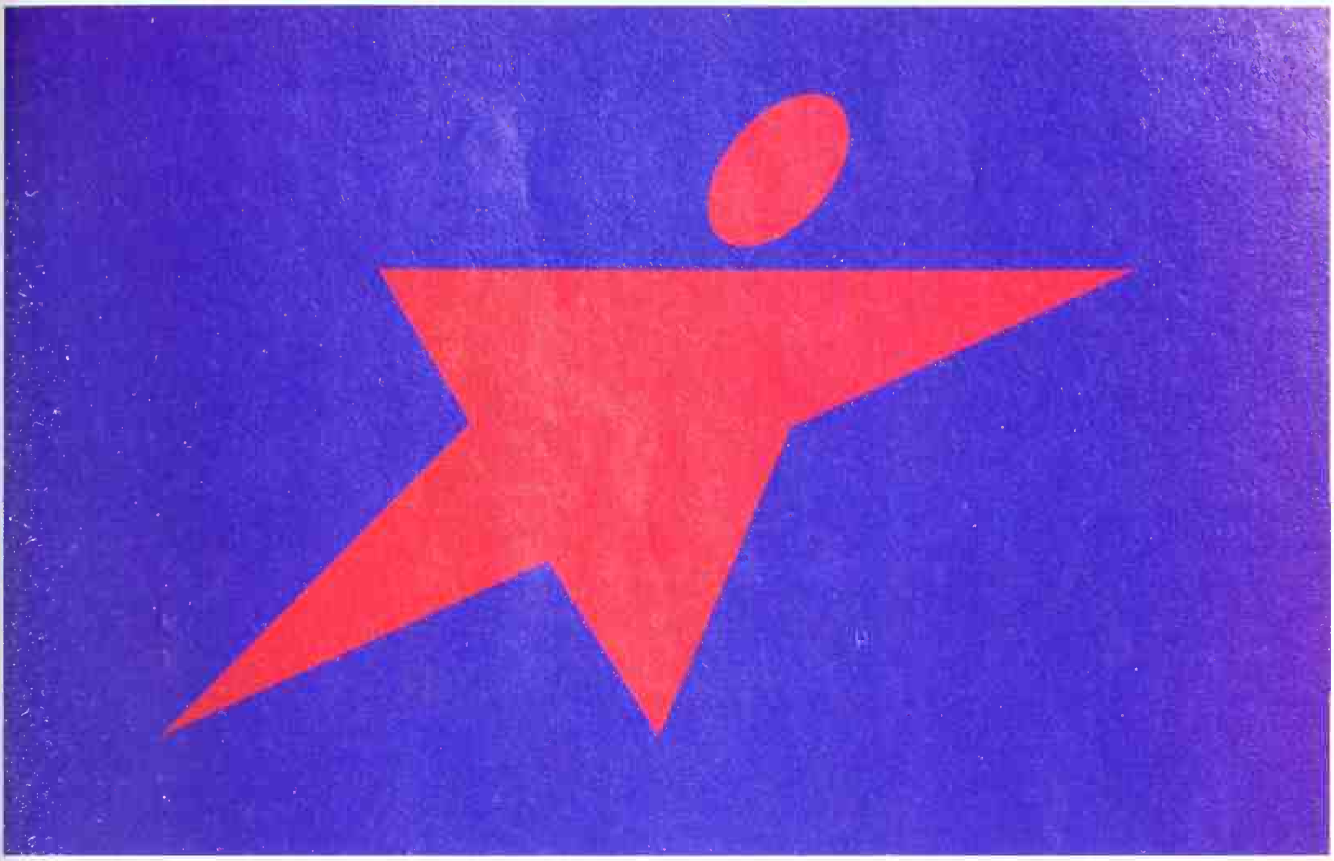
To investment pro Bill Block of M. H. Meyerson, tiny Cabletel Communications is a cheap way to benefit from the partnerships being formed between giants in cable TV and telecommunications. Cabletel, trading on the Amex at 3½ a share, could hit 7 to 8 in the next 15 months, says Block. Antec, a much bigger company in the business, trades at 31 times estimated 1994 earnings. Cabletel is trading at just 11 times estimated 1994 earnings.

What does Cabletel have to do with cable TV and the phone companies? It is a small distributor—one of the oldest—of broadband equipment to some 300 cable-TV operators all over Canada. Its more than 5,000 products include coaxial and fiber-optic cable, electronic signal modulators and transmitters, and satellite-reception apparatus.

Cabletel, through its subsidiary Stirling Connectors, is also a big maker of the brass and aluminum coaxial connectors used in cable distribution systems. One of its newest products is a patented, crimpless, waterproof connector that reduces distortion in the transmission of sound and images.

According to one insider, Cabletel is engaged in talks with two giant telephone companies to supply them with the crimpless cable. These two companies, he says, have classified the connectors as compatible for use in their own systems and are discussing possible contracts. This could eventually lead to a merger with one of them, says this insider. Cabletel is 65% owned by ARC Communications.

Block figures Cabletel will earn 30¢ a share on sales of $36 million in 1994 and 40¢ on $45 million in 1995. Last year, Cabletel earned 8¢ on $11 million.



WHAT DO I DO?

I serve.

I serve workers. Employers. Patients. Students. Sports fans. Travelers.

I serve 10 million people every day.

I serve them hot dogs at ballgames.

I serve delicious, nutritious meals at work, on campus and in the hospital.

I fuel the American workplace with 1 billion cups of coffee a year.

I dress millions of workers for success in crisp, clean uniforms.

I run more than 600 child care programs.

I provide healthcare for those who might otherwise do without.

I maintain factories and offices.

I cook, I clean, and I do laundry for America.

I even do windows.

I'm ARAMARK.

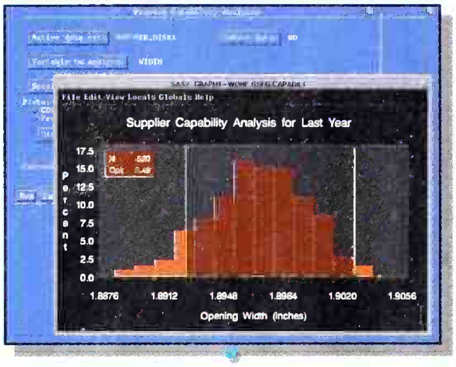
And I'm proud to be of service.

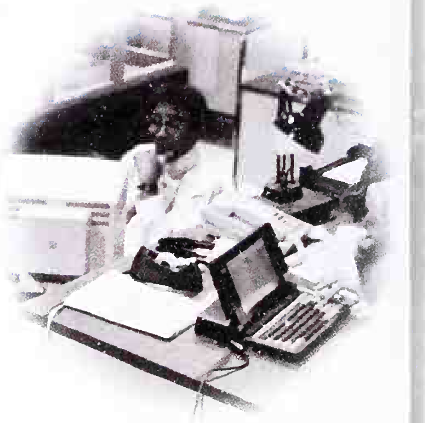
ARAMARK™

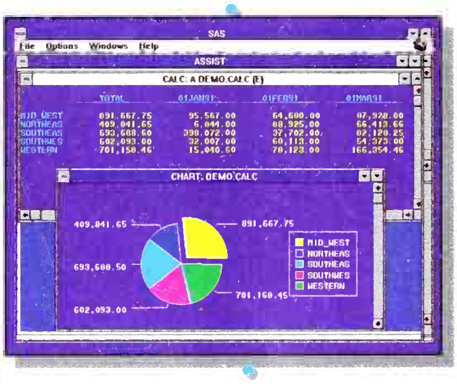
Managed Services, Managed Better.

The Client/Server Solu

The SAS System for Information Delivery is a new concept in client/server software. It provides workable strategies for overcoming the barriers that stand between people and the information they need. For instance, the SAS System strategy for **universal data access** makes it easy to reach all your diverse "islands of information"— including host system files, flat files, and corporate DBMS's such as DB2®, ORACLE®, and dBASE®.

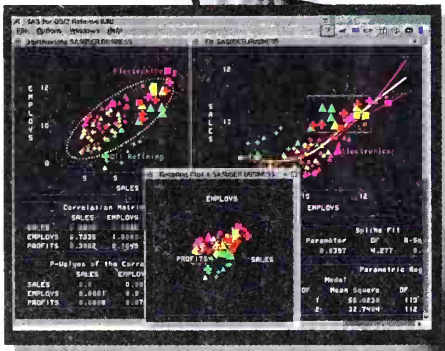

SAS/ GRAPH - WOW GSFG CAPABLI
File Edit View Locals Globals Help
WIDTH
Supplier Capability Analysis for Last Year
Percent
17.5
15.0
12.5
10.0
7.5
5.0
2.5
0.0
1.8876
1.8912
1.8948
1.8984
1.9020
1.9056
Opening Width (inches)

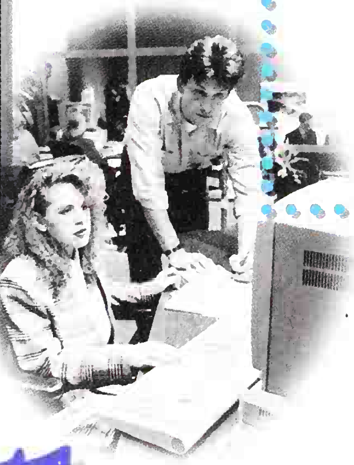



SAS
File Options Windows Help
ASSIST
CHART: DEMO.CALC
MID_WEST
NORTHEAS
SOUTHEAS
SOUTHWES
WESTERN

CALC: A DEMO.CALC (E)

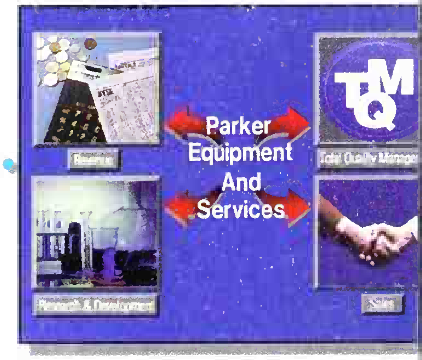
	TOTAL	01JAN91	01FEB91	01MAR91
MID_WEST	891,667.75	95,567.00	64,600.00	87,928.00
NORTHEAS	409,841.65	6,844.00	88,925.00	66,413.66
SOUTHEAS	693,688.60	398,072.00	37,702.00	82,120.25
SOUTHWES	602,093.00	32,007.00	60,113.00	54,373.00
WESTERN	701,150.46	15,040.60	70,123.00	166,354.46


SALES
EMPLOYS
PROFITS
Correlation Matrix
Electronics
Refining
Spline Fit
Parametric Reg



An exclusive MultiVendor Architectur is behind the SAS System's strategy for **hardware independence**. Applicatior run the same way across PCs, workstation and host systems — making true client/ser computing a reality while exploiting the particular strengths of each platform.

Address the needs of users at every le with the SAS System's strategy for **interfa versatility**. An EIS interface puts decisio makers in command of the facts — when th need them. There's also a task-oriented menu-driven interface for business

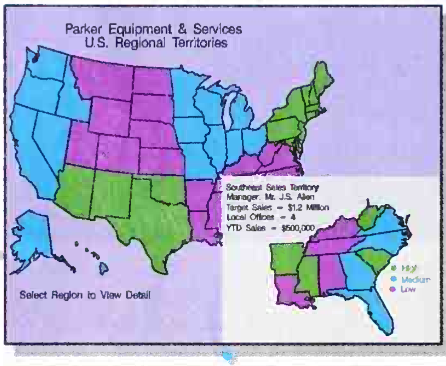

Parker Equipment And Services
Revenue
TQM
Total Quality Manage
Research & Development
Sales

The SAS

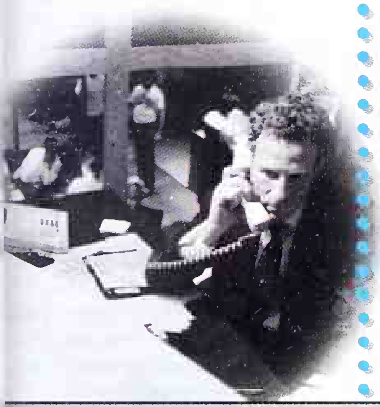
Enterprise Wide I

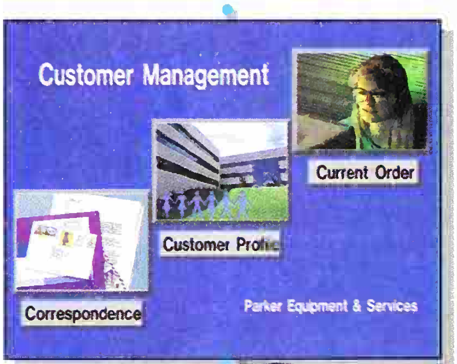
on for EIS and Beyond

alysts… plus object-oriented and full-
nction programming environments for
pplications developers.
The SAS System's **applications**
tegration strategy provides one seamless
lution for virtually any application that
volves accessing, managing, analyzing, or
esenting data. Choose integrated tools for
ecision support, reporting, financial
alysis, market research, project
anagement, quality improvement,
d more. All backed by SAS Institute
c., a vital force in the information

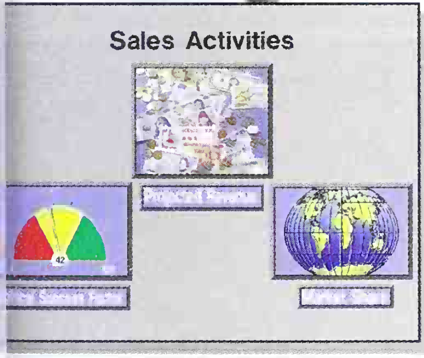


Parker Equipment & Services
U.S. Regional Territories
Southeast Sales Territory
Manager: Mr. J.S. Allen
Target Sales = $1.2 Million
Local Offices = 4
YTD Sales = $500,000
High
Medium
Low
Select Region to View Detail





Customer Management
Current Order
Customer Profile
Correspondence
Parker Equipment & Services



Sales Activities
Projected Revenue
42

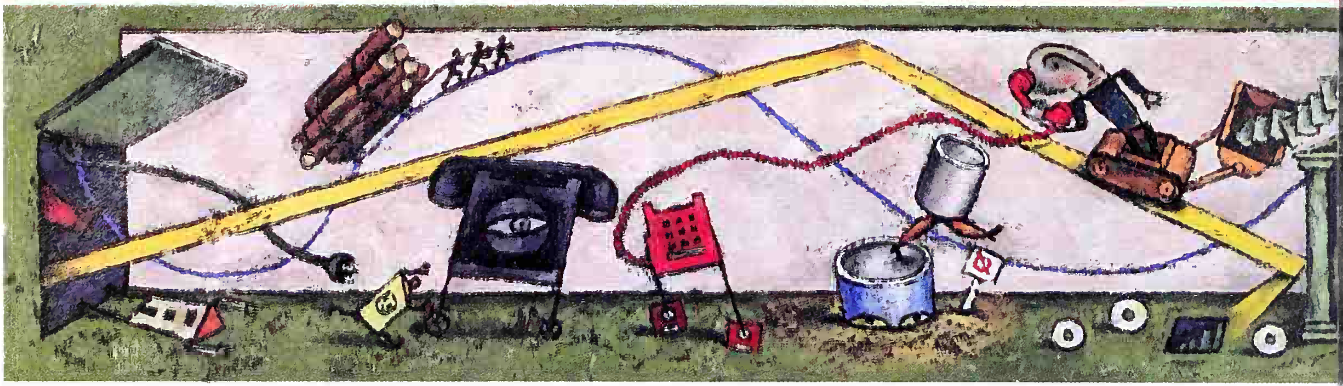
industry with a strong commitment to helping you succeed—and an unrivaled dedication to training, documentation, technical support, and consulting services.

See for yourself how the SAS System of software brings out the best in your hardware and the people who use it. Just give us a call at **919-677-8200** for a free video, plus details about a free software evaluation.

SAS Institute Inc.
Phone 919-677-8200
Fax 919-677-8123

SAS is a registered trademark of SAS Institute Inc.
Copyright © 1994 by SAS Institute Inc.

System
ormation Delivery



HOT DAMN! THEY DID IT AGAIN

Against all odds, corporate profits surged another 45% in the third quarter

So much for conventional wisdom. After the robust profit growth of the first six months of 1994, economists widely predicted a second-half slowdown. It seemed a sure bet—especially after the staggering 45% profit gain of the second quarter. But instead of taking a breather, Corporate America has confounded the experts. Profits for the 900 companies in BUSINESS WEEK's Corporate Scoreboard again rose by 45% in the third quarter.

Credit a surprisingly resilient economy with sustaining the torrid profit pace. Gross domestic product grew by 3.4% in the third quarter. That's down from the second quarter's 4.1% pace but wel above the 2.8% rate anticipated by man economists. Corporate sales climbe 10%, to $1.08 trillion—the biggest quar terly leap in nearly four years. "Th economy is really cooking now," say Hugh A. Johnson Jr., chief economist a First Albany Corp. in Albany, N. Y.

Winners And Losers In Third-Quarter Profits

THE INDUSTRIES

THE STRONGEST	PERCENTAGE CHANGE FROM 1993'S THIRD QUARTER	THE WEAKEST	PERCENTAGE CHANGE FROM 1993'S THIRD QUARTER
FOREST PRODUCTS	+927%	CONSTRUCTION & ENGRG.	–83%
GAS UTILITIES	+782	GLASS CONTAINERS	–42
CARS & TRUCKS	+382	ENTERTAINMENT	–14
SAVINGS & LOAN	+333	TRUCKING & SHIPPING	–13
RAILROADS	+259	FINANCIAL SERVICES	–10
PUBLISHING	+183	ELECTRICAL PRODUCTS	–10
MISCELLANEOUS SERVICES	+88	COAL, OIL & GAS	–4
MISCELLANEOUS LEISURE	+87	DISC. & FASHION RETAILING	–1
BUILDING MATERIALS	+86	FOOD PROCESSING	–1
MACHINE & HAND TOOLS	+81	BANKS-MIDWEST	0
AUTO PARTS & EQUIPMENT	+80	BROADCASTING	0
COMPUTER SOFTWARE & SVCS.	+77	BANKS-EAST	+7
APPAREL	+66	AEROSPACE & DEFENSE	+7
BEVERAGES	+66	SPECIAL MACHINERY	+7
TRANSPORTATION SERVICES	+59	ELECTRIC UTILITIES	+9

ALL-INDUSTRY AVERAGE: +45%

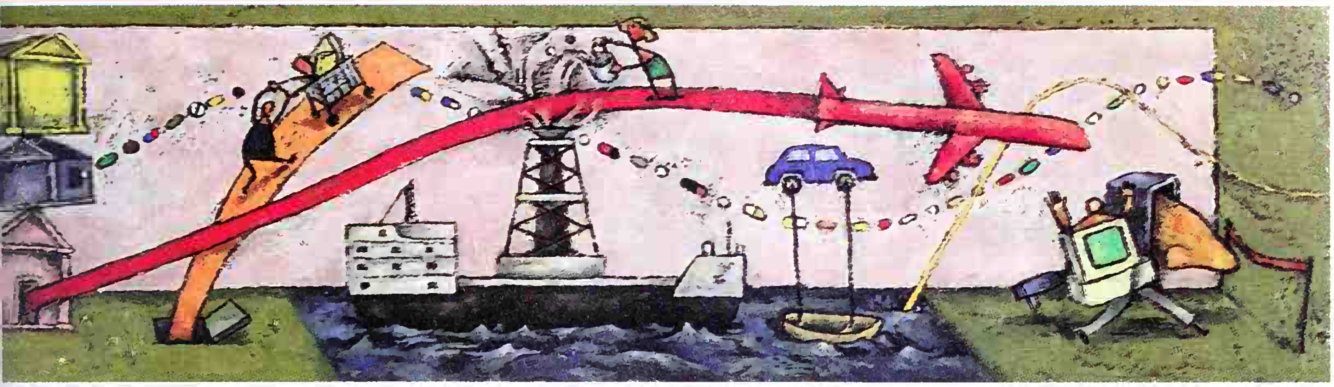
THE COMPANIES

WHO MADE THE MOST	MILLIONS OF DOLLARS	WHO LOST THE MOST	MILLIONS OF DOLLARS
GENERAL ELECTRIC	$1,368	PENNZOIL	$300
PHILIP MORRIS	1,230	BEST PRODUCTS** †	252
EXXON	1,155	DIGITAL EQUIPMENT*	195
FORD MOTOR	1,124	USAIR GROUP	180
AT&T	1,050	SALOMON	104
CITICORP	894	BORDEN	72
PROCTER & GAMBLE*	792	LOTUS DEVELOPMENT	66
MERCK	785	EG&G	57
IBM	710	MAXTOR**	55
COCA-COLA	708	RAYCHEM*	48
INTEL	659	ORYX ENERGY	44
GTE	659	WESTPOINT STEVENS	44
CHRYSLER	651	WOOLWORTH**	42
DUPONT	647	AST RESEARCH*	40
BRISTOL-MYERS SQUIBB	621	MERRY-GO-ROUND ENTERPR.**	38

*Fiscal first quarter **Fiscal second quarter †EMERGED FROM BANKRUPTCY JUNE 14, 1994

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF McGRAW-HILL INC.

ILLUSTRATION BY FERRUCCI



Sales were also helped by the broad nprovement in foreign economies, espe-ially in Europe. Export volume rose 0.7% in the third quarter, compared vith 2.5% a year ago. Meanwhile, com-anies continued to reap the benefits of ownsizing. Thanks in part to the slow rowth in labor costs, margins widened o 5.9% in the third quarter, from 4.5% ıst year. Margins haven't looked this ood since the first quarter of 1989—vhen they hit 6.1%—and they'll prob-bly stay healthy for a while (page 110).

The economy isn't likely to keep turbo-harging profits at this rate. Most econ-mists expect growth will continue to low through the end of 1995. BUSINESS VEEK economists believe that GDP will robably grow by a more modest 2.2% ı the current quarter and the first quar-er of 1995. The culprit: a huge buildup in ıventories in the second and third quar-ers. Economists also expect unit labor osts to rise in the next year, cutting into rofits. "We're also betting on consumers etting a little more sober," says Mau-een F. Allyn, chief economist at Scudder, tevens & Clark Inc.

IGH GEAR. The economy gave a clear oost to General Electric Co., which eads the list of BUSINESS WEEK's top 15 arnings leaders. GE's profits rose 13% in ıe third quarter, to $1.37 billion, as sales ıcreased 9%, to $16.2 billion, on a surge ı its cyclical businesses, including plas-cs and appliances. Philip Morris Cos. vas a close second. After a year of cut-ıroat price competition, cigarette vol-me jumped 19% worldwide, fueling rev-nues, which were up by 9%. The obacco giant's profits climbed 27%, to 1.2 billion, on sales of $13.7 billion.

Among industries, auto makers gener-ted some of the biggest gains. A healthy onsumer appetite, combined with few-r costly rebates and leasing incentives, ent Motown's profits into high gear. 'ord Motor Co. posted its seventh traight quarterly earnings improve-ıent, fueled by strong sales of Mus-angs, Explorers, and the new Windstar ıinivan. Ford's profits rose 143%, to $1.1 billion, as sales climbed 25%, to $30.6 billion. Likewise, Chrysler Corp.'s Jeep Grand Cherokee and its Neon small car continued to rack up big sales. Chrysler's earnings rose 54%, to $651 million, on $11.3 billion in revenue, up 20%.

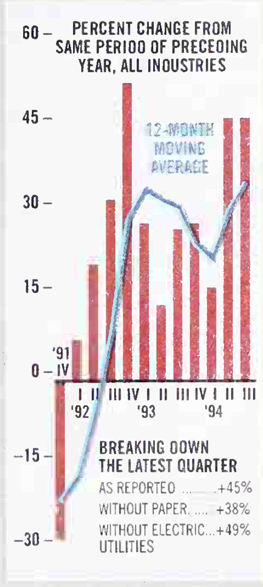
SPOILER. General Motors Corp. was the spoiler, reporting a smaller-than-expected improvement over last year. GM's profits stood at $552 million, vs. a loss of $113 million a year ago after net charges of $289 million for retiree benefits and plant closings. Sales rose only 15%, to $34.5 billion. The worst news was the $328 million loss in GM's core North American operations, compared with a $1.1 billion loss a year ago. Lagging productivity, botched startups of new models, and sporadic strikes curtailed output and profits. "In spite of the fact that this is the best market in years, GM can't make money" in the U. S. and Canada, says analyst Maryann N. Keller of Furman Selz Inc.

Chemicals companies staged a strong recovery, led by DuPont Co., with profits of $647 million, vs. a loss of $680 million last year, after a $1.3 billion restructuring charge. Revenue rose 7%, to $9.8 billion. Cyclicals, led by paper and forest products, also made a comeback. As a group, forest-products makers showed the most improvement. Among the best: Georgia-Pacific Corp. It earned $87 million—up from a $28 million loss a year ago—as sales rose 10%, to $3.3 billion.

Computer manufacturers also had a solid quarter. Strong demand for its personal computers sent Compaq Computer Corp.'s profits up a stunning 88% in the quarter, to $201 million, as its sales grew 63%, to $2.84 billion. IBM also fared well. Unexpectedly strong sales of mainframe computers, plus brisk business in minicomputers and workstations, boosted

A Spotlight On Third-Quarter Profits

AFTERTAX PROFITS QUARTER BY QUARTER



DATA: STANDARD & POOR'S COMPUSTAT

INDUSTRIES WITH THE BIGGEST DOLLAR CHANGE IN THE QUARTER

For the second straight quarter, profits rose 45%. Sales jumped by 10%, the biggest increase since the fourth quarter of 1990. No single company dominated the results. Instead, such varied companies as Conner Peripherals, DuPont, Fort Howard, Navistar, and U S West posted healthy profits, compared with losses from special charges a year ago. Auto makers remained strong. Brokerages, meanwhile, had another poor quarter as interest rates climbed and underwriting volume dropped.

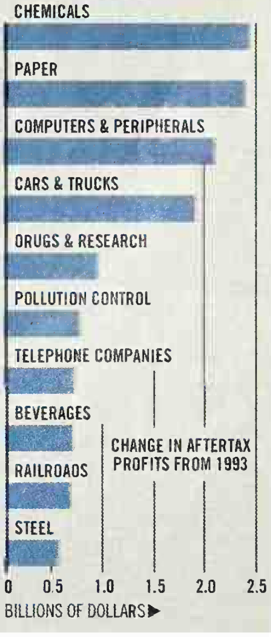


CHART BY ERIC HOFFMANN/BW

sales 5%, to $15.4 billion in the quarter. Continued cost-cutting also helped. Big Blue posted profits of $710 million, compared with last year's loss of $48 million.

Not all computer makers boasted stellar results. Digital Equipment Corp. continues to suffer the effects of restructuring, as well as sliding sales of its VAX minicomputer. DEC lost $195 million in the quarter, vs. a $103 million loss last year. Its sales rose by 4%, to $3.1 billion.

LOSERS. Wall Street also had trouble making money. Rising interest rates and a downturn in trading and underwriting volume hurt. The biggest loser: Salomon Brothers Inc., which lost $104 million in the third quarter as its revenue dropped 9%, to $1.7 billion. PaineWebber, which recently acquired the beleaguered Kidder Peabody from GE, didn't fare much better. Its third-quarter profits plummeted 66%, to $20.3 million. The firm's revenue totaled $940 million, down 10%. But Wertheim Schroder & Co. analyst James P. Hanbury expects a small upturn for the industry in the fourth quarter. "Trading losses have already been taken," he says.

> Retailers had it rough: Woolworth, for its part, lost $42 million

Retailers also had a poor showing, as specialty stores such as Charming Shoppes Inc. and The Limited Inc. con tinued to suffer from sluggish appare sales. Stiff price competition betwee discounters and department stores als held back earnings. That—along with big operating loss in its foreign unit— certainly hurt Woolworth Corp., one o the worst performers. It lost $42 millio against a loss of $10 million a year ago, a its revenue declined 18%, to $1.9 billio Mounting difficulties at Kmart Corp. als stood out: Despite a 5% sales gain, t $8.9 billion, continued inventory prob lems sent profits down 25%, to $94 mil lion. Clearly, not everyone was celebrat ing as the quarter's surprisingly stron profit season came to a close.

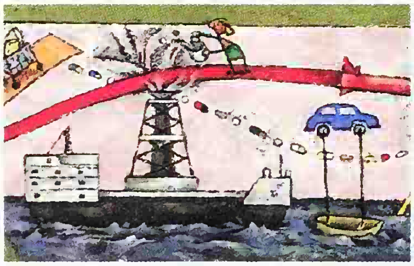
By Julie Tilsner in New York, wit Kathleen Kerwin in Detroit, Gary Mc Williams in Boston, and bureau report

WHAT'S MAKING THOSE MARGINS SO FAT

Interest rates may be rising, and the wave of cost-cutting that swept through Corporate America in recent years appears to be waning. But profit margins at U. S. companies continue to swell. Indeed, earnings rose three times faster than sales last quarter as margins hit their highest level since the buoyant prerecession days of 1989's first quarter.

What's making companies so profitable? It's a simple matter of productivity and its brake on labor costs, which account for 75% of the average corporation's bills. Unit labor costs, the wages and benefits that go into producing a good or service, are growing by less than 1%—a pace not seen since the early 1960s. Among manufacturers, unit labor costs fell 2.7% in the third quarter. By contrast, the price of goods and services climbed 2.8% in the same period.

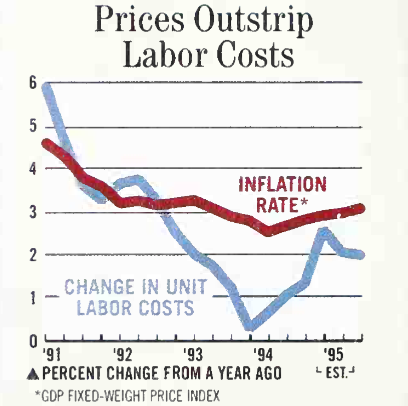
BIG POOL. And fortunately for Corporate America, those fundamentals won't change appreciably next year. True, labor costs will rise as companies must offer higher wages to attract skilled labor. But BUSINESS WEEK economists project an inflation rate of just over 3% by mid-1995 and unit-labor-cost growth of only 2% (chart). The spread may diminish, but as long as prices are rising faster than costs, margins will continue to widen.



Restructuring has also helped pump up margins. By slashing payrolls, investing in technology, or simply overhauling assembly lines, companies are making more efficient use of fewer workers. So wages just aren't growing the way they did in past recoveries. In the year ended in September, wages and benefits rose 3.3%. Back in 1985—at the comparable point in the 1980s expansion—compensation was increasing by more than 4%.

The huge pool of labor has a lot to do with the prevailing wage restraint. True, the jobless rate has fallen to 5.9%, from 7.3% a year ago. But that's only part of the story. The unemployment statistics don't count the roughly 4 million part-time workers who are eager for full-time jobs. In addition, the explosive increase in the number of temporary workers gives few employees much leverage in negotiating pay raises.

Prices Outstrip Labor Costs



▲PERCENT CHANGE FROM A YEAR AGO

*GDP FIXED-WEIGHT PRICE INDEX

DATA: COMMERCE DEPT., LABOR DEPT., BUSINESS WEEK

PRICING POWER. The balance will shift a bit, though. Job growth is likely to slow from the 260,000 per month averaged last quarter to 150,000 to 200,000 through most of 1995. But that still adds up to at least 1.3 million new hires by next summer. Those jobs will sop up much of the excess labor and send wages up a little faster in 1995. "The easy period when firms could raise margins by containing costs is probably behind us," says Laurence H. Meyer, who runs his own economic forecasting firm in St. Louis.

At the same time, though, stronger aggregate demand should give corporations more pricing power next year. Domestic growth may slow, but U. S. companies will be able to boost exports as foreign economies improve. In the end, U. S. companies may not be able to keep as tight a lid on wages in the future as they've done recently. But as long as productivity holds down unit labor costs, margins could still get fatter.

By Kathleen Madigan in New York

Third Quarter 1994

CORPORATE SCOREBOARD

Glossary

SALES: Includes all sales and other operating revenues. For banks, includes all operating revenues.

PROFITS: Net income before extraordinary items. For banks, profits are net income after security gains or losses.

MARGINS: Net income from continuing operations before extraordinary items as percent of sales.

RETURN ON COMMON EQUITY: Ratio of net income available for common stockholders (most recent 12 months) to latest available common equity, which includes common stock, capital surplus, and retained earnings.

PRICE-EARNINGS RATIO: Based on Oct. 21, 1994, common-stock price and corporate earnings from continuing operations before extraordinary items for most recent 12-month period.

EARNINGS PER SHARE: For most recent 12-month period. Includes all common-stock equivalents.

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-21	12 MONTHS' EARNINGS PER SHARE
	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 %	3RD QUARTER 1993 %			
ALL-INDUSTRY COMPOSITE	1087623.0	10	3184168.0	8	64821.1	45	181774.5	34	5.9	4.5	14.4	17	2.11
1 AEROSPACE & DEFENSE													
INDUSTRY COMPOSITE	23322.3	2	69290.4	–4	938.7	7	2851.8	0	4.0	3.8	13.4	13	3.85
BOEING	5063.0	–2	16804.0	–15	185.0	–2	699.0	–26	3.7	3.7	10.7	15	2.94
GENCORP (1)	374.4	–22	1243.8	–10	6.4	–17	17.4	–45	1.7	1.6	112.5	13	0.90
GENERAL DYNAMICS	714.0	–8	2334.0	–3	54.0	–29	165.0	–20	7.6	9.8	18.3	12	3.60
LOCKHEED	3165.0	–9	9286.0	–1	112.0	–4	308.0	7	3.5	3.4	17.1	10	6.98
MARTIN MARIETTA	2562.5	4	7087.8	13	148.8	14	496.1	50	5.8	5.3	25.8	8	5.78
McDONNELL DOUGLAS	3461.0	1	9664.0	–11	161.0	13	433.0	–12	4.7	4.2	7.9	16	7.62
NORTHROP GRUMMAN	1927.0	58	4831.0	27	39.0	50	156.0	19	2.0	2.1	8.6	19	2.44
ROHR (5)	224.6	–8	681.1	–22	0.5	–43	–1.1	NM	0.2	0.1	3.2	35	0.26
SUNDSTRAND	339.7	5	995.1	–1	23.7	53	60.6	1	7.0	4.8	18.2	17	2.72
THIOKOL (6)	238.2	–8	783.7	–9	14.3	2	45.8	–8	6.0	5.4	15.8	8	3.10
UNITED TECHNOLOGIES	5253.0**	2	15580.0	0	194.0	24	472.0	34	3.7	3.1	15.2	14	4.40
2 AUTOMOTIVE													
INDUSTRY COMPOSITE	90952.1	19	287023.5	15	2951.2	240	12188.4	114	3.2	1.1	27.3	7	4.24
(A) CARS & TRUCKS													
GROUP COMPOSITE	78805.1	19	251119.8	15	2400.2	382	10577.0	133	3.0	0.8	31.6	7	5.38
CHRYSLER	11261.0	20	36854.0	20	651.0	54	2545.0	55	5.8	4.5	35.9	5	9.03
FORD MOTOR	30622.0	25	94796.0	18	1124.0	143	3739.0	107	3.7	1.9	20.9	7	4.15
GENERAL MOTORS	34510.3**	15	112397.8	11	552.0	NM	4086.6	217	1.6	NM	54.3	7	5.74
NAVISTAR INTERNATIONAL (2)	1244.0	11	3752.0	11	20.0	NM	59.0	NM	1.6	NM	9.3	17	0.78
PACCAR	1167.9	26	3320.1	28	53.2	46	147.4	52	4.6	3.9	16.4	9	4.96
(B) PARTS & EQUIPMENT													
GROUP COMPOSITE	8486.3	26	25333.0	21	334.9	80	1025.1	60	3.9	2.8	0.3	13	0.05
ARVIN INDUSTRIES	505.7	12	1524.2	9	9.8	44	28.9	3	1.9	1.5	8.7	14	1.75
CUMMINS ENGINE	1155.5	17	3459.6	11	61.9	52	182.7	41	5.4	4.1	24.6	7	5.85
DANA	1609.4**	25	4918.7	22	52.9	59	168.6	81	3.3	2.6	23.0	12	2.09
DETROIT DIESEL	419.4	6	1237.9	6	8.7	98	26.0	95	2.1	1.1	12.3	18	1.44
DONALDSON (5)	161.5	8	451.0	11	8.4	–6	24.4	11	5.2	6.0	17.2	18	1.17
EAGLE-PICHER INDUSTRIES (1)	186.2	15	560.9	16	11.7	47	37.4	44	6.3	4.9	NM	NM	NM
EATON	1531.0	45	4447.0	35	84.0	91	244.0	63	5.5	4.2	17.9	14	3.66
ECHLIN (4)	623.0	20	1730.2	17	36.2	28	97.0	30	5.8	5.4	15.7	14	2.06
FEDERAL-MOGUL	445.3	20	1380.4	17	16.1	61	51.5	57	3.6	2.7	9.2	15	1.44
LEAR SEATING	698.5	75	2207.4	64	6.3	NM	34.0	237	0.9	NM	2.5	49	0.39
MODINE MFG. (9)	221.8	41	623.3	39	16.8	44	42.6	37	7.6	7.4	18.9	17	1.74
SMITH (A.D.)	332.7	22	1022.7	16	10.1	85	43.8	30	3.0	2.0	17.1	10	2.54
STANDARD MOTOR PRODUCTS	168.3	4	503.1	12	7.7	36	18.7	22	4.6	3.5	11.9	11	1.67
STANDARD PRODUCTS (6)	220.9	10	693.3	11	2.9	–40	24.9	–4	1.3	2.4	12.8	12	1.86
TEREX	207.1	26	573.4	10	1.2	NM	0.6	NM	0.6	NM	NA	NA	NA
(C) TIRE & RUBBER													
GROUP COMPOSITE	3660.7	8	10570.7	5	216.1	18	586.3	16	5.9	5.4	20.8	12	2.87
BANDAG	177.2	15	466.9	9	29.4	30	66.4	19	16.6	14.6	21.8	18	3.31
COOPER TIRE & RUBBER	383.5	18	1041.9	16	35.5	41	89.4	20	9.2	7.7	18.7	17	1.40
GOODYEAR TIRE & RUBBER	3100.0	6	9061.9	4	151.3	11	430.5	15	4.9	4.7	21.1	10	3.61

(1) Third quarter ended Aug. 31. (2) Third quarter ended July 31. (3) Fourth quarter and most recent six months ended Sept. 30. (4) Fourth quarter and most recent six months ended Aug. 31. (5) Fourth quarter and most recent six months ended July 31. (6) First quarter and most recent six months ended Sept. 30. (7) First quarter and most recent six months ended Aug. 31. (8) First quarter and most recent six months ended July 31. (9) Second quarter and most recent six months ended Sept. 30. (10) Second quarter and m ost recent six months ended Aug. 31. (11) Second quarter and most recent six months ended July 31. *Sales include excise tax. **Sales include other income. ***Sales include excise tax and other income. †Revenues from major subsidiaries not included in consolodated sales. Earnings per share are for latest 12 months, not necessarily for end of most recent fiscal year; they include all common-stock equivalents but exclude extraordinary items. NA = not available. NM = not meaningful

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF McGRAW-HILL INC.

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS				
	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 %	3RD QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-21	12 MONTHS' EARNINGS PER SHARE
3 BANKS													
INDUSTRY COMPOSITE	54015.7	7	159332.3	7	7662.3	7	22127.1	16	14.2	14.2	16.0	9	4.20
(A) BANKS - EAST													
GROUP COMPOSITE	25859.7	2	78954.4	6	3551.6	7	9943.0	23	13.7	13.1	16.5	8	4.76
BANK OF BOSTON	1328.3	59	3176.3	32	124.0	199	321.1	86	9.3	5.0	15.5	8	3.63
BANK OF NEW YORK	1081.0	19	3018.0	11	194.0	28	549.0	37	17.9	16.6	17.3	7	4.48
BANKERS TRUST NEW YORK	1558.0	0	4776.0	11	169.0	-45	514.0	-35	10.8	19.9	17.6	7	9.23
BAYBANKS	221.1**	12	628.6	7	29.0	61	77.6	73	13.1	9.1	13.5	11	5.25
CHASE MANHATTAN	2528.0**	-10	8568.0	2	305.0	14	976.0	538	12.1	9.5	16.7	6	6.29
CHEMICAL BANKING	3297.0**	7	9404.0	1	439.0	-13	1115.0	-9	13.3	16.3	14.1	7	5.24
CITICORP	6337.0	-13	22189.0	4	894.0	69	2380.0	77	14.1	7.3	20.4	7	6.11
CORESTATES FINANCIAL	621.7**	0	1832.9	1	104.2	8	137.3	-49	16.8	15.5	10.3	15	1.70
FIRST FIDELITY BANCORPORATION	624.1	3	1838.4	3	115.0	13	335.5	15	18.4	16.8	15.8	9	5.09
FLEET FINANCIAL GROUP	1082.0	5	3123.7	1	164.0	29	447.7	27	15.2	12.3	18.1	10	3.55
INTEGRA FINANCIAL	267.7	1	785.9	-1	41.4	11	129.9	12	15.5	14.1	18.3	9	4.94
MELLON BANK	992.0**	6	2901.0	12	78.0	-44	392.0	22	7.9	14.9	15.5	15	3.85
MERIDIAN BANCORP	318.0**	-3	900.3	-3	36.6	6	117.9	9	11.5	10.6	13.2	10	2.76
MIDLANTIC	270.4**	9	783.3	3	76.2	63	201.9	179	28.2	18.9	21.7	6	4.86
MORGAN (J. P.)	2142.0	10	6010.0	7	327.0	-30	1022.0	-23	15.3	24.0	15.2	9	6.97
PNC BANK	1253.9	31	3490.9	21	188.0	-14	581.5	1	15.0	22.7	17.3	8	3.17
REPUBLIC NEW YORK	652.8**	11	1851.4	7	91.4	18	250.6	13	14.0	13.2	15.8	8	5.66
SHAWMUT NATIONAL	567.0	5	1648.8	4	85.3	3	143.9	5	15.0	15.3	13.9	8	2.48
STATE STREET BOSTON	424.8	23	1197.5	20	51.8	12	154.1	17	12.2	13.4	16.6	12	2.62
UJB FINANCIAL	292.8**	8	830.6	2	38.6	196	95.8	66	13.2	4.8	12.1	12	2.18
(B) BANKS - MIDWEST													
GROUP COMPOSITE	11889.6	11	33927.4	6	1788.7	0	5297.3	7	15.0	16.7	17.0	9	3.11
BANC ONE	2090.3**	11	6018.2	6	283.2	-4	940.7	8	13.5	15.7	17.2	9	3.09
BOATMEN'S BANCSHARES	583.2**	8	1682.7	7	89.7	10	263.3	10	15.4	15.1	15.7	9	3.27
COMERICA	657.6**	20	1854.4	12	100.6	20	290.6	16	15.3	15.3	16.0	8	3.22
FIFTH THIRD BANCORP	300.4**	14	863.6	11	62.8	16	179.8	18	20.9	20.5	18.7	14	3.67
FIRST BANK SYSTEM	520.0	8	1475.5	2	108.1	19	309.3	53	20.8	19.0	18.3	10	3.43
FIRST CHICAGO	1226.7	21	3346.5	14	153.8	-46	516.3	-18	12.5	28.1	16.8	7	7.10
FIRST OF AMERICA BANK	487.3**	9	1375.1	3	56.4	-11	167.9	-8	11.6	14.2	15.3	8	3.95
FIRSTAR	320.1**	5	927.4	3	55.9	9	151.6	0	17.5	16.9	16.8	9	3.16
HUNTINGTON BANCSHARES	359.1**	-10	1081.5	-6	55.9	-8	190.1	10	15.6	15.2	18.6	9	2.07
KEYCORP	1347.1	5	3874.3	2	229.3	14	659.7	12	17.0	15.7	17.3	9	3.26
MARSHALL & ILSLEY	301.8**	4	869.0	0	44.9	6	46.3	-64	14.9	14.6	7.3	22	0.95
MERCANTILE BANCORPORATION	257.9**	1	756.3	-3	41.0	15	120.1	17	15.9	14.0	15.0	9	4.12
NATIONAL CITY	697.5**	9	2028.3	6	108.4	6	318.1	6	15.5	16.1	16.9	10	2.61
NBD BANCORP	885.3	13	2462.3	5	147.7	18	405.8	12	16.7	16.0	16.1	9	3.28
NORTHERN TRUST	337.3	19	944.5	14	48.0	12	142.1	14	14.2	15.1	17.1	11	3.24
NORWEST	1518.1	14	4367.8	11	203.0	16	595.5	19	13.4	13.1	21.3	10	2.39
(C) BANKS - SOUTH & SOUTHEAST													
GROUP COMPOSITE	8881.3	17	25268.4	15	1270.9	15	3816.8	20	14.3	14.6	15.6	9	4.38
AMSOUTH BANCORPORATION	351.1**	32	904.3	17	44.1	16	125.9	9	12.5	14.4	12.7	10	3.05
BANPONCE	260.7	16	739.6	13	31.7	13	92.1	23	12.2	12.5	13.8	8	3.61
BARNETT BANKS	779.1	1	2269.4	-3	123.4	11	362.6	18	15.8	14.5	16.4	9	4.66
CRESTAR FINANCIAL	273.4	11	790.1	9	43.6	17	126.7	25	16.0	15.0	14.9	10	4.35
FIRST UNION	1416.7	10	4029.6	9	241.8	24	693.8	12	17.1	15.2	16.1	9	5.06
NATIONSBANK	3292.0**	28	9386.0	29	431.0	26	1285.0	38	13.1	13.2	15.9	8	6.03
REGIONS FINANCIAL	237.0**	36	676.9	33	37.4	31	108.6	29	15.8	16.5	14.9	6	5.53
SIGNET BANKING	350.0**	17	1003.7	18	3.5	-92	107.0	-14	1.0	15.4	15.1	12	2.73
SOUTHTRUST	338.6**	21	930.0	14	44.5	14	127.6	15	13.1	14.0	15.3	9	2.09
SUNTRUST BANKS	823.7	7	2378.0	3	131.9	10	390.4	10	16.0	15.6	14.9	12	4.21
WACHOVIA	759.0**	11	2160.8	7	138.0	11	396.9	8	18.2	18.3	16.5	11	3.01
(D) BANKS - WEST & SOUTHWEST													
GROUP COMPOSITE	7385.1	6	21182.1	2	1051.1	10	3070.0	12	14.2	13.7	13.8	10	5.16
BANCORP HAWAII	225.3	-2	687.8	1	32.0	6	100.5	4	14.2	13.1	13.9	8	3.58
BANKAMERICA	3888.0	5	11052.0	1	547.0	13	1585.0	9	14.1	13.2	11.8	8	5.16
FIRST INTERSTATE BANCORP	1000.6**	11	2892.3	6	130.0	-14	522.3	29	13.0	16.7	20.1	10	7.89
FIRST SECURITY	260.5**	26	714.4	19	36.8	13	105.2	13	14.1	15.8	14.7	10	2.54
U. S. BANCORP	428.2	5	1235.9	2	62.7	-5	85.6	-55	14.7	16.2	8.7	18	1.41
UNION BANK	321.4**	2	912.7	-7	25.6	19	46.4	-34	8.0	6.8	4.5	23	1.34
WELLS FARGO	1261.0**	6	3687.0	2	217.0	32	625.0	48	17.2	13.9	21.2	10	14.01
4 CHEMICALS													
INDUSTRY COMPOSITE	33514.5	11	98480.3	7	2165.5	NM	6101.7	108	6.5	NM	15.5	20	2.18
AIR PRODUCTS & CHEMICALS (3)	931.0	9	2658.0	6	79.1	NM	158.4	20	8.5	NM	10.9	22	2.06
ALBEMARLE	282.6	25	794.3	19	19.5	244	45.6	150	6.9	2.5	9.4	20	0.75
ARCO CHEMICAL	895.0	14	2476.0	5	81.0	72	194.0	33	9.1	6.0	16.3	18	2.73
DEXTER	243.3	11	723.9	9	8.4	2	28.7	11	3.5	3.8	11.1	14	1.52

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS				
	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 %	3RD QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-21	12 MONTHS' EARNINGS PER SHARE
DOW CHEMICAL	5046.0**	15	14521.0	7	290.0	109	714.0	3	5.7	3.2	8.2	31	2.39
DUPONT	9845.0***	7	29196.0	5	647.0	NM	2081.0	533	6.6	NM	19.4	17	3.40
EASTMAN CHEMICAL	1130.0	17	3160.0	8	93.0	52	232.0	1	8.2	6.3	23.6	NA	NA
ENGELHARD	578.6**	4	1769.7	10	29.7	8	84.3	8	5.1	4.9	3.9	99	0.24
ETHYL	244.9	-50	910.1	-37	22.5	13	73.1	-5	9.2	4.1	23.1	16	0.73
FERRO	296.8	13	880.4	10	11.6	-22	34.9	-16	3.9	5.7	14.2	16	1.62
FULLER (H. B.) (1)	286.8	14	801.7	10	8.9	3	22.3	11	3.1	3.4	9.2	20	1.70
GEON	312.3	23	858.1	17	20.0	264	39.8	279	6.4	2.2	14.4	25	1.24
GEORGIA GULF	249.0	25	650.1	13	31.8	214	64.5	103	12.8	5.1	NM	24	1.77
GOODRICH (B. F.)	561.5	12	1604.4	21	23.3	50	46.7	220	4.2	3.1	5.0	29	1.53
GRACE (W. R.)	1306.7	15	3620.4	13	76.0	NM	-20.1	NM	5.8	NM	19.3	14	2.83
GREAT LAKES CHEMICAL	525.2	12	1499.8	10	72.3	6	207.0	2	13.8	14.6	21.4	15	3.93
HANNA (M. A.)	479.1**	23	1347.6	19	14.0	63	34.2	61	2.9	2.2	10.6	18	1.40
IMC GLOBAL (6)	420.8	58	1266.9	70	21.8	NM	44.3	NM	5.2	NM	6.2	30	1.42
LOCTITE	183.3	20	521.0	13	22.6	39	61.1	14	12.3	10.6	19.3	20	2.15
LUBRIZOL	397.9	1	1206.1	4	47.9	NM	140.3	176	12.0	NM	20.8	12	2.64
LYONDELL PETROCHEMICAL	1040.0	18	2764.0	-9	66.0	633	120.0	NM	6.3	1.0	NM	17	1.68
MONSANTO	1912.0	3	6182.0	3	116.0	22	568.0	30	6.1	5.1	19.9	15	5.30
MORTON INTERNATIONAL (6)	745.5	20	2284.6	24	61.9	44	191.8	90	8.3	6.9	17.5	17	1.63
NALCO CHEMICAL	343.4	-3	1031.6	-1	7.5	-81	74.4	-34	2.2	10.9	18.6	22	1.51
NL INDUSTRIES	225.2	11	664.2	7	-4.6	NM	-26.5	NM	NM	NM	NM	NM	-0.96
OLIN	666.9	10	1979.9	9	22.1	342	65.0	110	3.3	0.8	-11.0	NM	-3.05
PRAXAIR	733.0	21	1989.0	9	51.0	59	148.0	44	7.0	5.3	23.0	17	1.35
ROHM & HAAS	874.0**	9	2674.0	7	55.0	NM	217.0	117	6.3	NM	16.4	17	3.47
SCHULMAN (A.) (4)	210.7**	31	586.2	15	13.8	14	34.8	16	6.5	7.5	13.7	25	1.19
STERLING CHEMICALS (3)	210.9	55	570.3	50	15.2	NM	22.6	NM	7.2	NM	27.1	38	0.34
TERRA INDUSTRIES	287.9**	15	1365.7	28	0.7	NM	42.3	49	0.2	NM	12.6	23	0.52
UNION CARBIDE	1252.0	11	3555.0	0	96.0	153	232.0	92	7.7	3.4	18.4	20	1.70
WELLMAN	233.0	11	685.4	8	17.3	145	44.7	7	7.4	3.4	8.1	26	1.30
WITCO	564.2	4	1683.2	2	27.0	98	81.4	72	4.8	2.5	5.9	28	0.99

5 CONGLOMERATES

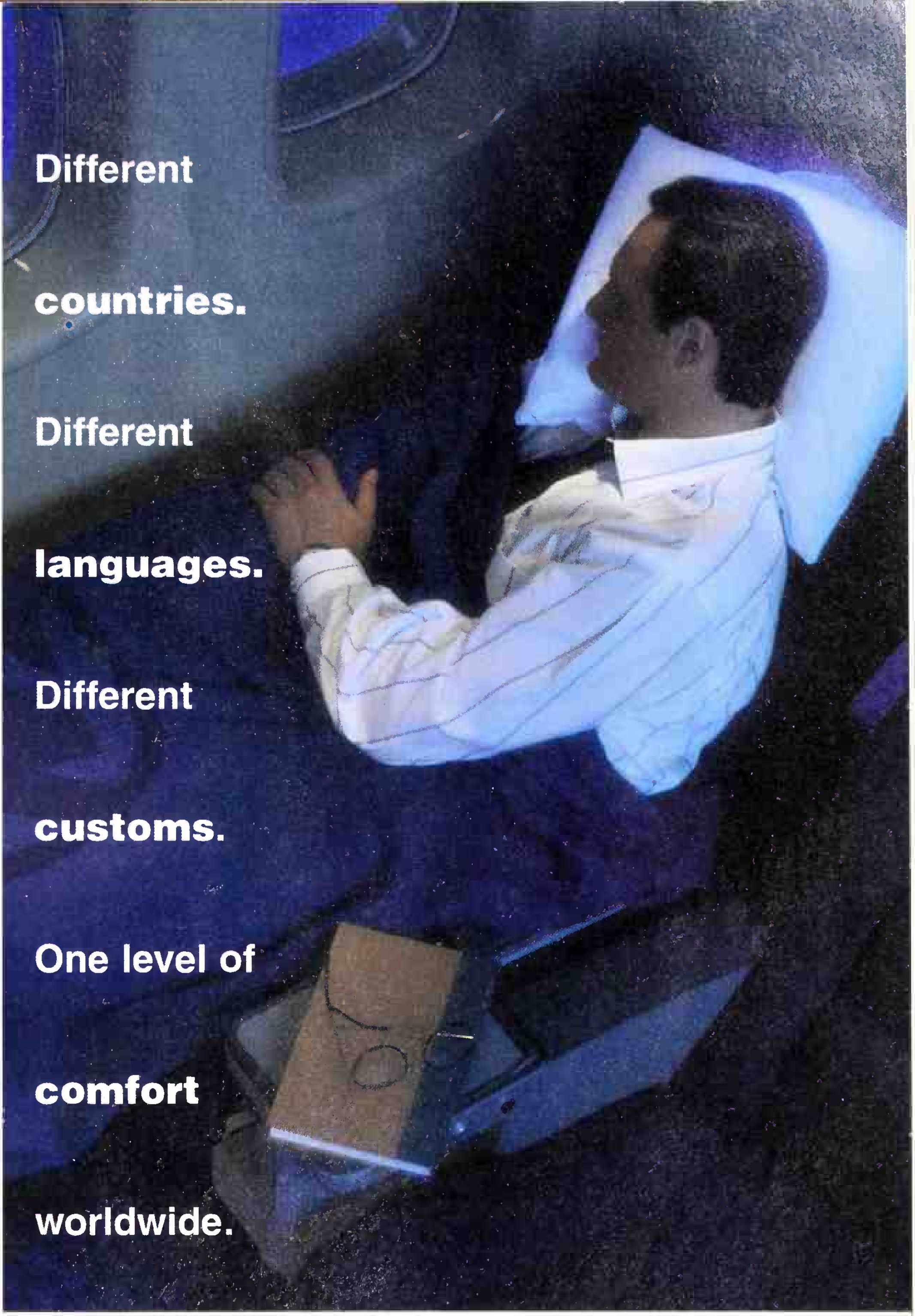
COMPANY	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 %	3RD QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-21	12 MONTHS' EARNINGS PER SHARE
NDUSTRY COMPOSITE	**40967.0**	**7**	**120893.5**	**8**	**2419.9**	**19**	**6722.7**	**30**	**5.9**	**5.3**	**19.1**	**15**	**2.93**
ALCO STANDARD (3)	2103.5**	7	6074.3	21	49.0	NM	38.8	NM	2.3	NM	5.3	54	1.10
ALLIEDSIGNAL	3110.0	11	9283.0	6	189.0	15	554.0	16	6.1	5.9	27.9	14	2.58
COLTEC INDUSTRIES	317.5	0	986.4	0	23.0	25	68.1	62	7.3	5.9	NM	14	1.31
DART GROUP (11)	235.5	-29	981.7	-1	2.9	320	-3.3	NM	1.2	0.2	-1.4	NM	-2.57
DIAL	912.5	18	2629.4	20	45.4	22	106.0	30	5.0	4.8	26.5	14	1.56
FOXMEYER HEALTH (9)	1250.4	-9	3862.2	-3	6.7	NM	28.4	NM	0.5	0.0	8.0	14	1.14
GENERAL ELECTRIC	16153.0**	9	46531.0	10	1368.0	13	3958.0	34	8.5	8.1	20.6	15	3.19
HARCOURT GENERAL (2)	815.1**	-8	2351.5	0	45.5	-51	54.4	-48	5.6	10.5	8.6	34	1.07
TT	5674.0	10	16884.0	9	211.0	13	610.0	26	3.7	3.6	13.2	13	6.72
PALL (5)	211.5	6	559.0	4	38.0	-3	87.8	30	18.0	19.7	17.7	21	0.86
PITTWAY	202.0	22	567.8	19	8.3	61	35.7	141	4.1	3.1	13.3	12	3.02
PREMARK INTERNATIONAL	824.3	11	2457.2	11	40.9	24	135.6	39	5.0	4.4	24.5	13	3.15
TELEDYNE	578.1	-3	1746.8	-6	19.3	27	-24.8	NM	3.3	2.5	-3.6	NM	-0.17
TENNECO	3292.0	5	10071.0	2	151.0	29	446.0	50	4.6	3.7	20.6	13	3.26
TEXTRON	2382.0	7	7306.0	10	111.0	12	321.0	16	4.7	4.5	14.6	11	4.67
TRW	2164.2	14	6640.6	12	81.8	60	232.5	48	3.8	2.7	17.2	16	4.54
WHITMAN	741.3	5	1961.7	5	29.0	-27	74.6	-4	3.9	5.7	21.0	17	0.97

6 CONSUMER PRODUCTS

COMPANY	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 %	3RD QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-21	12 MONTHS' EARNINGS PER SHARE
NDUSTRY COMPOSITE	**71227.5**	**11**	**201977.6**	**8**	**5532.4**	**41**	**14504.6**	**35**	**7.8**	**6.1**	**21.7**	**18**	**2.07**
A) APPAREL													
GROUP COMPOSITE	**7651.4**	**13**	**20365.2**	**9**	**440.3**	**66**	**871.7**	**6**	**5.8**	**3.9**	**13.5**	**18**	**1.77**
BROWN GROUP (11)	404.5	6	1213.6	8	7.4	15	-15.2	NM	1.8	1.7	-1.0	NM	-0.15
FRUIT OF THE LOOM	640.4	32	1713.8	19	40.2	-17	104.0	-31	6.3	10.0	14.2	12	2.18
HARTMARX (1)	196.1	4	538.0	-2	3.5	84	-0.3	NM	1.8	1.0	8.5	20	0.28
ONES APPAREL GROUP	193.7	17	491.1	14	20.7	5	44.9	10	10.7	11.8	24.2	13	1.97
KELLWOOD (8)	300.9	1	863.5	2	10.7	8	25.7	13	3.6	3.3	11.5	13	1.74
LIZ CLAIBORNE	616.8	-1	1648.2	-1	42.9	12	86.2	-22	7.0	6.2	10.4	18	1.29
NIKE (7)	1170.4	6	3046.4	-1	106.0	-7	238.4	-15	9.1	10.3	15.8	16	3.90
NINE WEST GROUP	179.6	13	483.1	19	21.6	13	46.6	32	12.0	12.1	31.1	16	1.75
OXFORD INDUSTRIES (7)	165.3	11	462.4	9	4.9	22	14.2	29	2.9	2.7	15.3	11	2.33
PHILLIPS-VAN HEUSEN (11)	283.8	7	831.7	10	5.7	-26	15.4	1	2.0	2.9	16.2	10	1.47
REEBOK INTERNATIONAL	937.1	16	2571.3	12	84.7	32	201.5	17	9.0	7.9	27.5	13	2.97
RUSSELL	317.1	19	792.8	17	24.2	NM	50.3	101	7.6	NM	12.5	16	1.84
TIMBERLAND	222.1	58	457.2	55	16.3	45	14.9	-4	7.4	8.0	17.2	18	1.94
TULTEX	208.9**	12	397.1	5	7.4	58	-0.5	NM	3.5	2.5	0.4	NM	0.01
VF	1373.0	19	3682.4	14	87.8	14	199.6	8	6.4	6.7	15.1	13	3.99
WESTPOINT STEVENS	441.5	8	1172.6	6	-43.8	NM	-154.0	NM	NM	NM	NM	NM	-6.20

CORPORATE SCOREBOARD

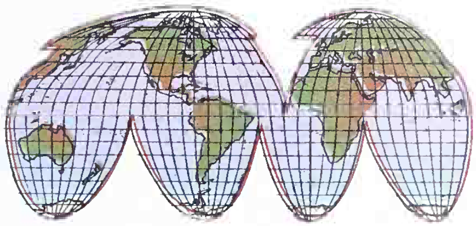
COMPANY	SALES				PROFITS								
									MARGINS				
	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 %	3RD QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-21	12 MONTHS' EARNINGS PER SHARE
(B) APPLIANCES & HOME FURNISHINGS													
GROUP COMPOSITE	**9738.4**	**21**	**28731.0**	**21**	**417.6**	**49**	**1125.2**	**56**	**4.3**	**3.5**	**15.0**	**17**	**1.66**
ARMSTRONG WORLD INDUSTRIES	715.3	8	2047.3	8	61.6	46	162.9	91	8.6	6.4	19.2	13	3.35
BEST BUY (10)	933.2	66	2975.7	84	7.6	0	33.3	67	0.8	1.3	13.6	38	1.03
CIRCUIT CITY STORES (10)	1218.6	34	3674.0	31	36.1	29	123.5	17	3.0	3.1	18.7	17	1.47
FRETTER (11)	205.5	135	673.2	139	-0.9	NM	-0.6	NM	NM	1.3	-43.8	NM	-1.37
HEILIG-MEYERS (10)	269.1**	31	779.9	36	14.8	30	47.4	37	5.5	5.6	14.1	23	1.26
KIMBALL INTERNATIONAL (6)	209.4	6	628.2	10	8.4	-18	25.9	-10	4.0	5.2	9.8	15	1.62
LA-Z-BOY CHAIR (8)	174.4	8	608.1	15	4.3	7	24.6	12	2.4	2.5	12.4	16	1.91
LEGGETT & PLATT	482.6	22	1366.0	21	30.2	35	84.4	34	6.3	5.6	18.9	14	2.60
LEVITZ FURNITURE (9)	268.4	11	742.5	5	3.5	84	10.6	NM	1.3	0.8	NM	13	0.67
MAYTAG	848.9	10	2509.9	12	61.0	165	133.2	294	7.2	3.0	23.2	11	1.41
PIER 1 IMPORTS (10)	185.4	2	528.8	5	8.7	18	4.0	-77	4.7	4.0	3.9	37	0.22
SUN TV & APPLIANCES (10)	161.2	34	498.1	37	4.4	16	14.0	24	2.7	3.1	13.6	10	1.02
SUNBEAM-OSTER	250.1	14	899.6	12	20.4	25	77.5	20	8.2	7.4	20.0	21	1.23
TANDY	1119.2**	19	3120.6	18	46.2	9	122.4	6	4.1	4.5	10.9	17	2.54
TORO (5)	192.7	9	658.6	15	4.0	53	24.1	40	2.1	1.5	13.6	17	1.71
WHIRLPOOL	2085.0	9	6005.0	7	98.0	40	249.0	54	4.7	3.7	16.8	12	4.24
ZENITH ELECTRONICS	419.4	39	1015.5	17	9.4	NM	-10.9	NM	2.2	NM	-23.6	NM	-1.31
(C) BEVERAGES													
GROUP COMPOSITE	**17127.1**	**12**	**47263.3**	**11**	**1659.4**	**66**	**4345.5**	**26**	**9.7**	**6.6**	**30.9**	**20**	**2.08**
ANHEUSER-BUSCH	3298.0	4	9094.7	5	329.0	NM	856.0	100	10.0	NM	23.4	13	3.85
BROWN-FORMAN (8)	318.7	-1	1001.7	-2	28.1	-5	97.2	-2	8.8	9.1	35.6	14	2.09
COCA-COLA	4461.0	23	12155.0	15	708.0	20	1987.0	15	15.9	16.3	47.0	26	1.90
COCA-COLA BOTTLING CONSOLIDATED	188.4	4	552.9	4	4.9	-14	13.1	0	2.6	3.1	47.9	17	1.59
COCA-COLA ENTERPRISES	1595.0	7	4524.0	9	26.0	NM	58.0	NM	1.6	NM	4.6	40	0.46
DR PEPPER/SEVEN-UP	201.9	8	585.1	8	22.0	-10	63.5	-13	10.9	13.0	NM	18	1.24
PEPSICO	7064.0	12	19349.9	12	541.4	18	1270.7	11	7.7	7.3	24.9	16	2.13
(D) PERSONAL CARE													
GROUP COMPOSITE	**14449.8**	**8**	**41204.8**	**6**	**1311.1**	**16**	**3167.9**	**147**	**9.1**	**8.5**	**26.8**	**20**	**3.02**
AVON PRODUCTS	1009.8	11	2903.0	10	51.3	8	154.7	12	5.1	5.2	134.5	16	3.64
BLOCK DRUG (9)	165.9	8	479.5	5	12.4	15	34.8	-16	7.5	7.0	8.7	14	2.34
CLOROX (6)	476.4	6	1492.7	10	53.2	15	156.3	9	11.2	10.3	19.9	16	3.50
COLGATE-PALMOLIVE	1930.7	6	5591.8	5	151.0	6	443.1	4	7.8	7.8	30.2	16	3.69
ECOLAB	302.8	10	845.3	9	26.5	13	63.9	16	8.7	8.5	21.0	15	1.34
GILLETTE	1503.4	12	4271.0	13	172.2	19	498.4	18	11.5	10.8	29.1	33	2.26
HELENE CURTIS INDUSTRIES (10)	352.5	4	956.9	5	6.6	56	14.5	18	1.9	1.3	8.2	18	1.83
NCH (8)	178.7	5	525.9	4	7.8	4	22.2	-9	4.4	4.5	10.5	17	3.81
PROCTER & GAMBLE (6)	8161.0	8	23105.0	4	792.0	18	1680.0	NM	9.7	8.9	25.7	19	3.26
STANHOME	193.3	6	553.6	4	13.1	10	32.9	94	6.8	6.5	18.8	13	2.50
TAMBRANDS	175.3	9	480.1	3	25.0	5	67.1	27	14.3	14.8	140.2	17	2.36
(E) TOBACCO													
GROUP COMPOSITE	**22260.9**	**9**	**64413.3**	**4**	**1704.1**	**38**	**4994.3**	**12**	**7.7**	**6.0**	**17.7**	**15**	**1.80**
AMERICAN BRANDS	3655.5*	11	10181.7	3	151.9	79	465.0	-4	4.2	2.6	11.3	11	3.21
PHILIP MORRIS	13673.0	9	39932.0	4	1230.0	27	3633.0	13	9.0	7.7	30.7	13	4.55
RJR NABISCO HOLDINGS	3966.0	10	11322.0	2	216.0	192	602.0	41	5.4	2.1	0.4	NM	0.00
UNIVERSAL (6)	656.0**	-5	2076.7	3	5.9	-68	5.8	-85	0.9	2.7	6.9	29	0.73
UST	310.4*	11	900.9	9	100.3	13	288.6	2	32.3	31.8	79.7	15	1.79
7 CONTAINERS & PACKAGING													
INDUSTRY COMPOSITE	8277.4	14	22997.1	7	170.2	NM	435.1	187	2.1	NM	0.5	NM	0.10
(A) GLASS, METAL & PLASTIC													
GROUP COMPOSITE	**2928.7**	**7**	**8024.7**	**3**	**62.2**	**-42**	**267.8**	**-6**	**2.1**	**3.9**	**-3.2**	**NM**	**-0.31**
BALL	717.5	5	1981.4	6	23.3	513	51.0	95	3.2	0.6	-1.9	NM	-0.38
CROWN CORK & SEAL	1283.3	12	3360.8	4	-7.5	NM	90.9	-38	NM	5.2	9.3	26	1.42
OWENS-ILLINOIS	927.9	1	2682.5	1	46.4	8	125.9	12	5.0	4.7	-54.1	NM	-1.59
(B) PAPER													
GROUP COMPOSITE	**5348.7**	**18**	**14972.4**	**9**	**108.0**	**NM**	**167.3**	**NM**	**2.0**	**NM**	**2.2**	**83**	**0.30**
ACX TECHNOLOGIES	204.0	25	538.6	11	6.7	83	14.8	43	3.3	2.3	4.1	28	1.32
BEMIS	356.2	19	1017.3	14	18.3	NM	50.6	86	5.1	0.3	17.1	19	1.33
FEDERAL PAPER BOARD	373.9	15	1041.3	7	15.2	NM	23.9	NM	4.1	NM	2.8	51	0.60
JEFFERSON SMURFIT	858.4	15	2352.0	6	5.8	NM	-14.4	NM	0.7	NM	NM	NA	NA
LONGVIEW FIBRE (2)	207.3	18	562.6	10	7.5	-49	23.3	-30	3.6	8.3	7.6	29	0.59
RIVERWOOD INTERNATIONAL	327.9	13	906.9	9	8.6	NM	22.1	184	2.6	NM	3.4	69	0.27
ROCK-TENN (3)	192.5	17	547.2	11	9.2	26	29.7	19	4.8	4.5	13.5	14	1.21
SONOCO PRODUCTS	591.2	28	1692.9	20	32.5	14	93.4	7	5.5	6.2	18.6	17	1.36
STONE CONTAINER	1482.2	19	4127.3	8	-28.9	NM	-158.6	NM	NM	NM	-43.7	NM	-3.12
TEMPLE-INLAND	755.0	11	2186.4	6	33.1	190	82.6	37	4.4	1.7	5.2	32	1.60
8 DISCOUNT & FASHION RETAILING													
INDUSTRY COMPOSITE	96206.3	11	291528.4	10	1937.4	-1	6926.4	-14	2.0	2.2	11.5	23	1.16
AMES DEPARTMENT STORES (11)	494.3	-1	1603.0	-5	6.6	NM	33.4	NM	1.3	NM	59.4	2	1.52
ANNTAYLOR STORES (11)	159.9**	28	439.8	19	7.9	118	19.1	228	5.0	2.9	7.6	38	1.04
AUTOZONE (4)	523.8	19	1185.2	23	45.2	33	94.4	35	8.6	7.7	24.3	32	0.78


Different
countries.
Different
languages.
Different
customs.
One level of
comfort
worldwide.

WORLDWIDE KLM NORTHWEST RELIABILITY

We added nearly 50% more legroom and seat recline for more personal space than any other worldwide airline. We asked world-renowned chefs to develop new meals. And then added other features specially designed to help you relax. The result? More Comfort, Choice and Control to destinations worldwide. Call your travel agent or Northwest at 1-800-447-4747 or KLM at 1-800-3-747-747.

©1994 Northwest Airlines Inc. and KLM. World Business Class services available on KLM 747's and MD-11's and Northwest 747's and DC-10's.



Arrive at your next international destination in a world of comfort.

World Business Class℠

NORTHWEST AIRLINES

KLM

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-21	12 MONTHS' EARNINGS PER SHARE
	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 %	3RD QUARTER 1993 %			
BAKER (J.) (11)	256.3	10	746.2	29	7.1	12	18.3	33	2.8	2.7	11.8	10	1.80
BARNES & NOBLE (11)	350.6	22	1154.6	19	–3.5	NM	16.8	71	NM	NM	2.9	NM	0.21
BEST PRODUCTS (11)	312.2	NA	NA	NA	–252.0	NA	NA	NA	NM	NA	NA	NA	NA
BRADLEES (11)	394.0	0	1453.9	1	0.6	NM	19.7	21	0.2	NM	13.2	9	1.78
BROADWAY STORES (11)	479.4**	–3	1660.1	–3	–12.9	NM	–48.9	NM	NM	NM	–19.3	NM	–1.58
CALDOR (11)	648.4	19	2044.0	16	8.4	26	42.0	9	1.3	1.2	14.6	12	2.58
CARSON PIRIE SCOTT (11)	235.4**	2	879.1	2	2.9	NM	32.9	NM	1.2	NM	–73.0	NA	NA
CHARMING SHOPPES (11)	323.4	5	978.2	6	18.1	–12	55.8	–11	5.6	6.7	12.9	11	0.66
CONSOLIDATED STORES (11)	272.8	16	864.7	15	6.7	2	37.4	19	2.5	2.8	16.5	19	0.92
DAYTON HUDSON (11)	4802.0**	12	15548.0	9	49.0	104	366.0	21	1.0	0.6	14.2	14	5.45
DILLARD DEPARTMENT STORES (11)	1229.9**	7	4240.9	8	33.8	–14	193.4	–2	2.7	3.4	10.9	13	2.10
DOLLAR GENERAL (11)	317.3	24	987.5	28	14.0	45	45.5	41	4.4	3.8	21.0	26	1.04
EDISON BROTHERS STORES (11)	351.0	4	1129.5	–1	1.0	–69	13.0	–72	0.3	0.9	3.8	34	0.70
F&M DISTRIBUTORS (11)	187.5	5	551.1	1	–8.4	NM	–10.3	NM	NM	0.7	–14.6	NM	–0.94
FAMILY DOLLAR STORES (4)	345.4	6	1093.3	10	7.4	–40	47.0	–7	2.1	3.8	16.9	9	1.10
FEDERATED DEPARTMENT STORES (11)	1596.1**	6	5597.3	5	3.8	–57	182.0	34	0.2	0.6	8.7	13	1.60
FINGERHUT	429.4	13	1237.6	6	7.1	–49	33.3	–4	1.7	3.6	14.9	12	1.47
GAP (11)	773.1	12	2585.0	14	44.4	55	217.2	60	5.7	4.1	24.1	17	2.03
HECHINGER (11)	708.9	16	1765.5	17	21.4	19	27.3	14	3.0	2.9	5.7	16	0.69
HILLS STORES (11)	375.6	NA	1368.2	NA	–3.6	NA	23.3	NA	NM	NA	15.0	NA	NA
HOME DEPOT (11)	3287.0	34	8446.6	31	178.0	32	430.4	27	5.4	5.5	17.0	37	1.17
HOME SHOPPING NETWORK	276.6	6	824.8	10	7.3	559	15.9	NM	2.7	0.4	6.5	70	0.15
JAMESWAY (11)	162.7	–6	517.8	–11	–3.6	NM	–28.6	NM	NM	NM	NM	NM	–2.12
KMART (11)	8926.0**	5	27224.0	7	94.0	–25	–503.0	NM	1.1	1.5	–9.9	NM	–0.91
KOHL'S (11)	292.4	14	1057.4	19	9.5	38	48.9	33	3.2	2.7	21.8	25	1.70
LANDS' END (11)	179.8	19	714.4	22	3.4	–4	35.0	21	1.9	2.4	26.4	15	1.19
LIMITED (11)	1585.4**	–6	5487.8	–3	53.8	–21	297.4	–17	3.4	4.0	15.3	18	1.05
LOWE'S (11)	1647.0	33	4189.9	33	71.4	59	148.8	72	4.3	3.6	13.7	32	1.21
MAY DEPARTMENT STORES (11)	2706.0**	5	9035.0	5	130.0	11	607.0	14	4.8	4.5	19.3	13	2.88
MELVILLE	2737.0	16	7624.3	10	51.7	25	94.8	1	1.9	1.8	14.3	11	3.00
MERCANTILE STORES (11)	619.3**	1	2099.9	1	9.8	NM	74.8	15	1.6	NM	7.1	17	2.59
MERRY-GO-ROUND ENTERPRISES (11)	176.0	–18	649.1	–7	–37.9	NM	–68.5	NM	NM	NM	–82.6	NM	–1.98
MEYER (FRED) (11)	737.3	9	2477.4	8	19.2	13	65.2	15	2.6	2.5	13.3	13	2.63
MICHAELS STORES (11)	174.2	51	569.6	39	0.7	–80	19.7	6	0.4	3.2	7.6	28	1.40
MICRO WAREHOUSE	201.3	84	525.1	70	7.0	80	19.1	99	3.5	3.6	15.8	34	0.93
NEIMAN MARCUS GROUP (5)	461.9**	–1	1585.3	3	–2.0	NM	0.7	–98	NM	0.6	–87.6	NM	–0.35
NORDSTROM (11)	1103.9	6	3017.6	6	63.0	48	156.0	50	5.7	4.1	14.5	20	2.21
OFFICE DEPOT	1044.8	44	3010.9	54	27.4	42	72.8	54	2.6	2.7	14.9	39	0.63
PAMIDA HOLDINGS (11)	180.0	5	506.0	6	0.8	–21	–1.2	NM	0.5	0.6	–34.4	NM	–0.37
PAYLESS CASHWAYS (1)	744.1	4	2020.4	6	18.3	125	34.6	NM	2.5	1.1	11.7	8	1.12
PENNEY (J. C.) (11)	4559.0	8	15871.0	7	132.0	18	794.0	20	2.9	2.7	19.2	12	4.08
PEP BOYS–MANNY, MOE & JACK (11)	370.4	13	1004.9	12	23.5	23	56.6	26	6.4	5.8	13.4	28	1.21
PETRIE STORES (11)	360.4	–1	1135.0	1	–14.8	NM	–18.6	NM	NM	NM	–1.9	NM	–0.51
PRICE/COSTCO (4)	5086.0**	7	12793.0	7	58.7	–9	143.9	–9	1.2	1.4	6.0	31	0.51
QVC (11)	303.3**	16	972.2	11	11.7	–12	26.6	–48	3.9	5.1	8.2	45	0.97
ROSE'S STORES (11)	168.9	–42	706.3	–31	7.0	NM	–50.4	NM	4.2	NM	NM	NM	–5.77
ROSS STORES (11)	312.3	13	920.8	10	8.8	9	26.0	–7	2.8	3.0	13.3	12	1.23
SEARS, ROEBUCK	13205.9	4	38480.0	6	363.5	–20	769.0	–59	2.8	3.6	14.2	15	3.31
SERVICE MERCHANDISE	757.7	8	2327.8	7	–10.3	NM	–24.4	NM	NM	NM	25.8	10	0.63
SHOPKO STORES (10)	381.3	7	1358.8	8	2.8	29	17.9	–31	0.7	0.6	9.9	10	0.98
SPIEGEL	649.4	18	1946.6	24	2.8	NM	15.8	NM	0.4	NM	12.4	23	0.68
STRAWBRIDGE & CLOTHIER (11)	222.9**	–1	770.0	2	0.2	NM	22.6	36	0.1	NM	9.2	10	2.19
TALBOTS (11)	195.8	16	618.2	18	6.9	133	31.1	83	3.5	1.8	12.6	22	1.54
TJX (11)	866.7	3	2758.7	5	18.8	–28	68.8	–12	2.2	3.1	22.0	12	1.44
TOYS 'R' US (11)	1452.1	10	6807.5	13	38.0	7	450.1	10	2.6	2.7	15.8	23	1.66
U. S. SHOE (11)	633.2	–1	1927.5	–2	6.9	NM	28.0	NM	1.1	NM	7.6	24	0.79
VALUE CITY DEPARTMENT STORES (5)	195.1**	–2	648.9	2	7.4	7	29.3	14	3.8	3.5	18.6	10	1.21
VENTURE STORES (11)	439.6**	9	1503.9	12	1.6	–63	33.2	–14	0.4	1.1	15.2	7	2.20
VIKING OFFICE PRODUCTS (6)	182.4	40	484.5	33	10.3	53	29.1	56	5.7	5.2	23.5	34	0.84
WABAN (11)	951.8	–2	2662.9	–3	21.1	54	–14.6	NM	2.2	1.4	–1.4	NM	–0.21
WAL-MART STORES (11)	19942.3	23	57989.0	23	564.8	14	1931.3	14	2.8	3.1	21.1	22	1.07
WICKES LUMBER	284.2	13	693.1	11	10.7	73	9.3	214	3.8	2.5	106.2	6	2.84
WOOLWORTH (11)	1876.0**	–18	6452.0	–15	–42.0	NM	–191.0	NM	NM	NM	–43.2	NM	–4.11

9 ELECTRICAL & ELECTRONICS

COMPANY	SALES 3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	PROFITS 3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	MARGINS 3RD QUARTER 1994 %	MARGINS 3RD QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-21	12 MONTHS' EARNINGS PER SHARE
INDUSTRY COMPOSITE	**36498.8**	**16**	**106153.5**	**16**	**2746.8**	**22**	**7870.4**	**26**	**7.5**	**7.2**	**16.5**	**17**	**2.45**
(A) ELECTRICAL PRODUCTS													
GROUP COMPOSITE	**5729.5**	**5**	**16433.0**	**0**	**204.2**	**–10**	**610.7**	**–8**	**3.6**	**4.1**	**2.8**	**91**	**0.26**
AMETEK	198.7	14	607.7	11	10.2	416	28.7	101	5.1	1.1	11.1	71	0.26
COOPER INDUSTRIES	1136.4**	–8	3348.1	–7	75.8	–9	207.3	–7	6.7	6.8	8.8	17	2.25
HUBBELL	267.5	27	736.5	19	27.3	17	78.1	8	10.2	11.1	12.4	25	2.27
MAGNETEK (6)	274.8	–2	955.4	–2	2.7	70	4.6	–68	1.0	0.6	–14.0	NM	–0.64
NATIONAL SERVICE INDUSTRIES (4)	501.6	4	1422.0	4	24.3	14	63.5	12	4.9	4.4	11.4	16	1.67
RAYCHEM (6)	390.7	10	1143.0	10	–48.3	NM	–54.7	NM	NM	1.8	–7.7	NM	–1.23
RELIANCE ELECTRIC	449.0	12	1280.0	6	21.0	110	51.0	65	4.7	2.5	12.7	29	1.04
THOMAS & BETTS	281.8	5	860.4	8	18.3	38	48.3	25	6.5	4.9	11.8	20	3.37
WESTINGHOUSE ELECTRIC	2229.0	8	6080.0	–2	73.0	12	184.0	–12	3.3	3.2	–15.5	NM	–0.73

Here it is.

Absolutely everything you need for your next big meeting.

The Westin
Hotel,
Copley Place

Boston

The Westin
Hotel

Chicago

The Westin
Canal Place

New Orleans

The Westin
St. Francis

San Francisco

&T **teleconferencing**] Pick up any telephone in The Westin and you can simulta-
sly converse with people in up to 15 different locations around the world. Which means you
even have to leave your room to conduct your next big meeting, much less turn off the TV.
proud to offer AT&T In-room Long Distance Service for your AT&T Calling Card, AT&T
rsal Card and operator-assisted calls: for reservations call your travel consultant or (800) 228-3000.

AT&T
In-Room
Long
Distance
Service

AT&T

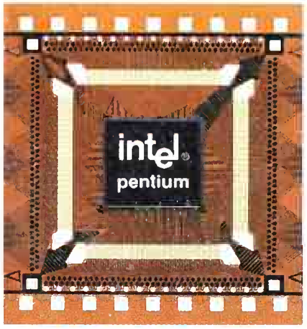
Helping you
along the way.℠

WESTIN
HOTELS & RESORTS

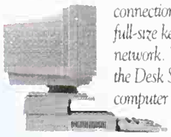
CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-21	12 MONTHS' EARNINGS PER SHARE
	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 %	3RD QUARTER 1993 %			
(B) ELECTRONICS													
GROUP COMPOSITE	**16107.9**	**17**	**47527.0**	**19**	**995.0**	**19**	**2940.7**	**25**	**6.2**	**6.0**	**15.7**	**18**	**2.56**
E-SYSTEMS	492.0	-3	1475.3	-6	8.2	-75	65.8	-27	1.7	6.4	12.0	14	2.85
GENERAL INSTRUMENT	554.7	50	1496.1	52	56.8	107	161.7	218	10.2	7.4	40.6	19	1.63
GM HUGHES ELECTRONICS	3320.8	3	10399.4	7	244.2	9	824.0	28	7.4	7.0	14.4	13	2.75
HARRIS (6)	816.1**	5	2591.6	8	28.8	17	96.0	7	3.5	3.2	10.6	14	3.18
LITTON INDUSTRIES (5)	843.9	-11	2605.0	0	-28.3	NM	25.4	-60	NM	2.2	8.3	34	1.10
LORAL (9)	1345.3	61	4110.8	55	66.3	42	205.5	42	4.9	5.6	18.3	13	3.11
MOTOROLA	5660.0	28	15792.0	32	380.0	50	1045.0	53	6.7	5.8	18.2	24	2.37
RAYTHEON	2443.0	10	7284.5	9	191.9	12	391.1	-23	7.9	7.7	13.6	14	4.29
SENSORMATIC ELECTRONICS (6)	190.9	33	543.7	40	20.1	36	58.5	32	10.5	10.3	10.6	29	1.21
VARIAN ASSOCIATES (3)	441.1	20	1228.7	21	26.9	50	67.7	73	6.1	4.9	17.7	15	2.22
(C) INSTRUMENTS													
GROUP COMPOSITE	**4473.5**	**10**	**13032.7**	**9**	**192.6**	**11**	**505.0**	**44**	**4.3**	**4.3**	**14.7**	**18**	**1.89**
BECKMAN INSTRUMENTS	217.8	1	638.6	0	11.3	-2	34.1	2	5.2	5.3	-11.0	NM	-1.20
HONEYWELL	1507.6	4	4319.3	-1	69.4	-14	174.0	-17	4.6	5.6	16.0	16	2.19
JOHNSON CONTROLS (3)	1845.6	13	5285.5	13	56.0	23	127.1	21	3.0	2.8	17.1	13	3.80
PERKIN-ELMER (6)	247.3	2	771.6	NA	14.9	10	53.2	NA	6.0	5.6	25.9	18	1.71
TEKTRONIX (7)	312.7	8	1023.5	7	16.0	64	55.5	NM	5.1	3.4	13.6	18	2.21
TERADYNE	178.8	27	487.3	20	20.4	101	48.5	109	11.4	7.2	14.0	18	1.66
TRACOR	163.7	59	506.8	118	4.6	132	12.7	131	2.8	1.9	23.9	13	0.74
(D) SEMICONDUCTORS & OTHER COMPONENTS													
GROUP COMPOSITE	**10187.9**	**26**	**29160.9**	**25**	**1355.0**	**33**	**3814.0**	**33**	**13.3**	**12.7**	**22.9**	**12**	**3.74**
ADVANCED MICRO DEVICES	543.1	30	1589.5	29	86.7	41	264.5	41	16.0	14.7	19.0	8	3.05
AMP	1020.0	19	2930.1	14	93.2	20	268.5	19	9.1	9.0	15.0	24	3.24
AMPHENOL	178.2	18	507.2	12	11.7	71	29.4	69	6.6	4.6	14.4	29	0.80
ANALOG DEVICES (2)	197.1	14	570.2	17	19.7	62	52.8	74	10.0	7.0	13.5	25	1.31
INTEL	2863.0	28	8293.0	30	659.0	13	1916.0	13	23.0	26.1	27.7	11	5.72
LSI LOGIC	240.2	31	646.1	22	29.5	105	72.3	90	12.3	7.8	17.7	24	1.66
MICRON TECHNOLOGY (4)	491.6	61	1308.5	88	141.9	126	332.9	228	28.9	20.5	38.2	9	3.83
MOLEX (6)	268.9	15	774.9	15	27.4	28	79.4	30	10.2	9.2	11.4	27	1.59
NATIONAL SEMICONDUCTOR (7)	553.8	-1	1707.9	6	59.0	13	205.2	64	10.7	9.3	21.6	8	1.99
READ-RITE (3)	197.0	123	538.6	20	15.4	NM	24.7	NM	7.8	NM	5.6	41	0.43
SCI SYSTEMS (6)	618.4	45	1627.0	24	10.1	29	21.6	-18	1.6	1.8	10.6	17	1.16
SOLECTRON (4)	442.6	64	1134.9	62	16.6	48	43.7	65	3.7	4.1	16.8	20	1.32
TEXAS INSTRUMENTS	2574.0	19	7533.0	23	185.0	26	503.0	47	7.2	6.8	22.2	10	6.71
10 FOOD													
INDUSTRY COMPOSITE	**75517.2**	**6**	**222602.5**	**4**	**1944.5**	**9**	**5101.8**	**14**	**2.6**	**2.5**	**20.7**	**20**	**1.48**
(A) FOOD DISTRIBUTION													
GROUP COMPOSITE	**12781.3**	**14**	**37742.6**	**6**	**138.4**	**56**	**416.6**	**14**	**1.1**	**0.8**	**11.4**	**16**	**1.36**
FLEMING	4141.5	41	11057.2	11	2.7	-87	45.7	-46	0.1	0.7	-0.1	NM	-0.05
INTERNATIONAL MULTIFOODS (10)	497.7	-5	1639.3	2	31.4	NM	29.3	NM	6.3	NM	15.1	7	2.29
RICHFOOD HOLDINGS (8)	296.5	1	994.3	10	4.9	10	17.7	33	1.6	1.5	21.4	15	1.04
RYKOFF-SEXTON (8)	399.7	9	1167.2	7	1.9	71	4.4	NM	0.5	0.3	4.7	29	0.70
SUPER FOOD SERVICES (4)	348.3**	-2	859.0	-3	2.8	-24	6.6	-8	0.8	1.0	6.7	13	0.81
SUPER RITE (10)	340.7	17	1024.1	10	2.9	49	4.6	NM	0.8	0.7	17.5	19	0.72
SUPERVALU (10)	3773.7	2	12451.9	0	33.5	-8	136.7	0	0.9	1.0	14.2	10	2.54
SYSCO (6)	2983.1	10	8549.8	8	58.4	21	171.5	9	2.0	1.8	18.3	19	1.24
(B) FOOD PROCESSING													
GROUP COMPOSITE	**30922.7**	**6**	**90809.1**	**6**	**1336.0**	**-1**	**3223.1**	**-9**	**4.3**	**4.6**	**20.8**	**21**	**1.72**
AMERICAN MAIZE-PRODUCTS	163.4	8	462.2	15	9.5	75	16.3	NM	5.8	3.6	8.9	12	1.92
BORDEN	1440.1	4	4082.1	1	-71.8	NM	-54.9	NM	NM	0.6	-75.5	NM	-1.38
CAMPBELL SOUP (5)	1465.0	0	4927.0	1	142.0	17	464.0	340	9.7	8.2	31.7	16	2.51
CONAGRA (7)	6245.9	10	17715.6	10	76.8	14	312.3	19	1.2	1.2	19.0	17	1.85
CPC INTERNATIONAL	1812.9	9	5406.9	8	125.4	3	208.6	-37	6.9	7.3	20.1	24	2.17
CURTICE-BURNS FOOD (6)	176.8	-16	552.6	-13	0.3	-72	2.5	NM	0.2	0.6	11.4	18	1.07
DEAN FOODS (7)	614.3	10	1908.7	11	17.0	60	59.7	29	2.8	1.9	14.4	15	1.94
DREYER'S GRAND ICE CREAM	168.7	20	428.4	17	2.3	-66	2.4	-85	1.3	4.7	1.9	NM	0.24
FLOWERS INDUSTRIES (6)	233.5	7	771.7	3	6.2	34	22.9	-24	2.7	2.1	11.3	21	0.84
GENERAL MILLS (7)	1981.1	-5	6226.0	2	150.8	-9	314.2	-16	7.6	7.9	35.8	19	2.86
HEINZ (H. J.) (8)	1736.1	10	5391.8	0	154.7	2	412.4	7	8.9	9.6	25.9	16	2.38
HERSHEY FOODS	966.5	3	2526.4	3	81.1	10	159.4	-22	8.4	7.9	17.8	16	2.87
HORMEL FOODS (2)	741.1	9	2224.3	9	20.2	11	63.7	12	2.7	2.7	17.8	17	1.40
HUDSON FOODS INC (3)	267.4	10	790.5	15	7.7	61	20.9	80	2.9	2.0	14.0	14	1.62
IBP	2982.5	-2	8841.9	0	49.2	121	104.5	90	1.6	0.7	19.2	13	2.64
INTERSTATE BAKERIES (7)	274.1	2	878.2	-1	5.9	-16	7.4	-62	2.1	2.6	7.8	17	0.74
KELLOGG	1741.9	4	4970.0	5	216.7	4	552.1	4	12.4	12.5	40.9	19	3.11
McCORMICK (1)	422.1	7	1186.2	8	26.4	9	63.9	8	6.3	6.2	21.6	15	1.29
PET (6)	347.4	-2	1118.4	1	17.1	-18	73.4	-4	4.9	5.9	34.6	16	1.11
QUAKER OATS (6)	1636.4	7	4703.2	6	61.4	-33	158.7	-39	3.8	6.0	44.3	26	2.95
SARA LEE (6)	4290.0	13	12020.0	10	165.0	6	8.0	-98	3.8	4.1	6.2	50	0.46
SEABOARD	215.0	-14	687.4	-13	5.6	243	24.3	66	2.6	0.7	7.9	10	17.15

MOBILE PENTIUM.



PORTABLE MAXIMUM.



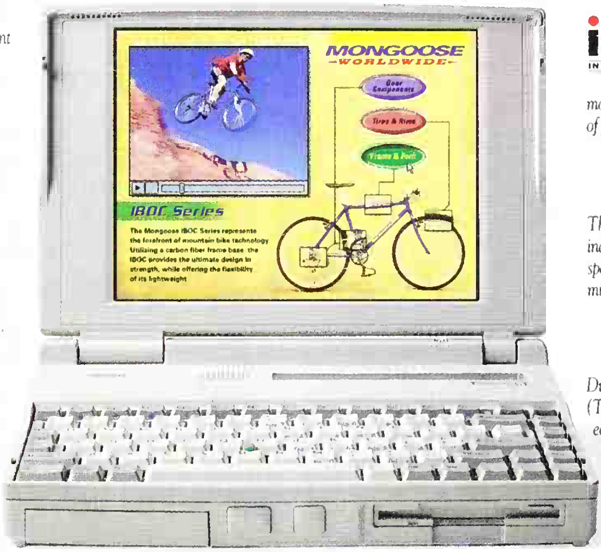
Dock into the optional Desk Station IV for instant connection to your monitor, full-size keyboard, printer, and network. The T4900CT with the Desk Station IV is all the computer you need.

The 10.4" color active matrix screen displays 65,536 (64K) simultaneous colors for stunningly realistic images and brilliant graphics.

10.4" dia.

Take all your files with you, including full-motion video and multimedia with the 810 million bytes (=772MB) hard disk drive.

810 MILLION BYTES



The Mongoose IBOC Series represents the forefront of mountain bike technology. Utilizing a carbon fiber frame base, the IBOC provides the ultimate design in strength, while offering the flexibility of its lightweight

indeo INTEL VIDEO TECHNOLOGY *Indeo video bolstered by the 75MHz mobile Pentium provides smooth playback of full-motion and full-screen video.*

The built-in sound system includes a microphone and speaker, plus ports for an external microphone and speakers or headphones.

Dual PCMCIA expansion slots (Type II and Type III) run simultaneously–for connection to your LAN, fax/modem, and more.

INTRODUCING THE T4900CT PENTIUM NOTEBOOK.

The 75MHz mobile Pentium™ processor from Intel is designed specifically for notebooks. Engineered to perform every function you need, faster. See and hear this Pentium-powered touring machine today. **Call 1-800-457-7777 for the dealer nearest you.**

T4900CT FEATURES:

- 75MHz Intel Pentium,™ 3.3 volt processor, 16KB cache
- 10.4" dia. color SVGA TFT-LCD active matrix display
- 8MB RAM expandable to 40MB
- VL local-bus video
- Audio jacks: headphone/speakers and microphone
- Integrated graphics accelerator
- Accupoint™ integrated pointing device
- NiMH battery for extended life
- Pre-installed software: DOS, Windows for Workgroups,® Windows Sound System,™ Run Time Video for Windows,™ Fn-esse™ software, and Indeo™ video
- Toll-free Technical Support—7 days a week, 24 hours a day

intel inside pentium PROCESSOR

3 YEAR LIMITED WARRANTY

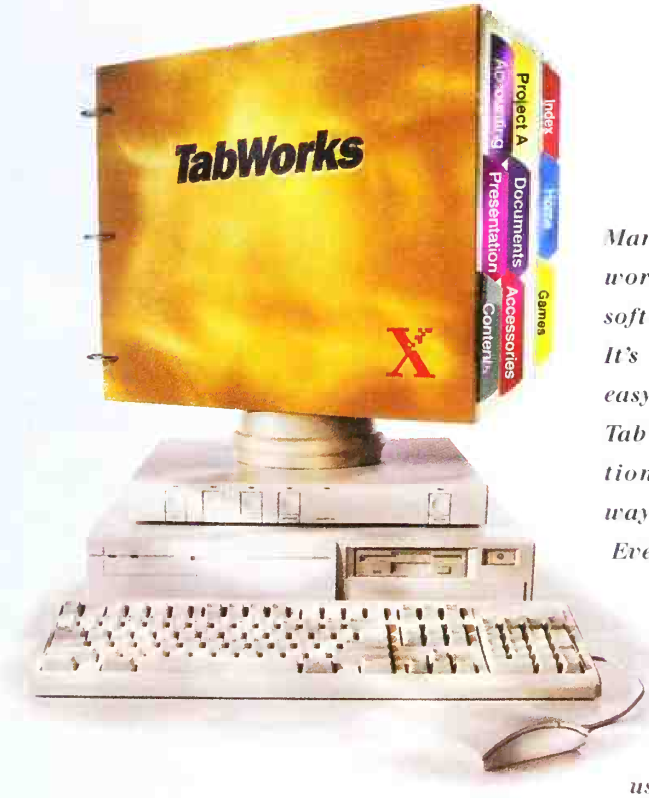
In Touch with Tomorrow
TOSHIBA

© 1994 Toshiba America Information Systems, Inc. All products indicated by trademark symbols are trademarked and/or registered by their respective companies.
The Intel Inside, Pentium, and Indeo video logos are trademarks of Intel Corporation.

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-21	12 MONTHS' EARNINGS PER SHARE
	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 %	3RD QUARTER 1993 %			
SMITHFIELD FOODS (8)	342.7	15	1135.9	20	2.4	NM	21.5	NM	0.7	NM	13.8	22	1.29
THORN APPLE VALLEY (7)	236.1	2	587.2	5	2.6	-34	9.2	17	1.1	1.7	13.3	12	2.19
WRIGLEY (WM.) JR.	421.6**	16	1266.7	16	61.6	25	195.9	35	14.6	13.5	32.8	21	1.94
(C) FOOD RETAILING													
GROUP COMPOSITE	**31813.3**	**3**	**94050.6**	**3**	**470.1**	**37**	**1462.1**	**164**	**1.5**	**1.1**	**26.2**	**18**	**1.12**
ALBERTSON'S (11)	2987.7	8	8959.5	10	93.7	23	305.8	20	3.1	2.7	24.4	20	1.46
AMERICAN STORES (11)	4669.0	-1	14147.2	0	69.0	18	218.7	4	1.5	1.2	15.2	13	1.96
BRUNO'S (6)	653.6	2	2079.2	-2	11.5	25	33.6	25	1.8	1.4	10.2	17	0.55
CASEYS GENERAL STORES (8)	222.7*	14	575.7	11	6.4	35	12.9	35	2.9	2.4	11.1	18	0.77
DAIRY MART CONVENIENCE STORES (11)	161.6*	2	443.0	0	-1.9	NM	-5.1	NM	NM	1.5	-12.6	NM	-0.69
DELCHAMPS (6)	266.2	0	792.3	0	1.5	-54	7.4	-33	0.6	1.2	7.3	12	1.40
EAGLE FOOD CENTERS (11)	252.2	-5	771.8	-5	-6.3	NM	-17.2	NM	NM	0.2	-28.7	NM	-1.43
FOOD LION	1849.8	2	5475.7	5	36.6	48	102.5	33	2.0	1.4	2.9	92	0.06
GIANT FOOD (10)	826.4	4	2815.2	3	14.7	0	71.4	-4	1.8	1.8	12.4	15	1.50
GREAT ATLANTIC & PACIFIC TEA (10)	2390.9	0	7978.8	-1	6.1	2	-6.1	NM	0.3	0.2	-0.6	NM	-0.15
HANNAFORD BROTHERS	622.6**	17	1679.8	9	19.1	20	45.6	14	3.1	3.0	14.2	17	1.45
KROGER	6650.3	3	17373.3	2	51.2	103	176.9	110	0.8	0.4	NM	11	2.35
PENN TRAFFIC (11)	835.8**	7	2491.0	9	6.9	983	16.8	208	0.8	0.1	105.0	29	1.50
SAFEWAY	3631.8	2	10736.3	2	63.7	51	164.5	115	1.8	1.2	44.4	17	1.72
SMITH'S FOOD & DRUG CENTERS	725.4	6	2227.5	7	13.3	69	34.6	-4	1.8	1.2	8.7	15	1.54
STOP & SHOP (11)	887.2	7	2896.9	7	20.3	56	62.3	30	2.3	1.6	38.6	17	1.44
SUPERMARKETS GENERAL HOLDING (11)	1024.9	2	3125.8	-3	5.8	NM	28.6	NM	0.6	NM	NM	NA	NA
VILLAGE SUPER MARKET (5)	187.8	-8	536.3	-2	-0.2	NM	-1.2	NM	NM	NM	-2.3	NM	-0.42
WEIS MARKETS	377.2	6	1118.3	5	18.7	10	53.9	1	5.0	4.8	9.7	16	1.67
WINN-DIXIE STORES (6)	2590.4	5	7827.1	2	40.0	11	156.4	-11	1.5	1.5	20.7	17	2.96
11 FUEL													
INDUSTRY COMPOSITE	103404.8	7	290594.5	0	3680.2	2	9540.0	-13	3.6	3.7	9.0	22	2.17
(A) COAL, OIL & GAS													
GROUP COMPOSITE	**99621.3**	**7**	**279399.5**	**0**	**3460.9**	**-4**	**9026.6**	**-15**	**3.5**	**3.9**	**9.1**	**22**	**2.23**
AMERADA HESS	1545.1**	24	4910.2	16	-1.9	NM	65.0	NM	NM	NM	-2.2	NM	-0.75
AMOCO	6764.0	9	19221.0	2	445.0	-14	1253.0	1	6.6	8.4	13.2	16	3.69
ASHLAND OIL (3)	2634.0	6	7134.0	-1	61.0	-9	139.0	19	2.3	2.7	13.7	13	2.94
ATLANTIC RICHFIELD	4271.0*	-6	12245.0	-11	435.0	540	608.0	2	10.2	1.5	4.6	60	1.70
BURLINGTON RESOURCES	314.0	1	935.2	0	20.7	-15	101.4	-50	6.6	7.9	5.8	33	1.18
CHEVRON	9500.0***	3	26600.0	-6	425.0	1	1070.0	10	4.5	4.6	9.6	21	2.10
COASTAL	2675.5	16	7863.2	4	26.6	NM	150.8	256	1.0	NM	8.8	14	1.99
DIAMOND SHAMROCK	700.4	8	1930.7	0	20.6	122	60.3	96	2.9	1.4	10.3	14	1.98
EXXON	26373.0**	6	74058.9	-1	1155.0	-15	3200.0	-15	4.4	5.4	12.7	16	3.74
FINA	918.2	9	2533.8	-4	28.0	29	66.3	-21	3.0	2.6	4.8	23	3.39
KERR-McGEE	858.2	5	2523.9	3	17.7	-6	69.7	-9	2.1	2.3	4.5	34	1.35
LOUISIANA LAND & EXPLORATION	197.4	5	584.4	4	-11.3	NM	-4.5	NM	NM	NM	0.3	NM	0.05
MITCHELL ENERGY & DEVELOPMENT (11)	207.9	-15	664.0	-8	7.8	-27	17.7	-56	3.8	4.4	2.1	60	0.29
MOBIL	16886.0***	6	48219.0	2	503.0	-24	1236.0	-29	3.0	4.2	9.2	21	3.84
MURPHY OIL	492.8**	17	1337.1	7	37.3	85	88.5	33	7.6	4.8	8.7	18	2.42
OCCIDENTAL PETROLEUM	2404.0	25	6672.0	9	23.0	NM	-36.0	NM	1.0	NM	-2.7	NM	-0.28
ORYX ENERGY	271.0**	3	786.0	-5	-44.0	NM	-225.0	NM	NM	NM	-55.8	NM	-2.81
PENNZOIL	631.7**	-4	1905.5	-4	-299.8	NM	-272.3	NM	NM	1.8	-11.5	NM	-3.91
PHILLIPS PETROLEUM	3315.0	5	9194.0	-3	119.0	190	322.0	43	3.6	1.3	12.0	26	1.30
PITTSTON MINERALS GROUP	216.2	26	601.4	16	6.2	4	-61.1	NM	2.9	3.5	NM	NM	-14.42
QUAKER STATE	184.4	16	528.1	12	3.9	-21	11.3	25	2.1	3.1	6.9	24	0.58
SUN	2726.0***	14	7046.0	-1	48.0	-58	94.0	-57	1.8	4.8	8.2	21	1.48
TEXACO	8960.0**	6	24394.0	-4	281.0	-11	598.0	-34	3.1	3.7	9.4	19	3.27
TOSCO	1671.6	60	4567.0	89	9.7	-65	63.0	-3	0.6	2.7	15.6	14	2.14
ULTRAMAR	635.6	4	1788.3	-3	15.0	-30	54.5	-11	2.4	3.5	14.8	12	2.04
UNION TEXAS PETROLEUM HOLDINGS	194.0**	14	533.0	8	15.0	NM	49.9	95	7.7	NM	17.2	32	0.63
USX-MARATHON GROUP	3497.0**	17	9349.0	3	102.0	240	284.0	246	2.9	1.0	6.1	26	0.67
VALERO ENERGY	577.4	79	1274.8	36	12.5	11	23.0	-55	2.2	3.5	0.1	NM	0.02
(B) PETROLEUM SERVICES													
GROUP COMPOSITE	**3783.5**	**1**	**11195.0**	**-1**	**219.3**	**1911**	**513.4**	**32**	**5.8**	**0.3**	**8.2**	**32**	**1.38**
HALLIBURTON	1405.4	-9	4207.1	-10	51.7	NM	50.3	NM	3.7	NM	0.5	NM	0.07
SCHLUMBERGER	1636.7	0	4916.1	-1	136.6	-16	381.5	-17	8.3	9.9	11.1	26	2.08
SMITH INTERNATIONAL	181.5**	207	455.7	182	9.3	NM	25.4	NM	5.2	NM	13.6	21	0.81
WESTERN ATLAS	559.9	11	1616.2	8	21.6	-7	56.2	-7	3.9	4.6	NA	NA	NA
12 HEALTH CARE													
INDUSTRY COMPOSITE	52609.9	16	153890.3	12	5269.5	30	15552.0	24	10.0	9.0	23.0	19	2.25
(A) DRUG DISTRIBUTION													
GROUP COMPOSITE	**12732.1**	**15**	**38002.9**	**10**	**169.3**	**29**	**550.5**	**1**	**1.3**	**1.2**	**13.4**	**25**	**1.38**
ARBOR DRUGS (5)	159.5	17	474.8	16	5.2	NM	10.1	228	3.3	NM	11.2	24	0.86
BINDLEY WESTERN INDUSTRIES	1012.6	20	2916.4	19	3.3	18	10.7	15	0.3	0.3	6.3	13	0.99
CARDINAL HEALTH (6)	1818.7	41	4919.9	NA	16.0	30	23.7	NA	0.9	1.5	11.0	48	0.94
DIAGNOSTEK (9)	169.4**	73	438.5	58	4.5	55	4.9	-1	2.7	3.0	4.6	54	0.31

THE (*we make using a PC as easy as opening a book*) COMPANY



Many people find PCs frustrating and difficult to work with. For those people there's now an easy software solution from Xerox.

It's called TabWorks and it makes using a PC as easy as opening a book.

TabWorks looks and acts like a notebook. Applications and documents are managed in familiar ways with tabs, a table of contents and an index. Everything is grouped on pages and easy to find, making TabWorks intuitive and logical.

But what else would you expect from Xerox, the people who invented the graphical user interface, pioneered local area networks, and helped make the mouse as user-friendly as it is today?

In fact, no other company has done more to make the PC become people-friendly.

For more information on TabWorks, please call: 1-800-909-4446 ext. 1230.

THE DOCUMENT COMPANY

XEROX

THE
DOCUMENT
COMPANY
XEROX
Worldwide Sponsor

TabWorks is a software product from the XSoft division of Xerox.

Xerox®, The Document Company, XSoft®, TabWorks, and the stylized X are trademarks of the Xerox Corporation. 36 USC 380.

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS				
	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 %	3RD QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-21	12 MONT EARNI PER SHAR
DRUG EMPORIUM (10)	184.2	0	575.1	1	0.2	23	1.4	13	0.1	0.1	2.8	39	0.1
ECKERD (11)	1057.9	8	3366.2	8	6.0	NM	68.9	108	0.6	NM	NM	16	1.8
FAY'S (11)	252.4	14	746.5	7	2.6	–16	10.4	45	1.0	1.4	12.7	11	0.6
LONGS DRUG STORES (11)	626.3	3	1933.3	3	12.0	–7	42.0	4	1.9	2.1	10.0	14	2.4
McKESSON (9)	3255.8**	9	9667.9	9	17.1	–24	83.9	–20	0.5	0.8	18.8	34	2.9
PERRY DRUG STORES (2)	183.2	6	552.5	6	0.2	–81	4.9	NM	0.1	0.7	4.9	30	0.2
REVCO D. S. (7)	694.4	33	2131.1	18	5.8	115	38.5	103	0.8	0.5	8.4	27	0.8
RITE AID (10)	1035.1	6	3163.7	5	27.1	26	13.4	–86	2.6	2.2	3.6	56	0.4
WALGREEN (4)	2282.5	12	7117.0	12	69.1	18	237.7	16	3.0	2.9	18.5	17	2.2
(B) DRUGS & RESEARCH													
GROUP COMPOSITE	**20239.9**	**14**	**59550.7**	**13**	**3434.9**	**36**	**10053.8**	**27**	**17.0**	**14.3**	**26.5**	**17**	**2.8**
ALLERGAN	242.2	12	677.0	8	30.2	7	75.9	3	12.5	13.0	19.8	15	1.6
AMERICAN CYANAMID	1033.5	15	3788.1	15	22.1	–55	323.9	NM	2.1	5.5	14.0	39	2.5
AMERICAN HOME PRODUCTS	2258.5	4	6380.4	3	413.0	4	1128.8	4	18.3	18.3	38.3	13	4.9
AMGEN	426.4	20	1205.0	20	114.0	11	314.9	11	26.7	28.9	30.7	20	2.8
BRISTOL-MYERS SQUIBB	2931.9	2	8736.1	4	620.8	2	1743.8	2	21.2	21.2	33.5	15	3.9
GENENTECH	182.9**	17	557.4	22	33.6	116	105.8	163	18.4	10.0	9.7	48	1.0
LILLY (ELI)	1817.4	19	5132.9	10	318.7	8	996.0	–2	17.5	19.2	9.2	36	1.6
MARION MERRELL DOW	783.0	10	2255.0	9	126.0	–12	330.0	34	16.1	20.2	21.9	17	1.6
MERCK	3792.0	49	11098.3	48	784.9	11	2224.1	49	20.7	27.7	26.7	15	2.3
PFIZER	2074.9	11	5981.1	9	336.5	NM	964.4	162	16.2	NM	33.4	18	4.0
RHONE-POULENC RORER	1040.7	8	2884.3	0	107.4	43	182.6	–38	10.3	7.8	20.5	17	2.1
SCHERING-PLOUGH	1125.7	6	3477.4	6	224.3	12	718.2	13	19.9	18.8	49.8	15	4.7
UPJOHN	859.9	–3	2681.6	–1	134.2	NM	389.1	58	15.6	NM	23.9	11	3.0
WARNER-LAMBERT	1671.0	13	4696.1	10	169.2	9	556.3	15	10.1	10.5	22.3	28	2.6
(C) HEALTH-CARE SERVICES													
GROUP COMPOSITE	**8109.1**	**18**	**22949.2**	**14**	**457.6**	**33**	**1275.0**	**26**	**5.6**	**5.0**	**17.1**	**18**	**1.3**
AMERICAN MEDICAL HOLDINGS (4)	638.2	13	1823.5	7	26.9	64	122.5	117	4.2	2.9	17.0	13	1.80
BEVERLY ENTERPRISES	763.3	4	2204.5	3	23.5	33	57.6	38	3.1	2.4	10.4	19	0.76
CAREMARK INTERNATIONAL	629.7	38	1789.7	35	25.7	21	53.3	–4	4.1	4.7	17.5	21	1.01
CONTINENTAL MEDICAL SYSTEMS (6)	243.4	–3	749.4	4	5.8	–24	–40.1	NM	2.4	3.0	–15.1	NM	–0.95
FOUNDATION HEALTH (6)	405.9	–16	1152.1	–12	19.9	4	58.6	3	4.9	4.0	21.4	12	2.87
HEALTHSOUTH REHABILITATION	261.1	115	739.8	107	14.5	51	40.0	43	5.6	7.9	5.7	70	0.52
HEALTHTRUST (4)	941.9	55	2347.9	30	41.3	56	134.3	32	4.4	4.4	16.9	18	1.98
HILLHAVEN (7)	375.8	6	1103.2	6	11.0	37	35.7	24	2.9	2.3	14.6	10	2.10
HUMANA	906.0**	16	2656.0	13	42.0	83	128.0	113	4.6	2.9	16.2	23	0.98
INTEGRATED HEALTH SERVICES	177.2**	145	448.2	133	9.9	115	23.0	86	5.6	6.4	12.2	21	1.75
MANOR CARE (7)	321.4	13	915.2	15	24.4	23	62.7	28	7.6	6.9	14.9	20	1.34
NATIONAL MEDICAL ENTERPRISES (7)	662.8	–14	2084.9	–13	64.0	21	166.1	–12	9.7	6.8	17.2	10	1.37
NOVACARE (6)	230.8	31	648.0	31	11.0	–19	46.2	26	4.8	7.8	13.4	13	0.86
PHYSICIAN CORP. OF AMERICA	210.0	51	584.9	52	13.0	38	38.9	46	6.2	6.8	22.4	17	1.30
SUN HEALTHCARE GROUP	201.5**	296	384.2	199	8.8	187	16.1	126	4.4	6.0	5.1	21	1.03
U. S. HEALTHCARE	754.8**	12	2197.6	12	101.4	30	284.0	36	13.4	11.6	48.2	20	2.31
UNITED WISCONSIN SERVICES	193.6**	29	542.0	28	8.6	24	23.8	19	4.4	4.6	22.6	15	2.69
UNIVERSAL HEALTH SERVICES	191.5**	3	578.1	2	5.8	13	24.3	20	3.0	2.8	10.7	13	1.98
(D) MEDICAL PRODUCTS													
GROUP COMPOSITE	**11528.8**	**12**	**33387.6**	**9**	**1207.7**	**16**	**3672.8**	**20**	**10.5**	**10.2**	**20.4**	**22**	**1.75**
ABBOTT LABORATORIES	2254.8	9	6674.1	8	351.3	11	1094.1	9	15.6	15.3	38.5	17	1.82
BARD (C. R.)	251.9	3	755.6	4	22.8	NM	68.9	213	9.1	NM	26.0	12	2.10
BAUSCH & LOMB	449.4	–10	1371.5	–1	7.7	–86	76.4	–44	1.7	11.2	9.8	20	1.63
BAXTER INTERNATIONAL	2315.0	4	6824.0	5	149.0	10	424.0	31	6.4	6.1	–4.8	NM	–0.62
JOHNSON & JOHNSON	4038.0	15	11644.0	10	525.0	16	1628.0	12	13.0	13.0	29.6	18	3.05
KENDALL INTERNATIONAL	226.6	8	635.4	2	20.7	42	57.0	49	9.1	7.0	24.6	NA	3.29
MALLINCKRODT GROUP (6)	487.7	10	1516.6	10	34.7	–2	70.1	NM	7.1	7.9	10.6	23	1.37
MEDTRONIC (8)	403.8	22	1131.4	13	65.1	24	188.7	19	16.1	15.8	23.0	25	2.13
OWENS & MINOR	693.0	91	1665.6	63	1.5	–69	1.1	–91	0.2	1.3	3.5	NM	0.15
STRYKER	174.3	27	477.3	16	16.7	20	51.1	20	9.6	10.2	21.3	24	1.43
U. S. SURGICAL	234.2	–1	692.2	–13	13.2	NM	13.3	NM	5.6	NM	–20.4	NM	–2.40
13 HOUSING & REAL ESTATE													
INDUSTRY COMPOSITE	10327.3	14	28787.3	13	631.5	66	1363.8	35	6.1	4.2	14.6	17	1.68
(A) BUILDING MATERIALS													
GROUP COMPOSITE	**7040.0**	**13**	**19535.3**	**10**	**500.7**	**86**	**954.1**	**36**	**7.1**	**4.3**	**15.4**	**20**	**1.61**
LAFARGE	528.4	3	1159.6	6	72.2	33	48.5	NM	13.7	10.6	6.8	26	0.74
NATIONAL GYPSUM	164.1	20	463.4	NA	23.4	404	56.5	NA	14.3	3.4	23.0	10	3.31
NORTEK	197.0	–2	559.8	–3	6.4	NM	12.6	NM	3.2	NM	11.9	11	1.01
OWENS-CORNING FIBERGLAS	936.0	19	2465.0	13	53.0	10	31.0	–57	5.7	6.1	NM	22	1.45
PPG INDUSTRIES	1575.3	12	4671.5	7	145.5	487	363.6	51	9.2	1.8	15.5	20	1.97
RPM (7)	253.5	21	657.5	11	18.4	21	41.8	28	7.3	7.3	17.7	19	0.99
SHERWIN-WILLIAMS	876.7	5	2396.4	5	71.2	11	155.9	12	8.1	7.7	18.3	16	2.09
TECUMSEH PRODUCTS	355.0	18	1166.2	15	26.9	46	91.8	51	7.6	6.1	14.4	10	5.14
TEXAS INDUSTRIES (7)	201.0**	18	571.6	19	10.8	655	29.5	833	5.4	0.8	10.0	11	2.95
TJ INTERNATIONAL	172.0	13	470.2	16	4.2	–28	12.5	31	2.4	3.8	6.1	21	0.85
USG	621.0	21	1689.0	NA	–6.0	NM	–57.0	NA	NM	NM	NM	NM	–3.01

Take the Fidelity Investment Challenge. It's Risk Free.

Fidelity Investment Challenge

Fidelity Investments, the nation's largest mutual fund company, has educated millions of investors about mutual fund investing. Now Fidelity Discount Brokerage brings you the Fidelity Investment Challenge so you can learn how to trade directly in the stock market, absolutely *risk free*. Here's how it works:

Real Stocks. Each participant will be given $250,000 of play money to invest. You'll make your trades through an Investment Challenge 800 number. Telephone representatives execute your orders using real-time prices. Or, place your trades using a touch-tone trading line. And, you'll receive a monthly statement detailing your trades and ranking you against the other players.

Real Markets. Try out new strategies in real market conditions, with no risk at all. You'll trade in the same way you would with a Fidelity Brokerage account when you choose to buy, sell, or short stocks traded on the NYSE, AMEX and NASDAQ exchanges.

Real Prizes. The player with the most valuable portfolio on February 10, 1995 will drive away with this 1995 Eagle Vision TSi, plus $2,000 in cash. Over $10,000 in cash will be awarded to the top 15 finishers. The Top 50 investors, and the top player in each state will win Fidelity On-line Xpress™ financial software. The top 200 investors will win a handsome Fidelity Investment Challenge T-shirt.

Play Money. Remember, the Fidelity Investment Challenge is *only a game*, and its purpose is to enhance your understanding of the market. So, have *fun* — and join thousands of other amateur stock watchers across the country in racking up simulated profits to drive away in a new car.

November 14, 1994 to

February 10, 1995

Win Fortune. The top player will drive home this 1995 Eagle Vision TSi with $2,000 in cash. The top 15 finishers win over $10,000 in cash and valuable prizes.

Win Fame. Top players will be published in Business Week magazine. Find your name listed with the leaders in any of the 6 weekly issues starting 12/12/94.

You Could Win This 1995 Eagle Vision TSi or Cash and Prizes

Sign up to play the Fidelity Investment Challenge today and receive a special price of just $89.95 (regularly $99.95).

Call 1-800-858-1994, ext 30.

We'll send you the Official Game Package including rules, instructions, a stock listing guide and transaction ledger to track your trades.

Competition begins November 14, 1994.

Fidelity Investments®

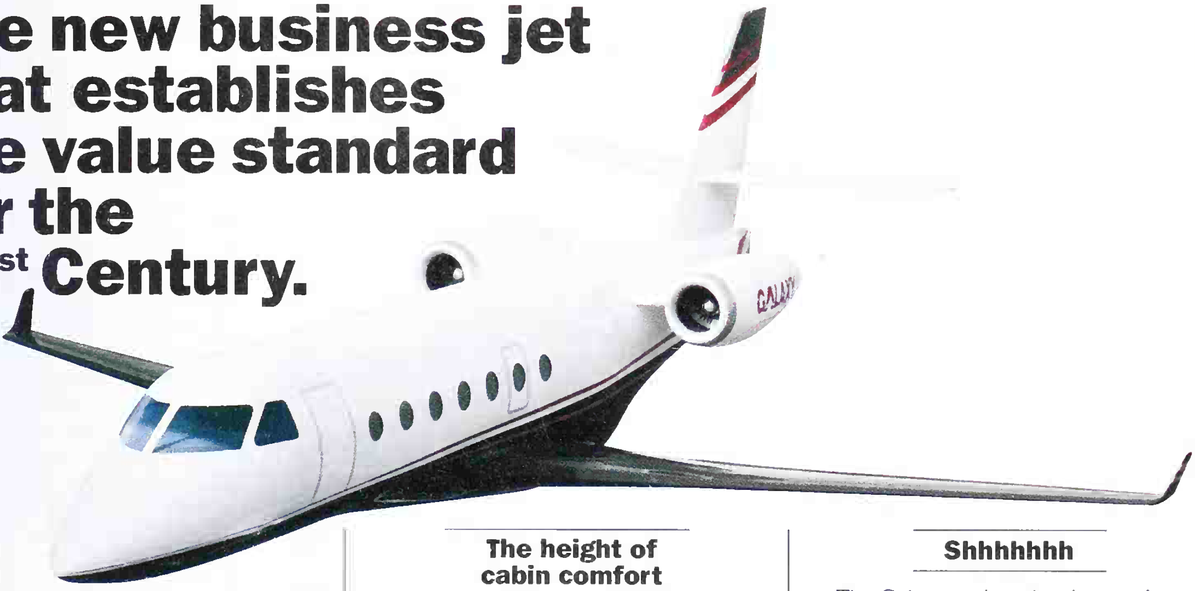
The Fidelity Investment Challenge is a contest administered on behalf of Fidelity Investments by REPLICA Corporation and its affiliate, Wall Street Portfolios. Although the contest uses actual market conditions and securities, neither the money, nor the transactions are real. Awards of prizes are the sole responsibility of REPLICA, and winners may be subject to taxes for prizes. The Fidelity Investment Challenge is not open to persons under the age of 18, or employees or their immediate families of any of the affiliated Fidelity Investments companies. The contest is for amateur investors only. Professional brokers may not participate.

CORPORATE SCOREBOARD

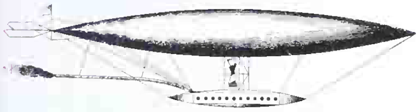
COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-21	12 MONTHS' EARNINGS PER SHARE
	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 %	3RD QUARTER 1993 %			
VALSPAR (2)	201.0	2	594.6	16	14.6	1	33.1	18	7.2	7.3	27.0	18	2.07
VULCAN MATERIALS	360.4	9	904.0	6	37.6	3	66.1	-2	10.4	11.0	12.1	23	2.37
YORK INTERNATIONAL	598.6	23	1766.6	20	22.5	21	68.2	18	3.8	3.8	17.6	16	2.30
(B) CONSTRUCTION & REAL ESTATE													
GROUP COMPOSITE	**3287.3**	**15**	**9252.0**	**19**	**130.9**	**18**	**409.7**	**32**	**4.0**	**3.9**	**12.9**	**9**	**1.86**
CAPSTEAD MORTGAGE	161.1	-1	435.7	-9	22.3	-6	65.8	-6	13.8	14.5	19.8	7	3.37
CENTEX (9)	855.7**	12	2557.7	24	16.9	-26	92.0	67	2.0	3.0	16.7	6	3.62
CLAYTON HOMES (6)	168.5	24	514.8	30	18.2	23	57.8	23	10.8	10.9	15.7	14	1.22
KAUFMAN & BROAD HOME (1)	348.9	9	931.8	8	10.8	-6	30.9	24	3.1	3.6	8.7	12	1.11
LENNAR (1)	200.3**	20	600.6	41	18.5	54	51.2	62	9.2	7.2	14.4	8	2.00
NVR	233.7**	11	611.2	9	3.4	NM	6.9	NM	1.5	NM	-0.1	NM	-0.01
PULTE	452.6**	14	1221.1	17	17.9	20	45.1	26	4.0	3.8	10.8	8	2.49
RYLAND GROUP	447.8	19	1197.0	15	8.4	NM	20.1	NM	1.9	NM	8.6	10	1.63
U. S. HOME	255.8**	12	722.2	22	9.2	-83	23.5	-63	3.6	23.5	13.2	6	2.72
WEBB (DEL) (6)	162.9**	86	459.8	47	5.3	189	16.3	54	3.3	2.1	10.2	12	1.37
14 LEISURE TIME INDUSTRIES													
INDUSTRY COMPOSITE	**17962.5**	**14**	**49782.1**	**12**	**1424.3**	**54**	**3566.2**	**29**	**7.9**	**5.9**	**10.6**	**36**	**0.85**
(A) EATING PLACES													
GROUP COMPOSITE	**5889.3**	**8**	**17266.8**	**7**	**485.6**	**24**	**1252.7**	**18**	**8.2**	**7.2**	**-0.3**	**NM**	**-0.25**
BOB EVANS FARMS (8)	197.9	11	541.5	7	13.2	12	37.1	11	6.7	6.6	13.8	17	1.18
BRINKER INTERNATIONAL (6)	247.1	19	708.0	22	18.5	24	52.4	21	7.5	7.2	14.9	26	0.87
CRACKER BARREL OLD COUNTRY STORE (5)	182.2	22	488.4	24	21.1	18	43.6	23	11.6	11.9	14.0	23	0.94
FLAGSTAR	700.6	2	2006.4	3	4.3	NM	-21.3	NM	0.6	NM	NM	NM	-38.10
MARRIOTT INTERNATIONAL	1813.0	5	5711.0	4	37.0	28	128.0	22	2.0	1.7	24.1	21	1.38
McDONALD'S	2225.4	14	6050.7	11	349.8	13	915.5	12	15.7	16.0	18.4	17	1.61
MORRISON RESTAURANTS (7)	241.3**	-15	862.1	1	24.5	202	49.0	70	10.2	2.9	25.9	17	1.65
SHONEY'S (2)	281.9**	3	898.6	5	17.3	4	48.3	10	6.1	6.0	NM	10	1.52
(B) ENTERTAINMENT													
GROUP COMPOSITE	**164.6**	**-6**	**432.6**	**5**	**7.4**	**-14**	**11.8**	**13**	**4.5**	**5.0**	**6.7**	**23**	**0.52**
AMC ENTERTAINMENT (9)	164.6	-6	432.6	5	7.4	-14	11.8	13	4.5	5.0	6.7	23	0.52
(C) HOTEL & MOTEL													
GROUP COMPOSITE	**1913.6**	**35**	**5411.8**	**34**	**195.9**	**47**	**489.1**	**45**	**10.2**	**9.4**	**11.2**	**26**	**1.19**
CAESARS WORLD (5)	251.5	-4	746.7	-1	16.9	-34	50.5	-26	6.7	9.8	14.6	15	3.19
CIRCUS CIRCUS ENTERPRISES (11)	299.9	30	856.9	35	36.5	-2	94.4	5	12.2	16.2	18.7	17	1.34
HILTON HOTELS	380.9**	10	1100.9	8	27.0	32	83.6	19	7.1	5.9	10.6	25	2.40
MGM GRAND	212.7	NM	583.7	NM	31.8	NM	55.3	NM	14.9	NM	-10.3	NM	-1.09
MIRAGE RESORTS	336.3	47	943.2	40	39.5	129	93.0	104	11.7	7.6	9.9	21	1.01
PROMUS	432.3	25	1180.4	27	44.2	19	112.3	56	10.2	10.7	21.6	23	1.28
(D) OTHER LEISURE													
GROUP COMPOSITE	**9995.0**	**14**	**26670.9**	**11**	**735.4**	**87**	**1812.6**	**34**	**7.4**	**4.5**	**15.8**	**20**	**1.74**
AMERICAN GREETINGS (10)	401.1	4	1290.9	6	13.4	23	86.1	16	3.3	2.8	12.7	15	1.86
BRUNSWICK	662.1	23	2045.2	22	29.4	93	111.0	134	4.4	2.8	13.5	16	1.23
CARNIVAL (1)	600.8	14	1395.5	13	168.8	11	311.7	16	28.1	28.8	19.2	18	2.56
COLEMAN	162.4**	34	596.4	25	-1.2	NM	34.6	-2	NM	4.9	13.2	28	1.29
EASTMAN KODAK	3529.0	12	9709.0	6	193.0	NM	633.0	49	5.5	NM	21.2	20	2.51
FLEETWOOD ENTERPRISES (8)	764.3	42	2028.8	32	29.3	93	64.5	55	3.8	2.8	14.3	12	1.76
HARLEY-DAVIDSON	384.0	35	1129.1	27	23.8	45	79.2	43	6.2	5.8	10.5	48	0.56
HARMAN INTERNATIONAL INDUSTRIES (6)	228.6	40	704.4	39	4.2	302	22.0	113	1.8	0.6	13.6	18	2.06
HASBRO	796.2	-2	1729.7	-5	75.2	-1	103.5	-20	9.4	9.3	12.9	16	1.94
MATTEL	1037.1	16	2174.6	11	131.8	26	213.0	30	12.7	11.7	18.1	27	0.99
MUSICLAND STORES	302.5	20	845.0	21	-2.6	NM	-6.9	NM	NM	0.0	8.8	16	0.90
POLAROID	576.7	8	1626.6	3	29.3	19	59.9	109	5.1	4.6	12.2	16	2.10
ROYAL CARIBBEAN CRUISES	309.0	2	889.5	5	49.1	21	121.3	37	15.9	13.5	17.7	13	2.19
TYCO TOYS	241.1	2	506.3	5	-8.1	NM	-20.3	NM	NM	2.0	-25.3	NM	-2.30
15 MANUFACTURING													
INDUSTRY COMPOSITE	**32113.7**	**14**	**92869.1**	**13**	**1879.6**	**20**	**5510.7**	**42**	**5.9**	**5.6**	**16.8**	**18**	**2.14**
(A) GENERAL MANUFACTURING													
GROUP COMPOSITE	**11745.9**	**14**	**33166.8**	**10**	**817.2**	**30**	**2320.9**	**18**	**7.0**	**6.1**	**15.6**	**21**	**1.84**
AVERY DENNISON	733.7	15	2120.0	8	27.8	46	80.9	26	3.8	3.0	13.2	19	1.79
CARLISLE	184.1	15	522.6	14	10.2	27	27.1	26	5.5	5.0	14.7	15	2.20
CORNING	1452.7**	20	3518.5	20	76.9	NM	246.3	133	5.3	NM	5.5	62	0.54
CRANE	451.1	34	1211.5	23	16.0	25	39.1	0	3.5	3.8	16.0	17	1.62
DURACELL INTERNATIONAL (6)	492.1	12	1265.3	12	53.0	19	109.7	231	10.8	10.1	17.5	25	1.74
FEDERAL SIGNAL	181.3	27	433.4	16	12.4	17	33.0	16	6.9	7.5	21.8	19	0.97
HARSCO	348.1	11	1004.8	-1	22.3	22	58.5	-10	6.4	5.8	13.6	15	2.98
HILLENBRAND INDUSTRIES (1)	377.8	11	1137.9	8	-21.5	NM	48.9	-51	NM	8.4	12.4	26	1.16
ILLINOIS TOOL WORKS	870.9	12	2523.4	7	71.4	40	193.0	31	8.2	6.5	17.5	20	2.22
MARK IV INDUSTRIES (10)	357.2	13	1040.8	18	16.7	28	45.4	27	4.7	4.1	15.2	16	1.36
MINNESOTA MINING & MFG.	3820.0	10	11224.0	7	341.0	8	990.0	1	8.9	9.1	19.4	19	3.01

Astra Galaxy.

The new business jet that establishes the value standard for the 21st Century.

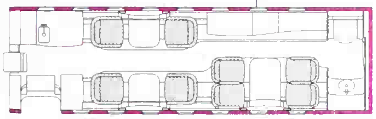


Back in the 1970's and 1980's, it was considered fashionable to have a fuel-guzzling "imperial barge". "My barge is bigger than your barge" syndrome was contagious. Bigger was better. And few had to worry about the bottom line. Today, that's all over with. Gone forever.

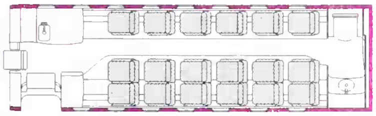


The right plane for today ...and beyond

The Astra Galaxy. Sophisticated technology is at the heart of a totally new business jet concept, one that delivers extraordinary performance and a spacious cabin for a fraction of what you'd expect to pay. Galaxy is the first large business jet that will fly you from Paris to New York non-stop at lower operating costs than any business jet.



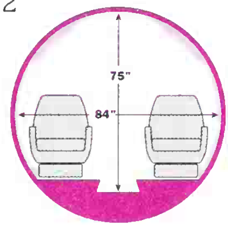
Executive Interior



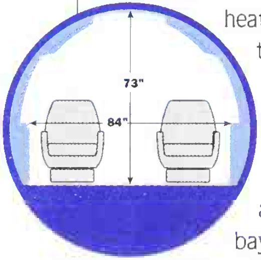
Corporate Shuttle Interior

The height of cabin comfort

At 6 feet 3 inches (1.90m) in height the Galaxy has more headroom than any other current business aircraft. With 7 feet 2 inches (2.20m) in width and 24 feet (7.30m) of length, the passenger cabin is ergonomically designed for personal comfort. We've maximized the passenger cabin space, while minimizing the exterior size, thereby, reducing airframe drag and increasing efficiency.



Astra Galaxy



Canadair Challenger

The first convertible

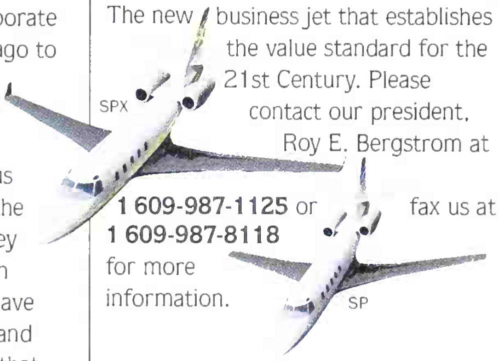
The unique cabin design allows you to carry 19 passengers in a "corporate shuttle" configuration from Chicago to L.A. one day, then easily reconfigure to carry eight executives in spacious comfort to London the next. The lavish galley can be equipped with refrigerator, microwave oven, coffee maker and many other options that make food and beverage service easy and convenient.

Shhhhhhh

The Galaxy makes droning engines a thing of the past. We placed the engines far behind the aft-most seat so cabin noise is held to a minimum. Even the heating and cooling systems are engineered to operate quietly. The baggage is relegated to a pressurized external bay serviced with an air stair door. The bay accommodates baggage for nineteen people.

Get on board

The Galaxy is part of a new generation of Astra business jets responding to the needs of cost conscious, fiscally responsible companies who are constantly looking to improve the bottom line. Well, look no further. Astra Galaxy. The new business jet that establishes the value standard for the 21st Century. Please contact our president, Roy E. Bergstrom at **1 609-987-1125** or fax us at **1 609-987-8118** for more information.



ASTRA®

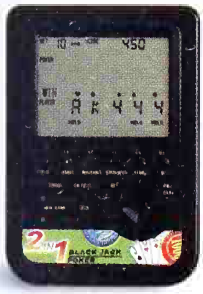
Leadership...by design

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS				
	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 %	3RD QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-21	12 MONTHS' EARNINGS PER SHARE
NEWELL	553.2	21	1490.2	28	58.0	22	133.5	21	10.5	10.4	18.4	18	1.20
PARKER HANNIFIN (6)	712.5	17	2089.2	10	43.6	172	65.7	30	6.1	2.6	7.9	27	1.63
RUBBERMAID †	580.3	13	1603.0	8	66.8	11	173.5	8	11.5	11.7	17.5	19	1.40
TELEFLEX	193.4	23	593.9	21	7.4	25	28.5	20	3.8	3.8	13.2	17	2.20
TRINOVA	437.6	11	1338.3	8	15.1	60	47.7	699	3.5	2.4	16.7	19	1.80
(B) MACHINE & HAND TOOLS													
GROUP COMPOSITE	**3460.1**	**14**	**9839.6**	**11**	**131.3**	**81**	**347.0**	**41**	**3.8**	**2.4**	**13.2**	**16**	**1.90**
BLACK & DECKER	1323.4	11	3629.1	5	29.3	50	66.9	27	2.2	1.6	10.6	20	1.16
DANAHER	326.4**	16	933.6	18	23.1	60	56.9	52	7.1	5.1	18.2	19	2.52
GIDDINGS & LEWIS	166.1	36	433.9	9	9.8	-12	23.9	-27	5.9	9.1	7.7	15	1.02
NACCO INDUSTRIES	480.3	20	1300.5	18	11.0	438	23.0	NM	2.3	0.5	13.3	17	3.66
SNAP-ON	278.4**	3	875.9	8	22.7	11	71.6	17	8.2	7.6	12.7	14	2.26
SPX	253.0	30	819.5	40	3.2	NM	13.2	NM	1.3	NM	27.7	5	3.37
STANLEY WORKS	632.6	10	1847.1	9	32.2	29	91.5	22	5.1	4.3	14.7	16	2.43
(C) SPECIAL MACHINERY													
GROUP COMPOSITE	**14233.8**	**16**	**42213.6**	**16**	**821.0**	**7**	**2561.7**	**85**	**5.8**	**6.3**	**19.5**	**15**	**2.94**
APPLIED MATERIALS (2)	440.2	56	1192.0	58	58.1	106	150.6	131	13.2	10.0	21.2	22	2.20
BRIGGS & STRATTON (6)	227.8	15	985.9	14	11.4	78	78.8	43	5.0	3.2	26.6	9	7.44
CATERPILLAR	3509.0	23	10400.0	23	244.0	-44	676.0	27	7.0	15.2	29.4	14	4.05
CLARK EQUIPMENT	249.2	49	696.9	35	32.3	915	87.6	516	13.0	1.9	25.0	12	5.90
DEERE (2)	2326.6**	14	6513.6	17	157.7	74	434.0	479	6.8	4.4	22.3	11	6.45
DOVER	804.5	25	2246.4	25	51.9	22	146.9	27	6.4	6.6	20.0	17	3.31
DRESSER INDUSTRIES (2)	1145.6	-10	3781.6	4	35.2	-20	281.3	269	3.1	3.4	24.7	10	2.11
FMC	1009.6	9	2971.7	6	34.7	-2	148.1	3	3.4	3.8	13.6	51	1.22
GENERAL SIGNAL	436.3	17	1251.5	10	27.8	14	77.4	25	6.4	6.5	14.8	20	1.73
HARNISCHFEGER INDUSTRIES (2)	285.3**	16	794.1	7	4.4	NM	9.2	NM	1.6	NM	7.5	19	1.27
INGERSOLL-RAND	1113.7	14	3267.8	11	48.4	38	133.0	39	4.3	3.6	14.0	18	1.91
LAM RESEARCH (6)	161.5	60	438.6	71	15.1	87	36.2	83	9.3	8.0	14.5	23	1.83
PENTAIR	426.1	23	1207.3	22	13.8	4	36.7	13	3.2	3.8	12.6	18	2.46
STEWART & STEVENSON SERVICES (11)	287.1	11	790.9	13	16.5	20	48.3	24	5.7	5.3	16.1	19	1.90
TIMKEN	466.3	15	1426.9	12	14.3	NM	42.7	247	3.1	NM	1.8	88	0.41
TYCO INTERNATIONAL (6)	827.6	5	2497.5	7	32.6	19	100.1	102	3.9	3.5	12.0	17	2.81
VARITY (11)	517.4	23	1750.9	3	22.8	74	74.8	90	4.4	3.1	12.1	17	2.22
(D) TEXTILES													
GROUP COMPOSITE	**2673.9**	**10**	**7649.3**	**9**	**110.1**	**17**	**281.1**	**-5**	**4.1**	**3.9**	**13.6**	**16**	**1.18**
CONE MILLS	203.5	6	601.1	2	8.6	-28	28.4	-25	4.2	6.1	19.9	9	1.34
FIELDCREST CANNON	279.3	9	766.4	7	8.5	NM	20.7	228	3.0	NM	12.4	10	2.76
INTERFACE	185.0	10	527.3	17	4.2	10	10.8	21	2.3	2.3	6.7	16	0.79
MOHAWK INDUSTRIES	377.6	17	1075.3	28	13.4	15	25.4	-7	3.5	3.6	12.8	13	1.12
SHAW INDUSTRIES (6)	734.1	13	2076.4	13	33.2	-3	102.3	16	4.5	5.3	18.5	16	0.91
SPRINGS INDUSTRIES	535.3	4	1535.7	2	19.6	43	38.5	21	3.7	2.7	9.5	12	3.03
UNIFI (6)	359.2	10	1067.1	2	22.7	15	55.0	-41	6.3	6.1	13.0	23	1.11
16 METALS & MINING													
INDUSTRY COMPOSITE	**19217.2**	**16**	**55139.3**	**12**	**788.2**	**NM**	**1556.4**	**NM**	**4.1**	**0.2**	**4.2**	**66**	**0.46**
(A) ALUMINUM													
GROUP COMPOSITE	**5796.8**	**14**	**16398.4**	**8**	**106.5**	**NM**	**-34.5**	**NM**	**1.8**	**NM**	**-10.2**	**NM**	**-2.41**
ALUMAX	697.8	18	1982.2	13	10.1	NM	3.9	NM	1.4	NM	-7.7	NM	-1.91
ALUMINUM CO. OF AMERICA	2561.6	15	7262.5	8	70.1	143	75.1	-18	2.7	1.3	-0.4	NM	-0.17
KAISER ALUMINUM	461.1	8	1335.7	3	-20.8	NM	-73.7	NM	NM	NM	NM	NM	-2.73
MAXXAM	544.9	8	1577.7	3	-14.9	NM	-92.6	NM	NM	NM	NM	NM	-16.51
REYNOLDS METALS	1531.4	15	4240.3	8	62.0	NM	52.8	NM	4.0	NM	-12.5	NM	-3.53
(B) STEEL													
GROUP COMPOSITE	**10278.0**	**13**	**30047.4**	**11**	**495.0**	**NM**	**1094.4**	**NM**	**4.8**	**NM**	**14.7**	**23**	**1.11**
AK STEEL HOLDING	501.5	24	1462.2	25	41.3	883	86.1	NM	8.2	1.0	NM	9	3.65
ALLEGHENY LUDLUM	262.3	0	748.4	-10	10.3	-38	-0.7	NM	3.9	6.3	4.5	86	0.24
ARMCO	368.0	-12	1102.5	-15	25.4	NM	68.1	NM	6.9	NM	NM	NM	0.04
BETHLEHEM STEEL	1233.2	17	3594.9	13	10.3	-66	49.2	NM	0.8	2.9	-22.2	NM	-2.62
BIRMINGHAM STEEL (6)	220.6	73	649.1	80	12.2	269	26.4	306	5.5	2.6	7.0	24	1.10
COMMERCIAL METALS (4)	449.4**	15	1284.5	3	9.0	20	20.4	9	2.0	1.9	11.2	16	1.75
FLORIDA STEEL (9)	167.2	13	455.9	13	5.2	NM	-13.5	NM	3.1	NM	-11.7	NA	NA
INLAND STEEL INDUSTRIES	1129.5	16	3340.8	15	30.7	81	71.5	NM	2.7	1.7	4.4	NM	0.36
J&L SPECIALTY STEEL	187.8	24	531.5	5	18.2	232	43.1	49	9.7	3.6	17.7	14	1.35
LTV	1130.5	7	3323.8	9	34.1	NM	86.9	-38	3.0	0.0	55.9	5	3.90
LUKENS	231.5	9	694.6	5	7.4	28	11.5	-43	3.2	2.7	0.8	NM	0.18
NATIONAL STEEL	683.6	10	1957.0	7	62.4	NM	141.3	NM	9.1	NM	-3.8	NM	-0.23
NUCOR	786.4	34	2176.2	33	64.5	85	149.1	71	8.2	5.9	18.9	29	2.13
QUANEX (2)	181.1	18	502.8	10	5.8	116	11.3	123	3.2	1.7	6.2	39	0.64
ROUGE STEEL	288.5	12	934.0	18	28.3	50	76.5	68	9.8	7.3	35.5	6	4.32
USX-U. S. STEEL GROUP	1505.0	5	4423.0	9	90.0	173	111.0	NM	6.0	2.3	27.6	14	2.90
WEIRTON STEEL	295.9	-2	956.5	6	-4.3	NM	17.2	NM	NM	NM	NM	16	0.59
WHX	309.8	15	864.0	12	18.7	78	68.1	302	6.0	3.9	14.9	6	2.50
WORTHINGTON INDUSTRIES (7)	346.3	19	1045.6	17	25.4	28	71.0	22	7.4	6.9	17.3	22	1.00

Compact upright cordless telephone
Sale $49.99
#43-1004w, reg. $59.99

Organizer/calc with clock and scheduler
$39.99 #65-830w



Blackjack/Poker handheld game
$24.99 #60-2431w

Sale prices guaranteed through 12/24/94
FedEx trademarks used by permission.

Get a gift.

Get a card.

Get it wrapped.

Get it shipped.

Get the 5:28.

Need to send a gift in a hurry? Radio Shack Gift Express will wrap, pack, enclose a card, and ship your purchase anywhere in the U.S. via FedEx® delivery service—all for a nominal charge. For gift orders or the location of the store nearest you, call

1-800-THE-SHACK℠

Radio Shack®
Gift Express℠

You've got questions. We've got answers.℠

Digital-tuning pocket color TV
$139.99 #16-164w

Radio-controlled Off-Road Tiger 4×4
Sale $49.99
#60-4113w, reg. $59.99

Optimus® portable compact disc player
Sale $99.99
#42-5042w, reg. $119.99

For product warranty information, write:
Customer Relations, 1400 One Tandy
Center, Fort Worth, Texas 76102.

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS				
	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 %	3RD QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-21	12 MONTHS' EARNINGS PER SHARE
(C) OTHER METALS													
GROUP COMPOSITE	**3142.3**	**34**	**8693.4**	**28**	**186.7**	**54**	**496.5**	**207**	**5.9**	**5.2**	**6.7**	**38**	**0.76**
ASARCO	513.0	21	1443.7	11	-16.1	NM	15.9	NM	NM	NM	0.2	NM	0.08
CYPRUS AMAX MINERALS	772.0	96	2057.0	68	48.0	237	99.0	-8	6.2	3.6	3.3	37	0.78
FREEPORT-McMORAN	503.2	25	1421.2	26	11.5	-65	48.7	NM	2.3	8.0	NM	NM	0.09
FREEPORT-McMORAN COPPER & GOLD	313.4	20	861.0	41	26.8	-8	75.0	273	8.6	11.1	17.9	75	0.33
MAGMA COPPER	227.1	7	622.1	4	22.3	155	50.5	268	9.8	4.1	6.8	18	1.01
PHELPS DODGE	813.7	26	2288.4	18	94.2	137	207.4	42	11.6	6.1	11.6	18	3.51
17 NONBANK FINANCIAL													
INDUSTRY COMPOSITE	**65791.5**	**9**	**193769.7**	**11**	**4972.6**	**4**	**14096.9**	**-6**	**7.3**	**7.9**	**12.9**	**12**	**3.15**
(A) FINANCIAL SERVICES													
GROUP COMPOSITE	**32889.3**	**15**	**96910.7**	**20**	**2584.0**	**-10**	**8215.4**	**-8**	**7.3**	**10.1**	**18.4**	**10**	**3.99**
ALLEGHANY	447.6	4	1395.8	17	21.2	31	54.5	-12	4.7	3.8	11.7	9	15.52
AMERICAN EXPRESS	3604.0	7	10480.0	7	368.0	18	1045.0	-20	10.2	9.3	20.2	12	2.59
AT&T CAPITAL	348.4	5	1006.6	3	25.0	691	59.7	89	7.2	1.0	10.5	11	2.12
BEAR STEARNS (6)	809.8	5	2478.9	4	35.5	-66	183.3	-46	4.4	13.5	17.0	7	2.35
BENEFICIAL	528.0	11	1576.3	8	51.4	16	168.5	18	9.7	9.3	16.2	10	3.93
COUNTRYWIDE CREDIT INDUSTRIES (10)	205.5	-20	727.6	10	19.1	-59	100.0	-22	9.3	18.0	15.5	9	1.55
DEAN WITTER, DISCOVER	1240.2**	5	3746.8	10	184.5	8	600.9	29	14.9	14.6	19.2	8	4.33
EDWARDS (A. G.) (10)	295.5	-6	919.2	-2	31.6	-11	102.2	-7	10.7	11.3	17.1	8	2.34
EQUIFAX	359.3	15	1021.3	15	31.0	NM	84.0	141	8.6	NM	44.3	20	1.52
FANNIE MAE	4735.8	16	13537.2	14	542.7	3	1596.5	6	NA	13.0	24.1	10	7.76
FEDERAL HOME LOAN MORTGAGE	1785.0**	25	5037.0	27	249.0	25	775.0	33	14.0	14.1	20.8	11	5.06
FIRST AMERICAN FINANCIAL	334.9**	-11	1076.3	9	4.8	-76	21.8	-48	1.4	5.2	14.2	5	3.71
FIRST FINANCIAL MANAGEMENT	535.3	22	1500.2	23	40.6	20	104.3	22	7.6	7.7	10.9	24	2.42
FRANKLIN RESOURCES (3)	209.9	13	628.4	23	63.7	19	192.3	37	30.3	28.8	28.9	13	3.00
MARSH & McLENNAN	826.9	8	2577.6	8	83.4	10	309.8	15	10.1	9.9	26.1	15	5.05
MERRILL LYNCH	4530.2**	9	13749.3	14	231.6	-36	855.1	-18	5.1	8.7	21.3	6	5.51
MORGAN STANLEY GROUP (11)	2262.0	-9	6635.0	3	121.0	-46	419.2	-26	5.4	9.0	14.3	9	6.96
PAINEWEBBER GROUP	940.0**	-10	2924.8	0	20.3	-66	50.9	-73	2.2	5.7	8.8	11	1.41
SALLIE MAE	804.9	26	2161.5	11	96.3	-28	326.8	-22	12.0	21.0	35.7	6	5.62
SALOMON	1698.0**	-9	4750.0	-21	-104.0	NM	-242.0	NM	NM	1.1	5.2	22	1.66
SCHWAB (CHARLES)	302.7	11	927.1	15	31.2	8	101.5	6	10.3	10.6	30.9	14	2.22
TRANSAMERICA	1371.3**	13	3969.7	11	104.9	-26	314.3	-11	7.6	11.7	14.4	9	5.20
TRAVELERS	4714.2	134	14084.1	206	331.3	28	991.6	52	7.0	13.2	15.5	8	4.07
(B) INSURANCE													
GROUP COMPOSITE	**29840.2**	**2**	**88155.6**	**3**	**2013.3**	**9**	**5520.2**	**-6**	**6.7**	**6.3**	**9.2**	**15**	**2.60**
AETNA LIFE & CASUALTY	4385.1**	1	13103.7	1	129.4	-43	307.5	-40	3.0	5.2	-13.6	NM	-7.36
AFLAC	1601.5	22	4474.7	22	76.1	18	215.4	22	4.8	4.9	16.5	12	2.72
ALLSTATE	5390.0	1	16030.0	2	193.9	-40	320.7	-69	3.6	6.1	6.6	19	1.28
AMERICAN GENERAL	1265.0	4	3711.0	3	159.0	34	478.0	15	12.6	9.7	7.9	17	1.51
AMERICAN INTERNATIONAL GROUP	5680.0**	11	16530.0	12	542.5	20	1597.8	13	9.6	8.8	13.4	14	6.65
AMERICAN NATIONAL INSURANCE	360.1	13	1033.7	3	56.0	76	145.8	6	15.6	10.0	9.9	6	7.31
AMERICAN PREMIER UNDERWRITERS	476.6**	7	1304.3	5	25.2	-71	-14.1	NM	5.3	19.4	2.2	32	0.74
BANKERS LIFE HOLDING	373.0	3	1077.8	0	41.4	34	98.0	3	11.1	8.5	29.3	7	2.57
CONSECO	423.9**	-33	1328.0	-34	35.8	-31	152.5	-38	8.4	8.3	34.7	5	7.15
FREMONT GENERAL	173.7	4	487.8	0	14.1	24	41.7	35	8.1	6.8	15.2	7	3.47
HORACE MANN EDUCATORS	179.8	1	535.8	0	19.3	4	47.3	-18	10.7	10.4	15.9	10	2.31
JEFFERSON-PILOT	327.6	8	976.5	6	58.8	12	171.4	11	18.0	17.3	13.5	11	4.82
JOHN ALDEN FINANCIAL	395.4	7	1110.8	7	23.2	-2	66.8	6	5.9	6.5	20.6	10	3.27
KEMPER	371.4**	53	1241.4	19	14.3	NM	89.4	NM	3.8	NM	12.9	15	3.70
LINCOLN NATIONAL	1561.7	-33	5113.0	-17	58.4	-69	256.2	-33	3.7	8.1	8.9	13	2.78
NWNL	399.2	10	1161.5	5	25.3	21	77.8	29	6.3	5.7	12.3	10	3.04
PAUL REVERE	338.2	9	1009.0	15	17.9	-13	77.3	25	5.3	6.6	9.2	7	2.25
PROGRESSIVE	634.1**	23	1750.5	21	64.8	-22	173.4	-19	10.2	16.0	23.1	12	2.93
PROTECTIVE LIFE	212.5	10	611.8	11	18.7	51	51.7	37	8.8	6.4	25.0	9	5.14
PROVIDENT LIFE & ACCIDENT	693.2**	-4	2071.2	-6	31.9	NM	105.1	NM	4.6	NM	13.0	7	3.52
SAFECO	980.1**	7	2809.4	6	72.5	-23	218.6	-26	7.4	10.2	11.8	9	5.54
ST. PAUL	1199.1	9	3528.0	7	129.8	-8	322.0	-5	10.8	12.8	15.1	9	4.75
TIG HOLDINGS	433.0	-10	1326.0	-8	10.0	-66	30.0	NM	2.3	6.2	4.6	25	0.80
TRANSATLANTIC HOLDINGS	251.4	37	708.5	37	26.9	17	72.9	14	10.7	12.6	12.5	12	4.17
UNITRIN	350.0	3	1029.3	1	49.9	249	103.5	14	14.3	4.2	5.4	22	2.10
USF&G	811.0	7	2368.0	-3	74.0	270	170.0	150	9.1	2.7	21.1	6	2.11
USLIFE	413.8	4	1233.4	4	25.5	-4	73.3	4	6.2	6.7	10.7	7	4.34
WESTERN NATIONAL	159.8	-17	490.7	-12	18.8	-43	70.2	-28	11.8	17.1	24.5	7	1.68
(C) SAVINGS & LOAN													
GROUP COMPOSITE	**3062.1**	**5**	**8703.3**	**1**	**375.4**	**333**	**361.3**	**167**	**12.3**	**3.0**	**3.2**	**32**	**0.66**
AHMANSON (H. F.)	818.9	0	2372.4	4	68.5	-2	197.4	NM	8.4	8.6	6.7	12	1.68
CALIFORNIA FEDERAL BANK	373.7	44	862.3	3	149.5	NM	-162.4	NM	40.0	NM	-34.2	NM	-6.37
GLENDALE FEDERAL BANK (6)	281.3	10	828.9	3	9.4	NM	-139.5	NM	3.3	NM	-22.3	NM	-5.29
GOLDEN WEST FINANCIAL	477.9	-2	1410.0	-3	56.1	-12	183.4	-11	11.7	13.1	11.9	10	3.97
GREAT WESTERN FINANCIAL	736.0	-4	2158.7	-5	57.2	NM	162.6	103	7.8	NM	5.6	20	0.89
METROPOLITAN FINANCIAL	163.0	10	462.7	12	4.4	-74	31.0	-33	2.7	11.4	9.5	20	1.17
STANDARD FEDERAL BANK	211.2	9	608.4	6	30.2	0	88.7	5	14.3	15.7	15.2	7	3.72

“SINCE TODAY’S BUSINESS BUZZWORD IS ‘GLOBAL,’ IT’S A GOOD THING WE ALREADY ARE.”

Bill Marriott

With over 250 hotels in 27 different countries, you can count on Marriott to serve all your business needs all over the world. Call your travel agent or 1-800-228-9290.

Marriott
HOTELS · RESORTS · SUITES

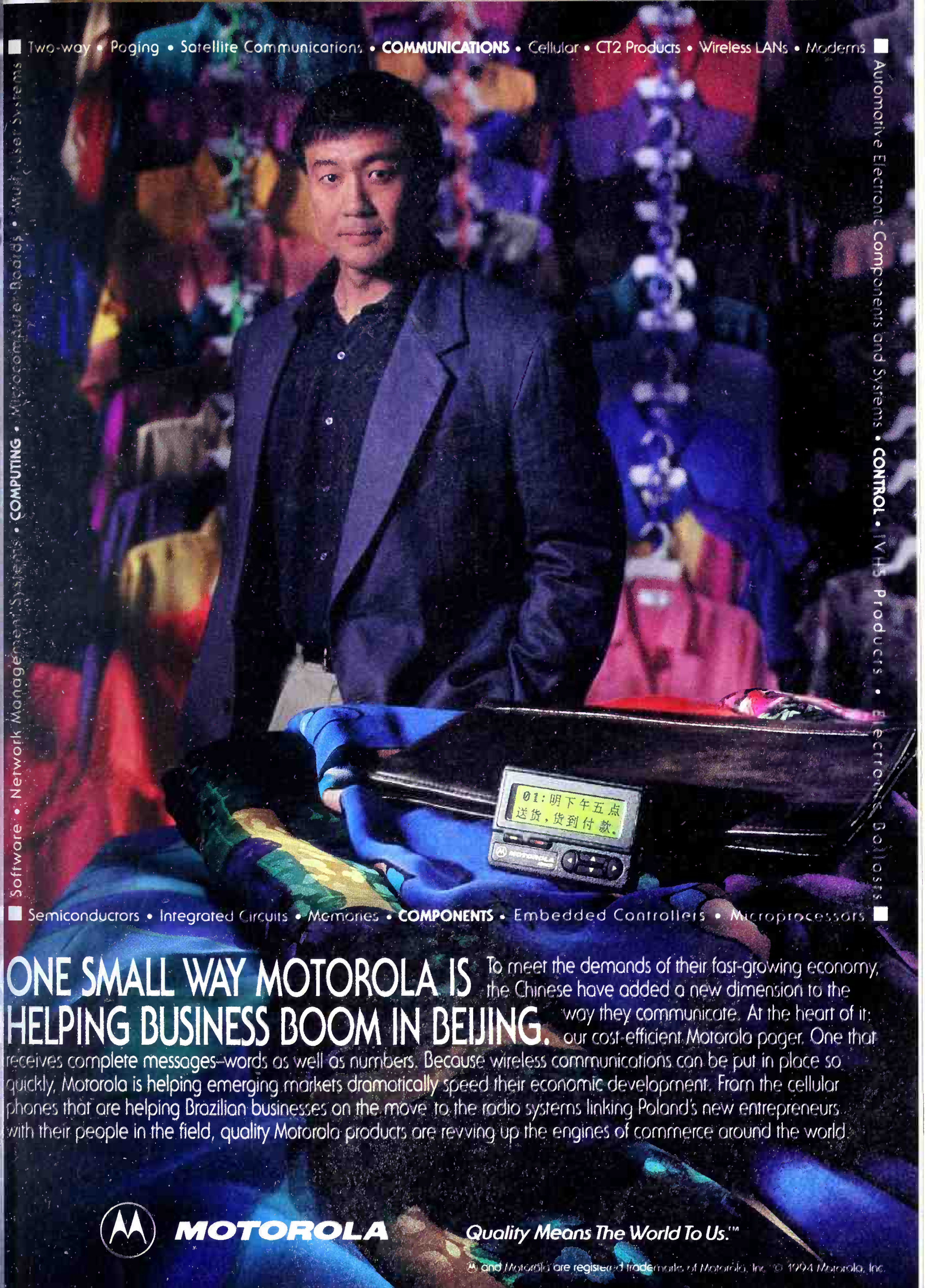
WE MAKE IT HAPPEN FOR YOU.℠

Argentina, Aruba (1995), Australia, Austria, Barbados, Bermuda, Canada, Costa Rica (1996), Egypt, Germany, Greece, Hong Kong, Hungary, Indonesia (1999), Japan, Jordan, Malaysia (1996), Mexico, The Netherlands, Pakistan, Poland, Puerto Rico (1995), Saudi Arabia, Singapore (1995), Thailand, United Arab Emirates, United Kingdom, United States of America.

©1994 Marriott International, Inc.

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-21	12 MONTHS' EARNINGS PER SHARE
	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 %	3RD QUARTER 1993 %			
18 OFFICE EQUIPMENT & COMPUTERS													
INDUSTRY COMPOSITE	57630.6	15	167534.8	12	2952.1	665	7183.0	NM	5.1	0.8	10.9	31	1.35
(A) BUSINESS MACHINES & SERVICES													
GROUP COMPOSITE	**4594.1**	**22**	**13159.7**	**21**	**215.8**	**21**	**655.2**	**24**	**4.7**	**5.3**	**19.4**	**18**	**1.56**
COMPUCOM SYSTEMS	306.7	20	894.1	28	3.3	15	9.3	27	1.1	1.1	20.8	9	0.37
CUC INTERNATIONAL (11)	254.9**	18	733.6	18	28.0	37	79.8	39	11.0	9.4	31.2	35	0.89
DELUXE	426.6	15	1268.9	11	33.3	-10	100.9	11	7.8	9.9	18.9	16	1.83
DIEBOLD	188.2	16	553.0	24	16.7	31	45.6	38	8.9	7.8	13.8	20	2.01
HON INDUSTRIES	222.1	9	615.9	9	15.5	34	36.4	30	7.0	5.7	29.3	16	1.69
INTELLIGENT ELECTRONICS (11)	793.3	29	2295.6	28	2.7	-71	28.2	17	0.3	1.5	17.1	15	1.08
MICROAGE(2)	583.4	NA	1583.4	NA	3.1	NA	12.8	NA	0.5	NA	NA	NA	NA
MILLER (HERMAN) (7)	252.8	14	742.6	10	7.9	6	29.7	26	3.1	3.4	13.5	15	1.62
PITNEY BOWES	806.4	11	2370.1	9	85.3	46	254.0	24	10.6	8.1	21.4	15	2.32
STANDARD REGISTER	190.0	6	558.2	7	10.3	6	30.9	8	5.4	5.4	11.6	12	1.55
TECH DATA (11)	569.7	62	1544.2	60	9.6	38	27.6	44	1.7	2.0	14.6	19	0.95
(B) COMPUTERS & PERIPHERALS													
GROUP COMPOSITE	**43984.8**	**12**	**128162.4**	**10**	**1730.9**	**NM**	**3327.2**	**NM**	**3.9**	**NM**	**6.1**	**38**	**1.16**
AMDAHL	364.2	-7	1139.9	-8	14.3	NM	33.9	NM	3.9	NM	-0.9	NM	-0.07
APPLE COMPUTER (3)	2493.3	16	6719.9	12	114.7	NM	270.2	NM	4.6	0.1	13.0	16	2.61
AST RESEARCH (6)	495.4	-4	1671.3	29	-39.9	NM	-12.6	NM	NM	1.6	1.4	79	0.15
COMPAQ COMPUTER	2838.0	63	7615.0	53	201.0	88	624.0	100	7.1	6.1	23.1	13	2.91
CONNER PERIPHERALS	559.5	6	1773.5	12	10.2	NM	65.5	NM	1.8	NM	25.8	8	1.43
CRAY RESEARCH	219.9	9	684.5	16	16.0	5	46.2	26	7.3	7.6	8.8	8	2.71
DATA GENERAL (3)	292.6	5	859.3	8	-6.2	NM	-66.5	NM	NM	NM	-28.4	NM	-2.45
DELL COMPUTER (11)	791.5	13	2301.1	15	28.6	NM	65.2	NM	3.6	NM	13.1	24	1.71
DIGITAL EQUIPMENT (6)	3122.5	4	10304.2	-1	-195.1	NM	-2124.7	NM	NM	NM	-67.7	NM	-15.95
EMC	371.6	72	946.8	77	69.4	80	172.8	115	18.7	17.8	40.4	19	1.06
HEWLETT-PACKARD (2)	6053.0	22	17989.0	23	347.0	28	1123.0	28	5.7	5.5	15.1	17	5.49
INTERGRAPH	262.2	5	744.7	-5	-17.5	NM	-51.7	NM	NM	NM	-21.9	NM	-2.69
INTERNATIONAL BUSINESS MACHINES	15432.0	5	44156.0	2	710.0	NM	1790.0	NM	4.6	NM	10.2	21	3.58
MAXTOR (9)	174.4	-44	653.1	-29	-54.7	NM	-71.4	NM	NM	NM	NM	NM	-5.57
QUANTUM (9)	726.2	47	2086.4	41	48.6	NM	145.3	NM	6.7	NM	28.8	5	3.24
SEAGATE TECHNOLOGY (6)	933.1	21	2843.5	24	22.5	-38	168.8	55	2.4	4.7	15.8	9	2.87
SILICON GRAPHICS (6)	427.4	42	1237.0	39	41.8	63	120.4	54	9.8	8.5	17.7	29	1.02
STORAGE TECHNOLOGY	412.3	34	1108.8	10	18.6	NM	13.3	NM	4.5	NM	0.7	NM	0.18
SUN MICROSYSTEMS (6)	1273.4	33	3872.2	15	38.4	131	173.8	20	3.0	1.7	12.9	14	2.28
TANDEM COMPUTERS (3)	604.4	9	1632.5	6	71.0	NM	145.3	NM	11.7	0.6	18.1	12	1.50
3COM (7)	249.3	54	708.9	44	28.5	9	-47.8	NM	11.4	16.1	-8.9	NM	-0.45
UNISYS	1788.1	-1	5276.2	-6	42.9	-49	160.5	-34	2.4	4.7	14.2	11	0.93
WESTERN DIGITAL (6)	464.6	63	1347.7	50	34.7	NM	100.5	NM	7.5	NM	34.6	6	2.48
XEROX	3636.0**	4	10491.0	3	186.0	8	483.0	25	5.1	5.0	-4.8	NM	-1.65
(C) COMPUTER SOFTWARE & SERVICES													
GROUP COMPOSITE	**9051.7**	**24**	**26212.8**	**20**	**1005.5**	**77**	**3200.7**	**35**	**11.1**	**7.7**	**22.8**	**28**	**1.49**
AUTOMATIC DATA PROCESSING (6)	622.3**	13	1961.6	11	68.7	17	264.1	15	11.0	10.6	20.4	24	2.44
CABLETRON SYSTEMS (10)	194.0	37	542.9	37	38.5	36	108.2	37	19.8	19.9	28.0	24	1.96
CERIDIAN	242.4	16	682.2	3	19.2	79	57.8	81	7.9	5.1	-4.4	NM	-0.19
CIRRUS LOGIC (9)	202.2	59	557.4	68	12.4	88	42.6	682	6.2	5.2	16.5	15	2.12
CISCO SYSTEMS (5)	361.2	76	994.5	90	89.6	67	251.4	81	24.8	26.2	37.1	23	1.19
COMPUTER ASSOCIATES INTERNATIONAL (9)	623.3	21	1733.7	17	130.4	49	203.6	-6	20.9	16.9	29.4	26	1.92
COMPUTER SCIENCES (9)	788.5	27	2257.5	20	22.9	25	77.6	24	2.9	2.9	11.9	23	1.91
ELECTRONIC DATA SYSTEMS	2522.5	22	7049.5	14	216.4	13	585.4	12	8.6	9.3	20.1	22	1.64
FIRST DATA	432.4	14	1217.8	10	53.9	20	144.2	20	12.5	11.8	19.1	28	1.77
GTECH HOLDINGS (10)	178.8	22	523.3	19	10.2	-23	39.1	1	5.7	9.0	20.3	17	1.21
LOTUS DEVELOPMENT	235.2	-2	706.2	0	-66.4	NM	-35.3	NM	NM	7.6	-1.1	NM	-0.12
MICROSOFT (6)	1247.0	27	3784.0	27	316.0	32	934.0	25	25.3	24.3	27.6	30	2.00
NOVELL (2)	488.9	13	1512.1	14	-4.5	NM	186.4	NM	NM	NM	17.7	22	0.73
ORACLE SYSTEMS (7)	556.5	40	1707.4	38	61.2	64	245.4	81	11.0	9.4	39.4	43	1.05
SYBASE	183.4	63	479.5	66	19.4	76	46.7	77	10.6	9.8	21.4	41	1.20
SYNOPTICS COMMUNICATIONS	173.1	-6	503.1	-3	17.6	208	49.6	-5	10.2	3.1	18.7	NA	1.07
19 PAPER & FOREST PRODUCTS													
INDUSTRY COMPOSITE	23962.4	12	67884.8	6	854.8	NM	2025.6	NM	3.6	NM	5.8	35	1.23
(A) FOREST PRODUCTS													
GROUP COMPOSITE	**6654.9**	**14**	**18930.6**	**8**	**207.3**	**927**	**504.2**	**61**	**3.1**	**0.3**	**6.8**	**33**	**1.35**
BOISE CASCADE	1090.0	9	3031.5	2	-31.7	NM	-88.5	NM	NM	NM	-18.6	NM	-4.38
GEORGIA-PACIFIC	3283.0	10	9440.0	3	87.0	NM	157.0	772	2.7	NM	5.1	57	1.36
LOUISIANA-PACIFIC	818.4	30	2291.1	22	95.1	129	262.2	35	11.6	6.6	19.0	11	2.92
POPE & TALBOT	171.3	13	497.9	6	0.9	-30	12.3	-28	0.5	0.9	7.3	14	1.34
RAYONIER	286.0	26	794.5	14	16.4	112	52.2	6	5.7	3.4	8.8	NA	NA
UNIVERSAL FOREST PRODUCTS	225.5**	42	686.4	41	1.9	149	8.6	3	0.9	0.5	15.1	13	0.60
WILLAMETTE INDUSTRIES	780.8	15	2189.2	11	37.7	79	100.3	28	4.8	3.1	10.2	20	2.41


01:明下午五点
送货，货到付款。
MOTOROLA

■ Two-way • Paging • Satellite Communications • **COMMUNICATIONS** • Cellular • CT2 Products • Wireless LANs • Modems ■

Automotive Electronic Components and Systems • **CONTROL** • IVHS Products • Electronic Ballasts

■ Semiconductors • Integrated Circuits • Memories • **COMPONENTS** • Embedded Controllers • Microprocessors ■

Software • Network Management Systems • **COMPUTING** • Microcomputer Boards • Multi-User Systems

ONE SMALL WAY MOTOROLA IS HELPING BUSINESS BOOM IN BEIJING. To meet the demands of their fast-growing economy, the Chinese have added a new dimension to the way they communicate. At the heart of it: our cost-efficient Motorola pager. One that receives complete messages–words as well as numbers. Because wireless communications can be put in place so quickly, Motorola is helping emerging markets dramatically speed their economic development. From the cellular phones that are helping Brazilian businesses on the move to the radio systems linking Poland's new entrepreneurs with their people in the field, quality Motorola products are revving up the engines of commerce around the world.

MOTOROLA

Quality Means The World To Us.™

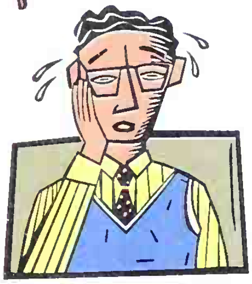
Ⓜ and *Motorola* are registered trademarks of Motorola, Inc. © 1994 Motorola, Inc.

CORPORATE SCOREBOARD

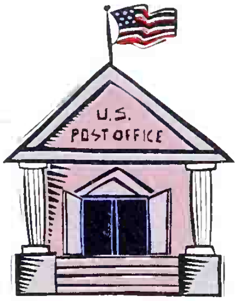
COMPANY	SALES				PROFITS								
									MARGINS				
	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 %	3RD QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-21	12 MONTHS EARNING PER SHARE
(B) PAPER													
GROUP COMPOSITE	**17307.5**	**11**	**48954.2**	**5**	**647.4**	**NM**	**1521.3**	**NM**	**3.7**	**NM**	**5.5**	**35**	**1.19**
BOWATER	348.2	4	977.1	–4	10.5	NM	–25.8	NM	3.0	NM	–4.9	NM	–0.92
CHAMPION INTERNATIONAL	1384.7	11	3852.8	2	23.1	NM	–39.0	NM	1.7	NM	–3.4	NM	–1.05
CHESAPEAKE	266.9	12	715.8	5	15.1	481	23.4	655	5.7	1.1	8.4	26	1.30
CONSOLIDATED PAPERS	272.9	19	738.9	1	19.5	167	58.1	15	7.1	3.2	7.6	29	1.64
FORT HOWARD	340.1	10	930.7	4	0.3	NM	–16.9	NM	0.1	NM	NM	NA	–3.55
INTERNATIONAL PAPER	3800.0	12	10800.0	5	109.0	127	268.0	42	2.9	1.4	5.8	27	2.96
JAMES RIVER CORP. OF VIRGINIA	1444.8	22	3748.4	7	–0.1	NM	5.7	19	NM	0.1	–2.6	NM	–0.47
KIMBERLY-CLARK	1836.8	3	5443.4	5	141.8	28	429.5	16	7.7	6.2	21.9	14	3.55
MANVILLE	681.4	13	1849.1	9	29.0	147	57.0	–17	4.3	1.9	3.2	46	0.20
MEAD	1208.2	8	3381.7	4	41.6	118	102.2	22	3.4	1.7	7.4	24	2.06
POTLATCH	373.3	10	1083.7	6	10.7	NM	22.1	–3	2.9	NM	4.1	30	1.29
SCOTT PAPER	1172.0	0	3449.1	–2	60.6	146	126.0	76	5.2	2.1	–14.4	NM	–3.20
UNION CAMP	856.3	10	2473.6	6	21.7	345	58.9	81	2.5	0.6	4.2	44	1.09
WESTVACO (2)	641.3	9	1845.0	7	20.2	–10	52.3	–17	3.1	3.8	2.5	53	0.69
WEYERHAEUSER	2680.7	20	7664.9	10	144.4	117	399.8	–6	5.4	3.0	12.3	17	2.45
20 PUBLISHING & BROADCASTING													
INDUSTRY COMPOSITE	**11584.8**	**12**	**33901.0**	**10**	**967.8**	**102**	**2527.7**	**44**	**8.4**	**4.6**	**15.4**	**24**	**1.94**
(A) BROADCASTING													
GROUP COMPOSITE	**2380.9**	**7**	**7775.1**	**13**	**210.6**	**0**	**731.7**	**17**	**8.8**	**9.5**	**17.2**	**19**	**2.99**
CAPITAL CITIES/ABC	1461.9	12	4405.0	12	133.7	71	439.2	46	9.1	6.0	15.5	20	3.90
CBS	726.3	–4	2855.9	16	58.4	–51	237.0	–15	8.0	15.7	20.8	17	3.55
GAYLORD ENTERTAINMENT	192.6	10	514.2	10	18.6	25	55.5	30	9.6	8.5	23.3	24	0.87
(B) PUBLISHING													
GROUP COMPOSITE	**9204.0**	**14**	**26125.9**	**9**	**757.2**	**183**	**1796.0**	**59**	**8.2**	**3.3**	**14.7**	**25**	**1.69**
BELO (A. H.)	159.6	20	446.6	12	15.7	98	45.3	45	9.9	6.0	15.5	17	2.88
DOW JONES	501.0	7	1524.4	7	33.7	14	122.9	22	6.7	6.3	11.3	18	1.70
DUN & BRADSTREET	1203.4	4	3487.3	3	166.7	5	420.0	4	13.9	13.7	39.5	22	2.62
GANNETT	932.4	6	2775.9	4	105.5	19	316.0	18	11.3	10.1	22.0	16	3.05
HOUGHTON MIFFLIN	230.3	10	396.8	5	47.6	15	59.5	91	20.7	19.9	26.4	11	4.32
KNIGHT-RIDDER	642.6	8	1935.0	8	37.2	19	117.7	22	5.8	5.3	13.7	16	3.09
McGRAW-HILL	855.5	54	2063.6	36	90.2	NM	153.2	NM	10.5	NM	24.1	18	4.00
MEREDITH (6)	200.1	10	612.8	5	10.7	210	22.9	64	5.3	1.9	13.3	20	2.44
NEW YORK TIMES	527.2	18	1752.2	27	120.6	NM	172.7	471	22.9	NM	9.3	16	1.40
SCRIPPS (E. W.)	296.0	1	889.3	1	26.1	86	99.0	44	8.8	4.8	17.6	14	2.12
TIME WARNER †	1884.0	23	5109.0	11	–32.0	NM	–103.0	NM	NM	NM	–8.9	NM	–0.29
TIMES MIRROR	858.7	6	2400.1	2	39.8	161	79.4	68	4.6	1.9	5.4	42	0.79
TRIBUNE	513.3	5	1569.9	9	47.8	24	172.9	32	9.3	7.9	20.4	16	3.16
WASHINGTON POST	399.8	10	1163.1	6	47.5	6	117.5	6	11.9	12.3	14.7	17	13.74
21 SERVICE INDUSTRIES													
INDUSTRY COMPOSITE	**23689.1**	**13**	**67695.2**	**12**	**848.2**	**NM**	**2514.3**	**66**	**3.6**	**NM**	**13.9**	**20**	**1.31**
(A) CONSTRUCTION & ENGINEERING													
GROUP COMPOSITE	**3953.6**	**2**	**11587.6**	**2**	**13.8**	**–83**	**126.9**	**–44**	**0.3**	**2.0**	**9.2**	**29**	**1.09**
APOGEE ENTERPRISES (10)	186.0	6	544.3	15	4.3	76	3.9	10	2.3	1.4	5.9	33	0.51
BUTLER MFG.	189.6	16	482.1	15	6.6	60	10.3	94	3.5	2.5	34.8	7	4.75
EG&G	336.9	1	992.5	1	–56.9	NM	–40.2	NM	NM	3.1	–3.3	NM	–0.30
FLUOR (2)	1963.1	6	6100.3	8	48.3	18	140.0	18	2.5	2.2	16.2	21	2.28
FOSTER WHEELER	542.6**	–15	1600.2	–15	14.7	21	46.7	19	2.7	1.9	14.9	20	1.82
MORRISON KNUDSEN	735.5**	0	1868.2	–4	–3.2	NM	–34.0	NM	NM	1.3	–6.1	NM	–0.72
(B) INDUSTRIAL DISTRIBUTION													
GROUP COMPOSITE	**6555.6**	**16**	**18948.2**	**17**	**182.5**	**29**	**617.1**	**18**	**2.8**	**2.5**	**14.6**	**19**	**1.59**
ANTHEM ELECTRONICS	165.2	–6	506.8	6	5.3	–7	16.1	–8	3.2	3.3	7.4	23	1.34
ARROW ELECTRONICS	996.3	26	2886.3	38	16.5	–30	72.0	12	1.7	3.0	18.2	13	2.74
BEARINGS (6)	247.6	11	734.9	13	3.0	26	11.0	36	1.2	1.1	8.8	18	1.78
CHEMED	166.1	19	479.5	24	3.6	–13	15.0	14	2.2	3.0	12.6	18	1.93
GENUINE PARTS	1268.4	11	3650.3	11	72.9	16	206.8	12	5.8	5.5	18.6	16	2.25
GETTY PETROLEUM (11)	180.0	–8	537.2	–13	–3.4	NM	4.5	–46	NM	0.3	6.0	27	0.43
GRAINGER (W. W.)	779.3	12	2254.2	15	43.0	11	126.9	17	5.5	5.5	16.7	17	3.28
HUGHES SUPPLY (11)	202.6	24	556.0	24	3.0	75	6.7	98	1.5	1.0	7.0	11	1.67
KAMAN	199.2**	–2	606.2	2	4.9	NM	13.7	NM	2.5	NM	8.7	11	0.83
MARSHALL INDUSTRIES (7)	223.1	12	645.2	18	8.7	17	25.8	33	3.9	3.7	13.9	13	1.98
PIONEER-STANDARD ELECTRONICS (9)	194.4	42	537.4	38	5.6	18	17.1	33	2.9	3.5	20.3	12	1.45
PREMIER INDUSTRIAL (7)	198.4	12	577.0	9	25.4	15	73.5	9	12.8	12.4	23.1	22	1.14
STAPLES (11)	385.8	35	1111.8	31	3.3	NM	20.0	89	0.9	NM	11.3	56	0.60
UNITED STATIONERS (4)	372.4	3	1102.4	0	3.7	–36	9.8	–40	1.0	1.6	6.4	12	0.85
UNIVAR (10)	496.8	5	1410.3	2	–19.1	NM	–17.8	NM	NM	0.4	–9.9	NM	–0.83
WILLCOX & GIBBS	275.8	99	784.9	108	2.8	31	7.4	60	1.0	1.5	7.5	18	0.42
WYLE LABORATORIES	204.1	27	567.8	27	3.1	11	8.6	–16	1.5	1.7	NA	NA	NA

Smart Solution
#78 Express Mail

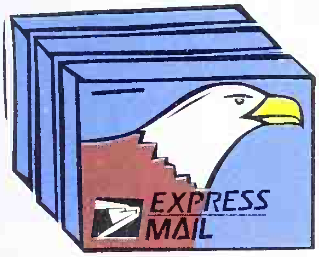
Person has to deliver football jerseys overnight.



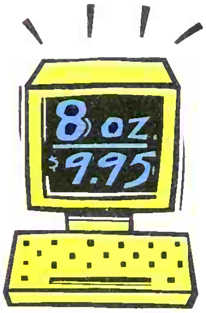
Can't afford a fumble.



Goes to Post Office.



Finds out Express Mail is a very smart solution.



Doesn't cost much.

Guarantees overnight delivery.*

Jerseys arrive on time.

Team is victorious.

Person avoids getting sacked.

For more information on Express Mail and other Smart Solutions,℠ call 1-800-THE-USPS, ext. 1128.

*Postage refunded upon application if delivery is not made or not attempted by noon or 3 p.m., depending on destination. Some restrictions apply. Check your Post Office for details.

©1994 USPS

We Deliver Overnight For You.

SE43

UNITED STATES
POSTAL SERVICE™

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS				
	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 %	3RD QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-21	12 MONTHS EARNINGS PER SHARE
(C) POLLUTION CONTROL													
GROUP COMPOSITE	**4871.4**	**17**	**13756.7**	**14**	**326.8**	**NM**	**897.3**	**362**	**6.7**	**NM**	**14.1**	**20**	**1.21**
BROWNING-FERRIS INDUSTRIES (3)	1241.5	34	3386.2	29	82.3	55	225.0	39	6.6	5.7	12.4	21	1.52
CHEMICAL WASTE MANAGEMENT	583.9	8	1690.7	8	15.0	NM	46.6	NM	2.6	NM	8.5	32	0.30
RUST INTERNATIONAL	443.0	14	1240.8	10	16.6	-20	47.1	-20	3.8	5.4	7.3	16	0.83
WMX TECHNOLOGIES	2603.1	12	7438.9	10	212.9	NM	578.6	100	8.2	NM	17.5	19	1.54
(D) PRINTING & ADVERTISING													
GROUP COMPOSITE	**1926.4**	**9**	**5518.9**	**9**	**104.1**	**44**	**283.6**	**63**	**5.4**	**4.1**	**16.1**	**18**	**1.66**
ADVO (3)	242.9	4	728.7	7	6.6	NM	17.9	NM	2.7	NM	25.1	17	1.05
DONNELLEY (R. R.)	1243.0	11	3431.2	11	80.1	15	181.2	81	6.4	6.2	13.6	19	1.69
INTERPUBLIC GROUP	440.5**	7	1359.0	6	17.4	18	84.5	13	4.0	3.6	22.4	18	1.79
(E) OTHER SERVICES													
GROUP COMPOSITE	**6382.1**	**18**	**17883.9**	**15**	**221.0**	**88**	**589.3**	**47**	**3.5**	**2.2**	**14.3**	**21**	**1.15**
ABM INDUSTRIES (2)	225.0**	17	651.7	15	4.1	23	10.3	22	1.8	1.8	11.7	13	1.59
ADIA SERVICES	314.1	30	873.5	30	8.6	58	20.6	51	2.8	2.3	11.9	17	2.18
CDI	288.7	24	802.8	17	6.6	125	15.0	178	2.3	1.3	14.0	18	0.88
EMPHESYS FINANCIAL GROUP	366.3	11	1079.2	12	17.3	-25	50.6	5	4.7	7.0	28.5	7	4.88
HANDLEMAN (8)	212.5	10	762.6	-2	0.9	NM	15.9	-28	0.4	NM	10.6	13	0.94
INACOM	459.2	16	1267.1	15	0.5	-75	-4.8	NM	0.1	0.5	-1.2	NM	-0.15
INTERIM SERVICES (9)	161.9	22	449.7	21	3.9	20	9.7	35	2.4	2.5	7.4	22	1.17
KELLY SERVICES	630.2	22	1731.2	19	19.3	38	42.9	39	3.1	2.7	14.0	18	1.49
MANPOWER	1241.3	42	3040.7	29	33.6	NM	57.0	NM	2.7	NM	52.4	35	0.82
MID ATLANTIC MEDICAL SERVICES	188.3	18	548.5	14	13.6	125	38.9	170	7.2	3.8	46.4	23	1.07
PHH (8)	515.5	-4	1566.3	2	16.5	12	50.1	9	3.2	2.7	13.0	10	3.75
PINKERTON'S	198.3	13	583.7	15	1.8	971	3.3	8	0.9	0.1	3.1	47	0.42
ROLLINS	158.0	4	466.3	5	13.0	11	41.0	12	8.2	7.7	27.0	17	1.36
SAFETY-KLEEN	182.1	0	542.3	-2	12.2	110	33.4	34	6.7	3.2	-24.7	NM	-1.61
SERVICE CORP. INTERNATIONAL	277.8	31	801.9	23	28.6	44	96.2	31	10.3	9.4	13.4	18	1.47
SERVICEMASTER	797.0	6	2246.1	9	38.1	20	103.0	-10	4.8	4.2	43.4	14	1.73
VOLT INFORMATION SCIENCES (2)	165.9	19	470.2	19	2.3	NM	6.1	NM	1.4	NM	6.9	20	1.21
22 TELECOMMUNICATIONS													
INDUSTRY COMPOSITE	55771.7	7	162871.2	7	4970.1	24	15038.5	24	8.9	7.7	14.5	21	1.89
(A) EQUIPMENT & SERVICES													
GROUP COMPOSITE	**26886.5**	**10**	**77853.5**	**9**	**1696.5**	**21**	**5639.8**	**44**	**6.3**	**5.7**	**21.5**	**20**	**2.12**
AIRTOUCH COMMUNICATIONS †	290.4	14	826.9	10	34.4	125	95.0	273	11.8	6.0	3.2	NM	0.22
AT&T	18649.0	8	53984.0	7	1050.0	3	3372.0	15	5.6	5.9	27.8	19	2.88
COMSAT	200.8	12	609.2	9	21.4	10	63.2	0	10.7	10.8	10.2	13	1.78
DSC COMMUNICATIONS	260.6	39	691.0	35	43.2	85	109.1	106	16.6	12.4	19.1	24	1.20
LIN BROADCASTING †	225.0	28	636.2	28	38.0	NM	529.6	NM	16.9	NM	300.3	13	10.13
MCI COMMUNICATIONS	3407.0	12	9937.0	13	220.0	26	644.0	24	6.5	5.7	14.9	18	1.29
PACIFIC TELECOM	194.4	7	530.8	1	29.7	112	63.1	49	15.3	7.7	12.4	13	2.02
SCIENTIFIC-ATLANTA (6)	232.3	36	695.6	28	12.1	69	44.6	89	5.2	4.2	10.1	43	0.52
SPRINT	3233.8	13	9417.4	12	230.1	68	677.1	133	7.1	4.8	20.4	14	2.49
TELEPHONE & DATA SYSTEMS †	193.1	29	525.5	29	17.6	48	42.2	52	9.1	8.0	3.4	56	0.86
(B) TELEPHONE COMPANIES													
GROUP COMPOSITE	**28885.2**	**4**	**85017.6**	**4**	**3273.6**	**26**	**9398.7**	**14**	**11.3**	**9.4**	**11.3**	**22**	**1.74**
ALLTEL	745.3	30	2189.3	30	79.7	21	227.8	18	10.7	11.5	18.2	17	1.56
AMERITECH	3121.4	6	9258.2	6	250.9	-41	741.3	-34	8.0	14.4	14.2	19	2.08
BELL ATLANTIC	3415.3	4	10182.6	5	275.7	-29	1087.0	-5	8.1	11.8	16.8	16	3.26
BELLSOUTH	4197.7	5	12449.9	6	499.5	13	1601.3	24	11.9	11.0	9.5	20	2.71
CINCINNATI BELL	312.9	13	904.8	13	20.1	29	54.5	9	6.4	5.6	-9.9	NM	-0.86
GTE	4995.0	1	14696.0	0	659.0	18	1758.0	21	13.2	11.3	13.1	23	1.33
NYNEX	3330.8	0	9915.7	-1	302.5	1	594.3	-39	9.1	9.0	-7.6	NM	-1.58
PACIFIC TELESIS GROUP	2329.0	-1	6879.0	-1	314.0	2	874.0	47	13.5	13.1	9.1	28	1.10
ROCHESTER TELEPHONE	243.1	5	736.7	11	26.2	36	83.5	46	10.8	8.3	13.9	15	1.52
SOUTHERN NEW ENGLAND TELECOMMS.	429.6**	4	1280.6	4	47.2	-3	136.0	8	11.0	11.8	-3.7	NM	-0.54
SBC COMMUNICATIONS	3000.1	7	8410.9	8	480.8	18	1224.0	17	16.0	14.6	20.5	15	2.67
US WEST	2765.0	7	8114.0	6	318.0	NM	1017.0	380	11.5	NM	19.1	13	2.87
23 TRANSPORTATION													
INDUSTRY COMPOSITE	38707.4	7	110573.4	6	1654.8	98	3235.2	78	4.3	2.3	9.5	21	1.68
(A) AIRLINES													
GROUP COMPOSITE	**18090.5**	**3**	**51260.3**	**3**	**462.5**	**37**	**154.1**	**NM**	**2.6**	**1.9**	**-13.8**	**NM**	**-1.70**
ALASKA AIR GROUP	386.8	20	997.7	17	24.3	202	27.6	NM	6.3	2.5	3.7	31	0.55
AMR	4233.0	1	12142.0	-1	205.0	64	351.0	134	4.8	3.0	1.1	NM	0.48
CONTINENTAL AIRLINES	1513.7	-3	4260.7	NA	30.6	146	-89.9	NA	2.0	0.8	-20.4	NM	-5.16
DELTA AIR LINES (6)	3157.0	1	9117.0	1	72.0	18	-256.3	NM	2.3	1.9	-34.2	NM	-9.96
NORTHWEST AIRLINES	2550.0	7	6950.0	7	170.0	54	259.6	NM	6.7	4.6	NM	7	2.72

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS				
	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 %	3RD QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-21	12 MONTHS' EARNINGS PER SHARE
SOUTHWEST AIRLINES	685.3	10	1965.8	16	58.6	20	159.0	37	8.6	7.9	17.1	17	1.34
UAL	3814.0	5	10511.0	5	82.0	–45	66.0	94	2.2	4.1	–3.2	NM	–1.77
USAIR GROUP	1750.8	0	5316.2	1	–180.1	NM	–362.9	NM	NM	NM	NM	NM	–9.35
(B) RAILROADS													
GROUP COMPOSITE	**9558.1**	**9**	**27819.1**	**7**	**888.9**	**259**	**2424.8**	**59**	**9.3**	**2.8**	**15.9**	**13**	**3.28**
BURLINGTON NORTHERN	1249.0	9	3651.0	6	115.0	379	284.0	60	9.2	2.1	22.4	12	4.22
CONRAIL	949.0	11	2747.0	8	106.0	NM	175.0	37	11.2	NM	9.5	16	3.34
CSX	2470.0	10	7068.0	7	177.0	181	413.0	99	7.2	2.8	16.7	13	5.40
KANSAS CITY SOUTHERN INDUSTRIES	273.4**	8	805.7	15	28.6	23	88.0	32	10.5	9.2	19.0	13	2.62
NORFOLK SOUTHERN	1171.2**	8	3409.4	1	168.3	77	491.7	26	14.4	8.7	13.9	13	4.74
SANTA FE PACIFIC	680.2	16	1969.9	11	50.5	NM	153.1	23	7.4	NM	18.2	12	1.17
SOUTHERN PACIFIC RAIL	807.3	7	2362.1	9	33.5	NM	97.0	NM	4.2	NM	11.5	25	0.68
UNION PACIFIC	1958.0	6	5806.0	7	210.0	94	723.0	51	10.7	5.9	18.3	11	4.66
(C) TRANSPORTATION SERVICES													
GROUP COMPOSITE	**5469.9**	**12**	**15837.9**	**11**	**187.1**	**59**	**501.6**	**157**	**3.4**	**2.4**	**12.0**	**15**	**2.51**
AIRBORNE FREIGHT	489.7	13	1440.8	15	8.1	–26	28.2	35	1.7	2.5	11.0	13	2.00
AVIALL	214.7	–5	626.1	–7	3.3	–39	5.8	NM	1.6	2.4	3.1	NA	NA
FEDERAL EXPRESS (7)	2231.1	11	6573.3	10	61.1	86	173.0	78	2.7	1.6	11.7	15	4.13
GATX	298.9**	7	844.0	5	25.3	116	66.4	18	8.5	4.2	11.1	12	3.44
PITTSTON SERVICES GROUP	485.2**	20	1358.2	18	25.0	63	56.8	79	5.2	3.8	16.6	15	1.91
RYDER SYSTEM	1194.7	14	3442.9	10	42.0	79	115.5	37	3.5	2.3	13.8	13	1.86
TRINITY INDUSTRIES (9)	555.5	20	1552.5	24	22.2	25	55.9	13	4.0	3.8	12.7	18	1.84
(D) TRUCKING & SHIPPING													
GROUP COMPOSITE	**5588.9**	**10**	**15656.2**	**9**	**116.3**	**–13**	**154.7**	**–49**	**2.1**	**2.6**	**6.3**	**28**	**0.89**
ALEXANDER & BALDWIN	301.1**	6	846.6	24	13.8	76	51.7	19	4.6	2.8	12.1	15	1.64
AMERICAN PRESIDENT	672.1**	7	2028.8	10	22.5	–12	51.7	–12	3.3	4.1	13.2	10	2.33
ARKANSAS BEST	294.3	10	770.0	4	9.2	5	11.4	–26	3.1	3.3	6.3	20	0.66
CAROLINA FREIGHT	203.3	2	659.2	13	1.0	NM	7.7	NM	0.5	NM	4.8	12	0.91
CONSOLIDATED FREIGHTWAYS	1236.5	16	3399.5	10	20.3	19	40.7	21	1.6	1.6	7.6	22	1.04
GREYHOUND LINES	185.7	–5	470.7	–8	–7.4	NM	–68.8	NM	NM	6.9	–82.4	NM	–5.10
HUNT (J. B.) TRANSPORT SERVICES	313.9	24	876.3	15	12.3	40	29.6	8	3.9	3.5	11.3	16	1.06
LANDSTAR SYSTEM	247.6	23	704.9	24	7.1	59	17.1	98	2.9	2.2	24.3	19	1.72
ROADWAY SERVICES	1091.5	11	3045.4	10	11.6	–60	5.8	–92	1.1	3.0	4.8	46	1.23
TNT FREIGHTWAYS	273.6	16	745.2	12	12.7	38	22.9	7	4.6	3.9	15.9	19	1.36
YELLOW	769.3	1	2109.6	1	13.2	26	–15.1	NM	1.7	1.4	–0.7	NM	–0.11
24 UTILITIES & POWER													
INDUSTRY COMPOSITE	44351.0	0	128595.3	4	5458.3	12	12998.6	5	12.3	11.0	10.2	13	1.72
(A) ELECTRIC, WATER & COGENERATION													
GROUP COMPOSITE	**39439.7**	**0**	**111606.1**	**3**	**5271.5**	**9**	**12073.9**	**4**	**13.4**	**12.2**	**10.1**	**13**	**1.74**
ALLEGHENY POWER SYSTEM	595.3	2	1868.9	7	57.1	–3	188.5	5	9.6	10.1	11.2	11	1.90
AMERICAN ELECTRIC POWER	1385.0	–2	4221.7	7	153.1	NM	436.4	72	11.1	0.3	12.9	11	2.93
BALTIMORE GAS & ELECTRIC	753.9	–5	2172.8	4	126.6	–19	275.5	–1	16.8	19.8	10.0	13	1.82
BOSTON EDISON	449.1	3	1195.2	5	70.2	0	114.0	5	15.6	16.1	12.3	10	2.39
CAROLINA POWER & LIGHT	805.6	–6	2237.3	0	120.3	1	267.3	–5	14.9	13.9	12.1	12	2.10
CENTERIOR ENERGY	667.0	–6	1851.0	–2	108.7	212	218.5	60	16.3	4.9	–48.2	NM	–5.83
CENTRAL MAINE POWER	233.5	3	686.9	4	14.1	4	40.8	–16	6.0	6.0	7.7	8	1.33
CIPSCO	216.3	–8	644.4	1	35.1	–14	70.1	–3	16.2	17.4	13.2	11	2.45
CMS ENERGY	767.0	1	2705.0	6	47.0	38	165.0	21	6.1	4.5	16.5	11	2.03
CONSOLIDATED EDISON CO. OF N. Y.	1822.0	1	4911.8	3	339.9	5	616.4	14	18.7	18.1	13.7	8	2.98
DESTEC ENERGY	162.2	6	520.3	19	31.7	48	80.5	19	19.6	14.0	16.6	6	1.90
DETROIT EDISON	944.4	–3	2716.7	1	124.4	–19	324.5	–17	13.2	15.7	12.8	9	2.90
DOMINION RESOURCES	1209.8	–6	3486.5	3	172.7	–18	470.7	3	14.3	16.3	11.6	12	3.14
DPL	267.9	1	905.0	6	39.0	11	133.5	7	14.6	13.3	13.5	13	1.49
DQE	345.4	1	968.9	5	50.1	–1	123.5	3	14.5	14.8	11.8	11	2.79
DUKE POWER	1215.8	–6	3303.0	1	243.7	1	545.4	8	20.0	18.7	13.9	13	3.00
FLORIDA PROGRESS	745.0	–3	2055.8	13	77.6	–9	171.3	1	10.4	11.1	10.4	13	2.21
FPL GROUP	1512.9	–6	4103.8	0	232.1	53	472.2	26	15.3	9.4	12.9	11	2.91
GENERAL PUBLIC UTILITIES	994.7	0	2805.4	3	116.8	–12	125.4	–56	11.7	13.4	5.6	21	1.22
HAWAIIAN ELECTRIC INDUSTRIES	319.2	7	868.8	1	24.5	38	57.5	17	7.7	5.9	10.6	13	2.49
IES INDUSTRIES	207.3	–2	590.1	–1	28.2	0	54.7	1	13.6	13.3	11.9	11	2.40
ILLINOVA	428.9	–5	1221.4	2	71.8	NM	140.5	NM	16.7	NM	9.2	11	1.76
IPALCO ENTERPRISES	183.7	0	526.0	4	29.7	152	77.8	30	16.2	6.4	11.8	12	2.48
KANSAS CITY POWER & LIGHT	253.8	–1	676.2	3	50.1	12	84.8	–2	19.7	17.5	11.8	14	1.63
MIDWEST RESOURCES	241.3	–3	803.6	2	21.5	–39	62.4	–16	8.9	14.2	10.2	11	1.28
MONTANA POWER	249.0**	1	780.6	2	18.3	52	68.2	19	7.3	4.9	12.0	11	2.11
NEVADA POWER	268.4	16	608.8	20	50.5	7	78.4	11	18.8	20.3	11.7	11	1.84
NEW ENGLAND ELECTRIC SYSTEM	591.6	3	1685.6	1	61.0	4	168.2	23	10.3	10.2	14.3	9	3.44
NEW YORK STATE ELECTRIC & GAS	432.5	9	1386.3	6	31.0	–5	128.0	0	7.2	8.2	8.9	9	2.06
NIAGARA MOHAWK POWER	918.8	4	3134.1	6	48.4	0	254.4	6	5.3	5.5	9.9	7	1.78
NORTHEAST UTILITIES	923.7	1	2744.5	1	75.8	30	254.3	61	8.2	6.4	13.1	10	2.40
NORTHERN STATES POWER	612.3	2	1877.7	5	76.1	12	194.7	23	12.4	11.2	12.7	13	3.53
OHIO EDISON	614.4	–2	1801.1	1	89.9	0	234.9	0	14.6	14.4	–0.1	NM	0.02
ORANGE & ROCKLAND UTILITIES	239.2	1	761.6	6	16.4	–5	33.8	–13	6.8	7.3	9.9	11	2.68
PACIFIC GAS & ELECTRIC	2855.2	–3	7809.2	–1	425.6	20	904.0	5	14.9	12.1	12.4	9	2.45

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS				
	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	9 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	3RD QUARTER 1994 %	3RD QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-21	12 MONTHS EARNINGS PER SHARE
PACIFICORP	915.0	6	2616.4	4	131.8	25	341.6	10	14.4	12.2	12.4	11	1.47
PECO ENERGY	1041.1	-3	3121.1	2	22.2	-88	297.6	-34	2.1	16.9	9.0	14	1.78
PENNSYLVANIA POWER & LIGHT	661.1	-3	2070.8	2	77.0	-6	244.6	-9	11.6	12.0	12.0	10	1.94
PINNACLE WEST CAPITAL	583.9	9	1391.5	5	99.9	6	184.7	5	17.1	17.6	10.8	9	2.07
PORTLAND GENERAL	214.2	2	694.3	2	14.5	56	76.8	18	6.8	4.5	12.1	9	2.06
POTOMAC ELECTRIC POWER	607.5	-1	1468.0	7	134.7	-7	213.4	-9	22.2	23.6	10.6	11	1.73
PUBLIC SERVICE ENTERPRISE GROUP	1375.0	-2	4447.8	5	197.3	-2	577.8	5	14.4	14.4	11.8	10	2.54
PUGET SOUND POWER & LIGHT	264.3	15	857.1	8	14.9	-17	79.2	-20	5.6	7.9	8.7	13	1.62
ROCHESTER GAS & ELECTRIC	230.0	6	757.1	9	4.9	-76	48.8	-13	2.1	9.3	8.6	12	1.71
SAN DIEGO GAS & ELECTRIC	491.5	-1	1458.9	0	59.8	1	86.4	-47	12.2	11.9	9.3	17	1.16
SCANA	361.3	1	1004.7	4	51.2	-22	133.4	-5	14.2	18.4	11.7	13	3.41
SCECORP	2678.1	10	6265.4	5	282.9	28	577.1	8	10.6	9.1	11.5	9	1.53
SIERRA PACIFIC RESOURCES	158.2	22	448.1	14	15.3	-2	43.9	15	9.7	11.9	10.1	12	1.74
SOUTHERN	2381.1	-10	6382.0	-2	437.9	-6	878.8	-6	18.4	17.6	12.1	13	1.46
SOUTHWESTERN PUBLIC SERVICE (4)	254.8	4	640.4	4	39.0	5	76.1	-6	15.3	15.2	14.3	11	2.38
TECO ENERGY	366.6	1	1026.5	7	55.5	5	132.7	13	15.1	14.5	15.7	14	1.43
TUCSON ELECTRIC POWER	234.1	16	570.2	13	40.7	82	30.5	NM	17.4	11.1	NM	42	0.08
UNICOM	1855.3	-1	4812.2	1	263.7	-3	276.3	-27	14.2	14.5	-1.3	NM	-0.31
WHEELABRATOR TECHNOLOGIES	334.7	18	937.7	16	49.4	38	138.1	16	14.8	12.6	13.2	15	0.96
(B) GAS, OIL & TRANSMISSION													
GROUP COMPOSITE	**4911.4**	**4**	**16989.1**	**8**	**186.8**	**782**	**924.7**	**14**	**3.8**	**0.5**	**11.4**	**17**	**1.54**
EL PASO NATURAL GAS	209.4	-15	642.2	-5	21.1	15	66.2	-5	10.1	7.5	12.1	14	2.39
ENRON	1997.4	3	6344.9	11	100.3	378	357.5	56	5.0	1.1	16.3	17	1.79
ENSERCH	439.7	33	1355.6	10	-15.0	NM	8.4	-45	NM	NM	-5.0	NM	-0.49
EQUITABLE RESOURCES	297.7	9	1053.4	40	2.4	-72	44.8	-7	0.8	3.2	9.3	15	2.03
MCN	204.4	12	1133.7	10	-15.4	NM	57.6	27	NM	NM	16.2	13	2.87
NICOR	166.0	-11	1213.8	7	7.5	-18	74.7	3	4.5	5.0	16.1	11	2.09
PANHANDLE EASTERN	579.3	2	1804.6	-6	49.5	93	157.2	21	8.5	4.5	10.1	15	1.47
SONAT	411.8	27	1306.3	11	35.3	74	119.4	-44	8.6	6.3	12.1	16	1.94
TRANSCO ENERGY	605.7	-10	2134.7	0	1.1	NM	38.8	NM	0.2	NM	-1.8	NM	-0.20

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

A

A&P 10c
Abbott Laboratories 12d
ABM Industries 21e
ACX Technologies 7b
Adia Services 21e
Advanced Micro 9d
ADVO 21d
Aetna Life & Casualty 17b
AFLAC 17b
Ahmanson (H.F.) 17c
Air Products & Chemicals 4
Airborne Freight 23c
AirTouch Communications 22a
AK Steel Holding 16b
Alaska Air Group 23a
Albemarle 4
Albertson's 10c
Alco Standard 5
Alcoa 16a
Alexander & Baldwin 23d
Alleghany 17a
Allegheny Ludlum 16b
Allegheny Power 24a
Allergan 12b
AlliedSignal 5
Allstate 17b
Alltel 22b
Alumax 16a
AMC Entertainment 14b
Amdahl 18b
Amerada Hess 11a
American Brands 6e
American Cyanamid 12b
American Electric 24a
American Express 17a
American General 17b
American Greetings 14d
American Home 12b
American Intl. Group 17b
American Maize-Products 10b
American Medical 12c
American National 17b
American Premier 17b
American President 23d
American Stores 10c
Ameritech 22b
Ames Dept. Stores 8
Ametek 9a
Amgen 12b
Amoco 11a
AMP 9d
Amphenol 9d
AMR 23a
AmSouth Bancorporation 3c
Analog Devices 9d
Anheuser-Busch 6c
AnnTaylor Stores 8
Anthem Electronics 21b
Apogee Enterprises 21a
Apple Computer 18b
Applied Materials 15c
Arbor Drugs 12a
Arco Chemical 4
Arkansas Best 23d
Armco 16b
Armstrong World 6b
Arrow Electronics 21b
Arvin Industries 2b
Asarco 16c
Ashland Oil 11a
AST Research 18b
AT&T 22a
AT&T Capital 17a
Atlantic Richfield 11a
Automatic Data 18c
AutoZone 8
Avery Dennison 15a
Aviall 23c
Avon Products 6d

B

Baker (J.) 8
Ball 7a
Baltimore G&E 24a
Banc One 3b
Bancorp Hawaii 3d
Bandag 2c
Bank of Boston 3a
Bank of New York 3a
BankAmerica 3d
Bankers Life Holding 17b
Bankers Trust 3a
BanPonce 3c
Bard (C.R.) 12d
Barnes & Noble 8
Barnett Banks 3c
Bausch & Lomb 12d
Baxter International 12d
BayBanks 3a
Bear Stearns 17a
Bearings 21b
Beckman Instruments 9c
Bell Atlantic 22b
BellSouth 22b
Belo (A.H.) 20b
Bemis 7b
Beneficial 17a
Best Buy 6b
Best Products 8
Bethlehem Steel 16b
Beverly Enterprises 12c
Bindley Western Inds. 12a
Birmingham Steel 16b
Black & Decker 15b
Block Drug 6d
Boatmen's Bancshares 3b
Bob Evans Farms 14a
Boeing 1
Boise Cascade 19a
Borden 10b
Boston Edison 24a
Bowater 19b
Bradlees 8
Briggs & Stratton 15c
Brinker International 14a
Bristol-Myers Squibb 12b
Broadway Stores 8
Brown-Forman 6c
Brown Group 6a
Browning-Ferris 21c
Bruno's 10c
Brunswick 14d
Burlington Northern 23b
Burlington Resources 11a
Butler Mfg. 21a

C

Cabletron Systems 18c
Caesars World 14c
Caldor 8
California Federal Bank 17c
Campbell Soup 10b
Capital Cities/ABC 20a
Capstead Mortgage 13b
Cardinal Health 12a
Caremark Intl. 12c
Carlisle 15a
Carnival 14d
Carolina Freight 23d
Carolina Power 24a
Carson Pirie Scott 8
Casey's General Stores 10c
Caterpillar 15c
CBS 20a
CDI 21e
Centerior Energy 24a
Centex 13b
Central Maine Power 24a
Ceridian 18c
Champion Intl. 19b
Charming Shoppes 8
Chase Manhattan 3a
Chemed 21b
Chemical Banking 3a
Chemical Waste 21c
Chesapeake 19b
Chevron 11a
Chrysler 2a
Cincinnati Bell 22b
Cipsco 24a
Circuit City Stores 6b
Circus Circus 14c
Cirrus Logic 18c
Cisco Systems 18c
Citicorp 3a
Clark Equipment 15c
Clayton Homes 13b
Clorox 6d
CMS Energy 24a
Coastal 11a
Coca-Cola 6c
Coca-Cola Bottling 6c
Coca-Cola Enterprises 6c
Coleman 14d
Colgate-Palmolive 6d
Coltec Industries 5
Comerica 3b
Commercial Metals 16b
Compaq Computer 18b
CompuCom Systems 18a
Computer Associates 18c
Computer Sciences 18c
Comsat 22a
ConAgra 10b
Cone Mills 15d
Conner Peripherals 18b
Conrail 23b
Conseco 17b
Consolidated Edison 24a
Cons. Freightways 23d
Consolidated Papers 19b
Consolidated Stores 8
Continental Airlines 23a
Continental Medical 12c
Cooper Industries 9a
Cooper Tire & Rubber 2c
CoreStates Financial 3a
Corning 15a
Countrywide Credit 17a
CPC International 10b
Cracker Barrel 14a
Crane 15a
Cray Research 18b
Crestar Financial 3c
Crown Cork & Seal 7a
CSX 23b
CUC International 18a
Cummins Engine 2b
Curtice-Burns Food 10b
Cyprus Amax Minerals 16c

D

Dairy Mart 10c
Dana 2b
Danaher 15b
Dart Group 5
Data General 18b
Dayton Hudson 8
Dean Foods 10b
Dean Witter, Discover 17a
Deere 15c
Delchamps 10c
Dell Computer 18b
Delta Air Lines 23a
Deluxe 18a
Destec Energy 24a
Detroit Diesel 2b
Detroit Edison 24a
Dexter 4
Diagnostek 12a
Dial 5
Diamond Shamrock 11a
Diebold 18a
Digital Equipment 18b
Dillard 8
Dollar General 8
Dominion Resources 24a
Donaldson 2b
Donnelley (R.R.) 21d
Dover 15c
Dow Chemical 4
Dow Jones 20b
DPL 24a
DQE 24a
Dr Pepper/Seven-Up 6c
Dresser Industries 15c
Dreyer's Grand Ice Cream 10b
Drug Emporium 12a
DSC Communs. 22a
Duke Power 24a
Dun & Bradstreet 20b
DuPont 4
Duracell International 15a

E

E-Systems 9b
Eagle Food Centers 10c
Eagle-Picher Industries 2b
Eastman Chemical 4
Eastman Kodak 14d
Eaton 2b
Echlin 2b
Eckerd 12a
Ecolab 6d
Edison Brothers 8
Edwards (A.G.) 17a
EG&G 21a
El Paso Natural Gas 24b
Electronic Data Systems 18c
EMC 18b
Emphesys Financial Group 21e
Engelhard 4
Enron 24b
Enserch 24b
Equifax 17a
Equitable Resources 24b
Ethyl 4
Exxon 11a

F

F&M Distributors 8
Family Dollar Stores 8
Fannie Mae 17a
Fay's 12a
Federal Express 23c
Federal Home Loan 17a
Federal-Mogul 2b
Federal Paper Board 7b
Federal Signal 15a
Federated Dept. Stores 8
Ferro 4
Fieldcrest Cannon 15d
Fifth Third Bancorp 3b
Fina 11a
Fingerhut 8
First American Finl. 17a
First Bank System 3b
First Chicago 3b
First Data 18c
First Fidelity 3a
First Financial Mgmt. 17a
First Interstate Bancorp 3d
First of America Bank 3b
First Security 3d
First Union 3c
Firstar 3b
Flagstar 14a
Fleet Financial Group 3a
Fleetwood Ents. 14d
Fleming 10a
Florida Progress 24a
Florida Steel 16b
Flowers Industries 10b
Fluor 21a
FMC 15c
Food Lion 10c

Continued on page 13

This ad just writes itself.

I Fly BA For
this Service
Christine Sutraine

Yet again BA leads
the way.
Congratulations!

A really brilliant
addition to your already
worldbeating service.

Bravo B.A.
M. Schmitter

A traveller's dream!

BORN AGAIN!
LM.

a first class service
from a first class airline.
S. Adamo

"The best shower
in the world."
T.S.

A breakthrough
in customer service—
Suzanne Winkelman

A Godsend.
BT.

Takes the "Red"
out of the Redeye!!

Excellent showers/facilities.
Feel Human Again!
D. Willis

12 out of 10!!
DanaR.

The Best Shower
in 6 weeks.
B. Steele

Knockout!
JD

Fantastic. Whoever thought
of this should be knighted.
J. Cochary

Fantastic Facility!
Keep It up!
Peter B.

Heaven on Earth!
Excellent! Many Thanks
Pete Hegan

Give people a hot shower, breakfast and a place to catch up on business after a transatlantic flight and look what happens. That's just part of the world-class service our Club World℠ and First Class passengers have been enjoying at our Heathrow and Gatwick Arrivals Lounges for the past year. To all of them, all we can say is "our pleasure." *It's the way we make you feel* that makes us the world's favourite airline.

BRITISH AIRWAYS
The world's favourite airline®

© 1994 British Airways

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

Continued from page 136

Ford Motor **2a**
Fort Howard **19b**
Foster Wheeler **21a**
Foundation Health **12c**
FoxMeyer Health **5**
FPL Group **24a**
Franklin Resources **17a**
Freeport-McMoRan **16c**
Freeport-McMoRan C&G **16c**
Fremont General **17b**
Fretter **6b**
Fruit of the Loom **6a**
Fuller (H. B.) **4**

G

Gannett **20b**
Gap **8**
GATX **23c**
Gaylord Ent. **20a**
GenCorp **1**
Genentech **12b**
General Dynamics **1**
General Electric **5**
General Instrument **9b**
General Mills **10b**
General Motors **2a**
General Public Uts. **24a**
General Signal **15c**
Genuine Parts **21b**
Geon **4**
Georgia Gulf **4**
Georgia-Pacific **19a**
Getty Petroleum **21b**
Giant Food **10c**
Giddings & Lewis **15b**
Gillette **6d**
Glendale Federal Bank **17c**
GM Hughes Electronics **9b**
Golden West **17c**
Goodrich (B. F.) **4**
Goodyear Tire & Rubber **2c**
Grace (W. R.) **4**
Grainger (W. W.) **21b**
Great A&P **10c**
Great Lakes Chemical **4**
Great Western **17c**
Greyhound Lines **23d**
GTE **22b**
Gtech Holdings **18c**

H

Halliburton **11b**
Handleman **21e**
Hanna (M. A.) **4**
Hannaford Brothers **10c**
Harcourt General **5**
Harley-Davidson **14d**
Harman International **14d**
Harnischfeger **15c**
Harris **9b**
Harsco **15a**
Hartmarx **6a**
Hasbro **14d**
Hawaiian Electric **24a**
Healthsouth Rehabilitation **12c**
Healthtrust **12c**
Hechinger **8**
Heilig-Meyers **6b**
Heinz (H. J.) **10b**
Helene Curtis Industries **6d**
Hershey Foods **10b**
Hewlett-Packard **18b**
Hillenbrand **15a**
Hillhaven **12c**
Hills Stores **8**
Hilton Hotels **14c**
Home Depot **8**
Home Shopping **8**
HDN Industries **18a**
Honeywell **9c**
Horace Mann **17b**
Hormel Foods **10b**
Houghton Mifflin **20b**
Hubbell **9a**
Hudson Foods **10b**
Hughes Supply **21b**
Humana **12c**
Hunt (J. B.) **23d**
Huntington Bancshares **3b**

I

IBM **18b**
IBP **10b**
IES Industries **24a**
Illinois Tool Works **15a**
Illinova **24a**
IMC Global **4**
InaCom **21e**
Ingersoll-Rand **15c**
Inland Steel **16b**
Integra Financial **3a**
Integrated Health Svcs. **12c**
Intel **9d**
Intelligent Electronics **18a**
Interface **15d**
Intergraph **18b**
Interim Services **21e**
Intl. Multifoods **10a**
International Paper **19b**
Interpublic Group **21d**
Interstate Bakeries **10b**
Ipalco Enterprises **24a**
ITT **5**

J

J&L Specialty Steel **16b**
James River **19b**
Jamesway **8**
Jefferson Smurfit **7b**
Jefferson-Pilot **17b**
John Alden Finl. **17b**
Johnson & Johnson **12d**
Johnson Controls **9c**
Jones Apparel Group **6a**

K

Kaiser Aluminum **16a**
Kaman **21b**
Kansas City Power & Light **24a**
Kansas City Southern **23b**
Kaufman & Broad **13b**
Kellogg **10b**
Kellwood **6a**
Kelly Services **21e**
Kemper **17b**
Kendall Intl. **12d**
Kerr-McGee **11a**
KeyCorp **3b**
Kimball Intl. **6b**
Kimberly-Clark **19b**
Kmart **8**
Knight-Ridder **20b**
Kohl's **8**
Kroger **10c**

L

La-Z-Boy Chair **6b**
Lafarge **13a**
Lam Research **15c**
Lands' End **8**
Landstar System **23d**
Lear Seating **2b**
Leggett & Platt **6b**
Lennar **13b**
Levitz Furniture **6b**
Lilly (Eli) **12b**
Limited **8**
LIN Broadcasting **22a**
Lincoln National **17b**
Litton Industries **9b**
Liz Claiborne **6a**
Lockheed **1**
Loctite **4**
Longs Drug Stores **12a**
Longview Fibre **7b**
Loral **9b**
Lotus Development **18c**
Louisiana Land **11a**
Louisiana-Pacific **19a**
Lowe's **8**
LSI Logic **9d**
LTV **16b**
Lubrizol **4**
Lukens **16b**
Lyondell **4**

M

Magma Copper **16c**
MagneTek **9a**
Mallinckrodt Group **12d**
Manor Care **12c**
Manpower **21e**
Manville **19b**
Marion Merrell Dow **12b**
Mark IV Industries **15a**
Marriott Intl. **14a**
Marsh & McLennan **17a**
Marshall & Ilsley **3b**
Marshall Industries **21b**
Martin Marietta **1**
Mattel **14d**
Maxtor **18b**
Maxxam **16a**
May Department Stores **8**
Maytag **6b**
McCormick **10b**
McDonald's **14a**
McDonnell Douglas **1**
McGraw-Hill **20b**
MCI Communications **22a**
McKesson **12a**
MCN **24b**
Mead **19b**
Medtronic **12d**
Mellon Bank **3a**
Melville **8**
Mercantile Bancorp. **3b**
Mercantile Stores **8**
Merck **12b**
Meredith **20b**
Meridian Bancorp **3a**
Merrill Lynch **17a**
Merry-Go-Round **8**
Metropolitan Financial **17c**
Meyer (Fred) **8**
MGM Grand **14c**
Michaels Stores **8**
Micro Warehouse **8**
MicroAge **18a**
Micron Technology **9d**
Microsoft **18c**
Mid Atlantic Medical **21e**
Midlantic **3a**
Midwest Resources **24a**
Miller (Herman) **18a**
Minnesota Mining **15a**
Mirage Resorts **14c**
Mitchell Energy **11a**
Mobil **11a**
Modine Mfg. **2b**
Mohawk Industries **15d**
Molex **9d**
Monsanto **4**
Montana Power **24a**
Morgan Stanley **17a**
Morgan (J.P.) **3a**
Morrison Knudsen **21a**
Morrison Restaurants **14a**
Morton International **4**
Motorola **9b**
Murphy Oil **11a**
Musicland Stores **14d**

N

Nacco Industries **15b**
Nalco Chemical **4**
National City **3b**
National Gypsum **13a**
National Medical **12c**
National Semicond. **9d**
National Service **9a**
National Steel **16b**
NationsBank **3c**
Navistar International **2a**
NBD Bancorp **3b**
NCH **6d**
Neiman Marcus Group **8**
Nevada Power **24a**
New England Electric **24a**
New York State E&G **24a**
New York Times **20b**
Newell **15a**
Niagara Mohawk **24a**
Nicor **24b**
Nike **6a**
Nine West Group **6a**
NL Industries **4**
Nordstrom **8**
Norfolk Southern **23b**
Nortek **13a**
Northeast Utilities **24a**
Northern States **24a**
Northern Trust **3b**
Northrop Grumman **1**
Northwest Airlines **23a**
Norwest **3b**
NovaCare **12c**
Novell **18c**
Nucor **16b**
NVR **13b**
NWNL **17b**
Nynex **22b**

O

Occidental Pet. **11a**
Office Depot **8**
Ohio Edison **24a**
Olin **4**
Oracle Systems **18c**
Orange & Rockland Uts. **24a**
Oryx Energy **11a**
Owens & Minor **12d**
Owens-Corning **13a**
Owens-Illinois **7a**
Oxford Industries **6a**

P

Paccar **2a**
Pacific G&E **24a**
Pacific Telecom **22a**
Pacific Telesis Group **22b**
PacifiCorp **24a**
PaineWebber Group **17a**
Pall **5**
Pamida Holdings **8**
Panhandle Eastern **24b**
Parker Hannifin **15a**
Paul Revere **17b**
Payless Cashways **8**
PECO Energy **24a**
Penn Traffic **10c**
Penney (J. C.) **8**
Pennsylvania Power **24a**
Pennzoil **11a**
Pentair **15c**
Pep Boys **8**
PepsiCo **6c**
Perkin-Elmer **9c**
Perry Drug Stores **12a**
Pet **10b**
Petrie Stores **8**
Pfizer **12b**
Phelps Dodge **16c**
PHH **21e**
Philip Morris **6e**
Phillips Petroleum **11a**
Phillips-Van Heusen **6a**
Physician Corp. **12c**
Pier 1 Imports **6b**
Pinkerton's **21e**
Pinnacle West **24a**
Pioneer-Standard **21b**
Pitney Bowes **18a**
Pittston Minerals **11a**
Pittston Services **23c**
Pittway **5**
PNC Bank **3a**
Polaroid **14d**
Pope & Talbot **19a**
Portland General **24a**
Potlatch **19b**
Potomac Electric **24a**
PPG Industries **13a**
Praxair **4**
Premark Intl. **5**
Premier Industrial **21b**
Price/Costco **8**
Procter & Gamble **6d**
Progressive **17b**
Promus **14c**
Protective Life **17b**
Provident Life **17b**
Public Service Ent. **24a**
Puget Sound Power **24a**
Pulte **13b**

Q

Quaker Oats **10b**
Quaker State **11a**
Quanex **16b**
Quantum **18b**
QVC **8**

R

Raychem **9a**
Rayonier **19a**
Raytheon **9b**
Read-Rite **9d**
Reebok International **6a**
Regions Financial **3c**
Reliance Electric **9a**
Republic New York **3a**
Revco D.S. **12a**
Reynolds Metals **16a**
Rhone-Poulenc Rorer **12b**
Richfood Holdings **10a**
Rite Aid **12a**
Riverwood Intl. **7b**
RJR Nabisco **6e**
Roadway Services **23d**
Rochester G&E **24a**
Rochester Telephone **22b**
Rock-Tenn **7b**
Rohm & Haas **4**
Rohr **1**
Rollins **21e**
Rose's Stores **8**
Ross Stores **8**
Rouge Steel **16b**
Royal Caribbean Cruises **14d**
RPM **13a**
Rubbermaid **15a**
Russell **6a**
Rust Intl. **21c**
Ryder System **23c**
Rykoff-Sexton **10a**
Ryland Group **13b**

S

Safeco **17b**
Safety-Kleen **21e**
Safeway **10c**
Sallie Mae **17a**
Salomon **17a**
San Diego G&E **24a**
Santa Fe Pacific **23b**
Sara Lee **10b**
SBC Communications **22b**
Scana **24a**
SCEcorp **24a**
Schering-Plough **12b**
Schlumberger **11b**
Schulman (A.) **4**
Schwab (Charles) **17a**
SCI Systems **9d**
Scientific-Atlanta **22a**
Scott Paper **19b**
Scripps (E. W.) **20b**
Seaboard **10b**
Seagate Technology **18b**
Sears, Roebuck **8**
Sensormatic Electronics **9b**
Service Corp. Intl. **21e**
Service Merchandise **8**
ServiceMaster **21e**
Shaw Industries **15d**
Shawmut National **3a**
Sherwin-Williams **13a**
Shoney's **14a**
ShopKo Stores **8**
Sierra Pacific Resources **24a**
Signet Banking **3c**
Silicon Graphics **18b**
Smith (A. D.) **2b**
Smith International **11b**
Smith's Food & Drug **10c**
Smithfield Foods **10b**
Snap-on **15b**
Solectron **9d**
Sonat **24b**
Sonoco Products **7b**
Southern **24a**
Southern New Eng. Tel. **22b**
Southern Pacific Rail **23b**
SouthTrust **3c**
Southwest Airlines **23a**
Southwestern PS **24a**
Spiegel **8**
Springs Industries **15d**
Sprint **22a**
SPX **15b**
St. Paul **17b**
Standard Federal Bank **17c**
Standard Motor Prods. **2b**
Standard Products **2b**
Standard Register **18a**
Stanhome **6d**
Stanley Works **15b**
Staples **21b**
State Street Boston **3a**
Sterling Chemicals **4**
Stewart & Stevenson **15c**
Stone Container **7b**
Stop & Shop **10c**
Storage Technology **18b**
Strawbridge & Clothier **8**
Stryker **12d**
Sun **11a**
Sun Healthcare Group **12c**
Sun Microsystems **18b**
Sun TV & Appliances **6b**
Sunbeam-Oster **6b**
Sundstrand **1**
SunTrust Banks **3c**
Super Food Services **10a**
Super Rite **10a**
Supermarkets Gen. **10c**
Supervalu **10a**
Sybase **18c**
SynOptics Communs. **18c**
Sysco **10a**

T

Talbots **8**
Tambrands **6d**
Tandem Computers **18b**
Tandy **6b**
Tech Data **18a**
Teco Energy **24a**
Tecumseh Products **13a**
Tektronix **9c**
Teledyne **5**
Teleflex **15a**
Telephone & Data Sys. **22a**
Temple-Inland **7b**
Tenneco **5**
Teradyne **9c**
Terex **2b**
Terra Inds. **4**
Texaco **11a**
Texas Industries **13a**
Texas Instruments **9d**
Textron **5**
Thiokol **1**
Thomas & Betts **9a**
Thorn Apple Valley **10b**
3Com **18b**
3M **15a**
TIG Holdings **17b**
Timberland **6a**
Time Warner **20b**
Times Mirror **20b**
Timken **15c**
TJ International **13a**
TJX **8**
TNT Freightways **23d**
Toro **6b**
Tosco **11a**
Toys 'R' Us **8**
Tracor **9c**
Transamerica **17a**
Transatlantic Holdings **17b**
Transco Energy **24b**
Travelers **17a**
Tribune **20b**
Trinity Industries **23c**
Trinova **15a**
TRW **5**
Tucson Electric Power **24a**
Tultex **6a**
Tyco Intl. **15c**
Tyco Toys **14d**

U

U.S. Bancorp **3d**
U.S. Healthcare **12c**
U.S. Home **13b**
U.S. Shoe **8**
U.S. Surgical **12d**
UAL **23a**
UJB Financial **3a**
Ultramar **11a**
Unicom **24a**
Unifi **15d**
Union Bank **3d**
Union Camp **19b**
Union Carbide **4**
Union Pacific **23b**
Union Texas **11a**
Unisys **18b**
United Stationers **21b**
United Technologies **1**
United Wisconsin Services **12c**
Unitrin **17b**
Univar **21b**
Universal **6e**
Universal Forest Products **19a**
Universal Health **12c**
Upjohn **12b**
US West **22b**
USAir Group **23a**
USF&G **17b**
USG **13a**
USLife **17b**
UST **6e**
USX-Marathon **11a**
USX-U.S. Steel **16b**

V

Valero Energy **11a**
Valspar **13a**
Value City **8**
Varian Associates **9b**
Varity **15c**
Venture Stores **8**
VF **6a**
Viking Office Products **8**
Village Super Market **10c**
Volt Info. Sciences **21e**
Vulcan Materials **13a**

W

Waban **8**
Wachovia **3c**
Wal-Mart Stores **8**
Walgreen **12a**
Warner-Lambert **12b**
Washington Post **20b**
Webb (Del) **13b**
Weirton Steel **16b**
Weis Markets **10c**
Wellman **4**
Wells Fargo **3d**
Western Atlas **11b**
Western Digital **18b**
Western National **17b**
Westinghouse Electric **9a**
WestPoint Stevens **6a**
Westvaco **19b**
Weyerhaeuser **19b**
Wheelabrator Techs. **24a**
Whirlpool **6b**
Whitman **5**
WHX **16b**
Wickes Lumber **8**
Willamette Industries **19a**
Willcox & Gibbs **21b**
Winn-Dixie Stores **10c**
Witco **4**
WMX Technologies **21c**
Woolworth **8**
Worthington Inds. **16b**
Wrigley (Wm.) Jr. **10b**
Wyle Laboratories **21b**

XYZ

Xerox **18b**
Yellow **23d**
York Intl. **13a**
Zenith Electronics **6b**

Ever since Sprint Business made our world smaller, we've gotten bigger.

Director
Information Systems
Landis & Gyr

It used to take 14 hours for Landis & Gyr engineers in Chicago to meet with colleagues in Zug, Switzerland.

Today, thanks to a real solution from Sprint Business, they spend those hours working together. Meeting face-to-face via the world's largest videoconferencing network — Sprint Video.®

And we've engineered many other technologically advanced solutions for Landis & Gyr. Including a wide area network that will soon connect computer systems in 109 North American offices, allowing them to instantly exchange time-sensitive product development and financial data.

The fact is, no matter what business you're in, we can turn communications technology into a powerful business tool. One that will help make you more successful. And isn't that why you're in business in the first place?

Find out how we can help your business do more business. Call 1-800-598-5000.

REAL BUSINESS	REAL PROBLEM	REAL SOLUTION	REAL RESULTS
Landis & Gyr Building Controls	Engineers dispersed around the world	Real-time meetings via global videoconferencing	Better teamwork, better ideas, better sales

Sprint® Business

©1994 Sprint Communications Company L.P

EDITED BY AMY DUNKIN

CAN COMPANY COUNSELORS HELP YOU COPE?

In soothing tones, the brochure on the lunchroom bulletin board asks: Are you feeling stressed out? Have you been having too many drinks on too many nights after work? Are you locked in conflict with your manager? If so, it urges, call your company's employee assistance program (EAP) and get free, confidential help.

Most corporations now offer EAPs, a resource designed to prevent what may begin as minor problems from becoming career-ending disasters. For employers, "an EAP is a tremendous safety valve in a stressful, demanding workplace," says Cecile Currier, director of Concern, an EAP in Mountain View, Calif., that works with such Silicon Valley companies as Apple Computer. And EAPs are as useful in the executive suite as for workers on the shop floor: A California pharmaceutical executive consulted her company's EAP when she felt obsessed with a failing romance. "I needed to hear from a professional person that nobody gets through life without stumbling. An EAP counselor got me off the ground," she says.

BENEFITS

THIRD PARTIES. Before spilling all your secrets, however, you need to ask a few questions of your own. EAPs vary in setup and in the services they offer. Absolute confidentiality is not a given. Plus, many companies are rethinking their mental-health benefits—paying only for problem-solving, not the expensive, open-ended psychotherapy they may have sponsored in the past. Employers want more control, so EAPs are becoming key players in providing and monitoring whatever benefits the company still is willing to support.

Thirty years ago, EAPs consisted mainly of in-house employees who referred substance-abusing workers to Alcoholics Anonymous or drug-rehab services. Those counselors sometimes were recovered abusers themselves and had little or no formal training. Today, the majority of EAPs are third-party contractors hired by employers and usually located away from the work site. If the brochure doesn't cover it, make sure the EAP's staff is
made up of licensed profe
sionals—such as social wor
ers or psychologists. And
you don't want co-workers
know you're seeking help, a
if the EAP's location or waiti
room presents potential f
embarrassment.

EAPs have grown well b
yond substance-abuse refe
rals. Some have libraries c
ering subjects from elder ca
to dispute resolution. Othe
give courses on stress redu
tion or step-parenting or of
management training. Mo
EAPs provide actual couns
ing—usually from three
eight sessions.

Don't expect tradition
psychotherapy, however. M
EAP sessions aim only to ide
tify your immediate probl
and come up with steps
solve it. Chronically disorg

GLYNIS SWEENY

Be cautious going in: Absolute confidentiality is not, in fact, a given

zed? You might discuss
ne-management tips. Mar-
age rocky? You may get
me communication exercis-
to try at home. EAP profes-
)nals say flat out they aren't
ere to uncover the under-
.ng causes of problems—so
u won't be encouraged to
vell on your long-standing
sentment of your evil step-
)ther.

You may also discover that
.P counselors act as gate-
epers for the mental-health
mponent of your insurance
nefits. Insurance plans used
allow a set number of out-
tient psychotherapy visits a
ar, and you and a therapist
your choosing decided
hether you needed them.
day, some managed-care
mpanies reserve the right
approve treatment in ad-
nce and may use a family
ctor, EAP, or other screen
determine what kind of
eatment they'll pay for. If
u aren't willing to accept
EAP gatekeeper's referral,
u may have to pay more
t of pocket—or even foot
e whole bill.

VEATS. Richard Chaifetz,
ief executive of Chicago's
mPsych, which manages
Ps for more than 350 com-
nies, says having an EAP
unselor authorized to seek
provals works to the em-
)yee's benefit: You can be
'erred without having to re-
at your story to different
ople. But not everybody is
mfortable with that. You
ty be happy to ask for ad-
e on elder care from an EAP
t willing to discuss sexual
oblems only with a psychi-
ist. Don't let fear make you
oid treatment—ask what
the gatekeeping options
e. Also ask how flexible the
in is, in case you don't like
e EAP counselor or a subse-
ent referral.

Some EAPs provide psycho-
erapy benefits under con-
act to health-maintenance
ganizations or other insur-
s and may be authorized to
liver 15 or 20 more tradi-
nal sessions of care. That's
od for patient-therapist
ntinuity, but it can cause
friction, too. Even when the EAP counselor feels the benefit limit may be too short for a given patient, "we're the ones who have to tell them their insurance is limited," says Minda Szejnwald, a Los Altos (Calif.) clinical social worker who is also an EAP counselor.

Court cases suggest that EAP data sometimes fall into the wrong hands. For example, managers have been accused of inappropriately obtaining information on employees—and then firing the employees or using it to force them to drop actions against a company. EAP administrators maintain that such cases represent a minuscule fraction of the millions of people who use EAPs each year. And most say they have rigorous policies to preserve confidentiality.

Never assume confidentiality is absolute, however. For one thing, EAPs—and all doctors and mental-health-care providers, for that matter—are required by law to report certain information to authorities. Specifically, they must do so if a child is being abused or if they believe the client is a danger to himself or others. The EAP would be required to notify a manager that a worker in a safety-sensitive position was taking drugs on the job; if you fantasize about harming a co-worker, the EAP legally may be required to inform the person.

Other potential disclosures are more complicated: EAP records, just like those of private psychiatrists, can be subpoenaed if patients put their mental status at issue in litigation. That happens in claiming emotional-injury damages, filing a workers' comp stress claim, or asserting an insanity defense. In addition, some lawyers say that EAP counselors, particularly those who work directly for an employer, are pressured to interpret information revealed in the EAP setting to the company's advantage, rather than the client's, in court.

What You Should Know Before Seeking Help

- ▶ Make sure your Employee Assistance Plan (EAP) utilizes only licensed mental-health-care professionals as providers and adheres to the Employee Assistance Professionals Assn. guidelines about confidentiality
- ▶ Make sure procedures about who has access to patient files or information are explained clearly
- ▶ Closely scrutinize any confidential information release or waiver form you're asked to sign, limiting its scope as narrowly as possible
- ▶ Insist that any counseling sessions be held in private, confidential offices
- ▶ Realize that any information you tell an EAP counselor may be subpoenaed if you file a lawsuit or workers' compensation claim over stress, sexual harassment, unlawful termination, or any other issue involving your mental status

DATA: COMPSYCH, BUSINESS WEEK

WAIVER WATCH. Sometimes, employees sign waivers that allow the EAP to share some information with a manager. An employee may want help resolving a dispute with a boss, for example. Or a manager may make EAP counseling a condition of continued employment for a worker with serious absenteeism or performance problems. Whatever the reason for the waiver, says Cliff Palefsky, a San Francisco employment lawyer, you should scrutinize it closely and demand full disclosure of the procedures to be followed. Is the waiver specific, or does it give the company unlimited access over a long period? With whom exactly can the information be shared and in how much detail? "Try to make it as narrow as possible," he advises.

Under stress, you might not consider those factors, or you might wait until the first session to clarify privacy issues. But that wastes counseling time. "Before the meter starts running, set up an interview or a phone call that's about shopping and asking questions," advises Deborah Lewis, an EAP consultant at benefit firm Kwasha Lipton.

Fundamentally, EAPs are there to address distractions that could interfere with your job. In employee surveys, they generally get high marks. And in general, they "make available services people otherwise might not be able to access," says Szejnwald. Just don't assume too much. *Joan Hamilton*

TAXES

NOW, THE NANNY TAX IS A BIT LESS TAXING

For millions of Americans who employ baby-sitters, house cleaners, or yard workers, staying on the right side of the law has never been easy. Aside from the expense of Social Security, unemployment, and workers' comp taxes—which can add 10% to 20% to the cost of hiring help—the law-abiding employer faces sheaves of complex paperwork every quarter. Little wonder the Internal Revenue Service figures three of four domestic employers skip their obligations.

Now, Congress is trying to make hiring household help less taxing. Effective this year, the wage threshold for paying Social Security taxes for an employee rises to $1,000 a year, up from $50 a quarter. That change, coupled with an exemption for students 18 or younger, means that most parents who employ weekend baby-sitters or grass-cutters will not have a legal requirement to report those payments. And for householders who still owe, Congress ordered the IRS to switch to annual reporting, starting next year, so employers can file payroll taxes with their income-tax return.

If you already employ a domestic worker who will earn more than $1,000 in 1994, you will have to wrestle with the old system for the rest of this year. To get started, call the IRS's toll-free order line, 800 829-3676, and ask for Form 942 and Publication 926.

NINA BERKSON

The changes that take effect next year won't spell a lot of relief. The teenager exen- tion—"decriminalizing bal- sitting," in the words of Sei- tor Patrick Moynih (D-N. Y.)—merely recogniz that virtually no one pays ta- es on kids. Employers loc- ing for a paperwork resp may be underwhelmed: Y won't have to file Form 9 but state unemployme levies and income-tax wi- holding are still due qua- terly. And you must provi W-2 income statements workers in January.

Still, some tax exper predict that nanny-tax r- form will boost complian "We're a nation of taxpayers- when the government mak the job easy for us," says M- tha Priddy Patterson of KP Peat Marwick in Washingt And with less paperwork, - rant employers will have fe- er excuses. Warns a Moynih aide: "We expect the IRS step up its enforcement these taxes." *Mike McNam*

SMART MONEY

AG STOCKS: A FERTILE FIELD?

Ronald Vroman could scarcely bear to watch as heavy rains swamped his Erie (Ill.) farm last year. This season he could barely see his fields at all: Ten-foot-high cornstalks blocked the view. "Where last year we were looking at mud and water and bent-over stalks, now we're looking at one of the best crops we've ever had," Vroman beams.

Mother Nature is making up for the floods she inflicted on the Midwest last year, and that's good news for Tyson Foods, Archer-Daniels-Midland, ConAgra, and other companies dependent on Midwest agriculture. A record corn and soybean harvest is shoring up bottom lines eroded by the high prices and low quality of last year—presenting opportunities for investors. While some agribusiness stocks already have climbed, analysts believe the market hasn't taken into account the mammoth harvest. They see big potential for positive earnings surprises. "There's more upside here. People haven't tuned into it," says David Nelson of NatWest Securities.

CHICKEN FEED. At ADM, first-quarter earnings, excluding a one-time charge, nearly doubled from a year ago, to $154.5 million, exceeding analysts' expectations. And that reflects only part of the gain that ADM can expect from this year's bumper crop. Lower grain prices should boost profit margins more next quarter in its core corn- and soy-processing businesses.

The bumper crop helps Tyson, too. With feed accounting for about 67% of each chicken's wholesale price, the Arkansas poultry company could save more than $100 million on grain costs this year. The same trend helps chicken processors Pilgrim's Pride and Hudson Foods.

BENEFICIARIES OF THE BUMPER CROP

	CURRENT STOCK PRICE (10/31/94)	52-WEEK HIGH	P/E*
ARCHER-DANIELS-MIDLAND	28⅝	29⅛	15
CONAGRA	31⅛	33⅛	15
IBP	34⅛	35½	13
TYSON FOODS	23¼	25	36

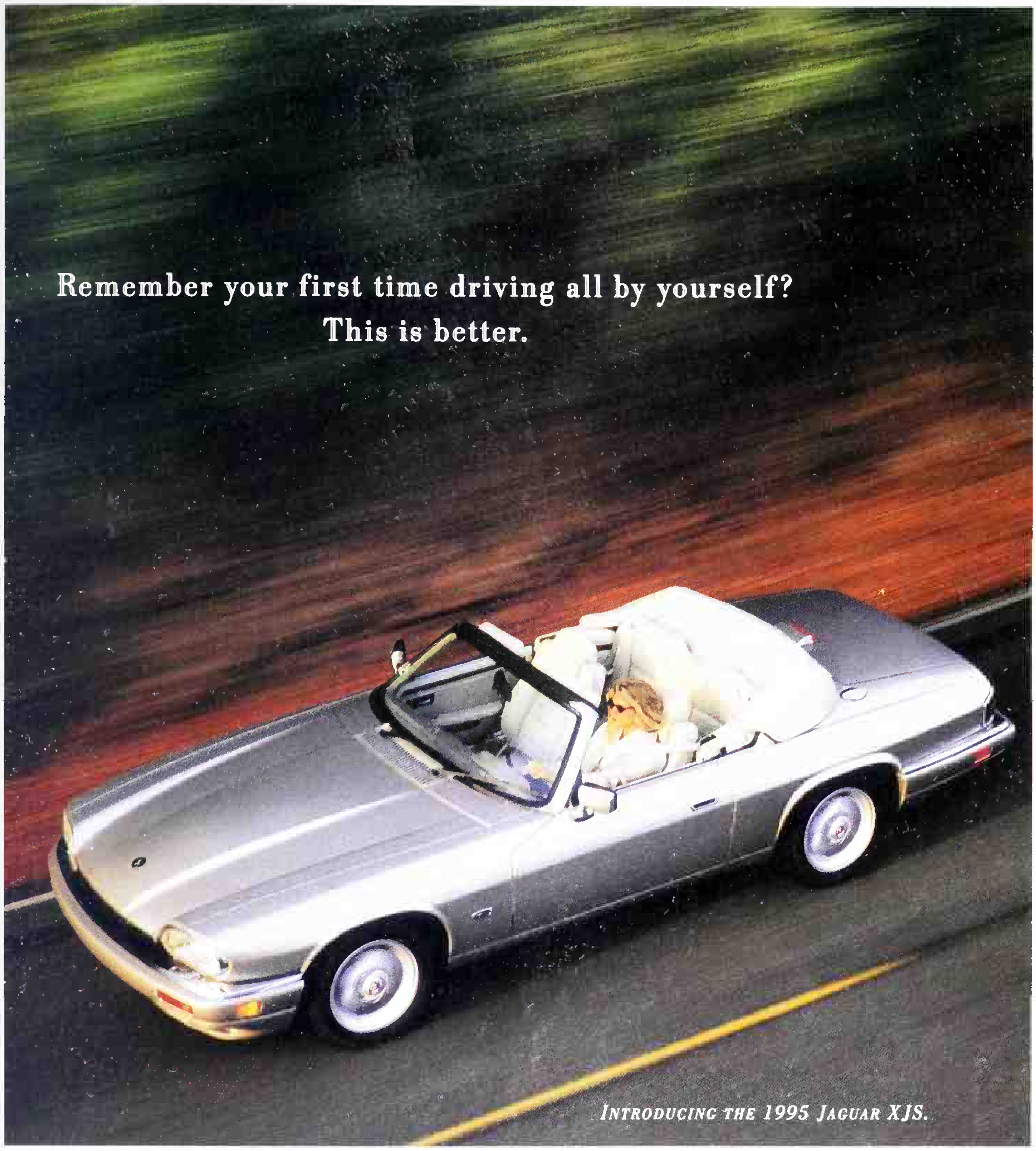
*10/31/94 stock price/1994 estimated earnings per share

DATA: BLOOMBERG BUSINESS NEWS

ConAgra's poultry and red-meat operations benefit as well, though not as much as its grain operations. Last year, two major flour mills were flooded, and barges languished on rain-swollen waterways. Corn mills choked on inferior-quality grain, requiring far greater amount of raw material to produce adequate finished products.

While a good crop will help the economy on balance, some major players stand to lose. Demand for seed, which boomed this spring as farmers planted fencerow to fencero will likely slip next year as government programs force farm ers to idle land. That's bad for Pioneer Hi-Bred International, DEKALB Ge netics, and other companies that fare best when productio is in full bloom.

As for farmers, the Agri culture Dept. expects farm income to surpass last year $43.4 billion. Having corn and beans in the bin helps, says Vroman: "If you don't have a crop, you can't do anything." Tyson, ADM, and ConAgra couldn't agree more. *Greg Bur*



Remember your first time driving all by yourself?
This is better.
INTRODUCING THE 1995 JAGUAR XJS.

YOU PULLED OUT of the driveway, gave mom and dad a wave, and experienced an excitement and freedom you'd never known before.

The 1995 Jaguar XJS 4.0L Convertible has the performance and stunning looks to get that feeling back–in a hurry. A potent new 237 HP AJ16 engine generates more horsepower than last year's model, and integrates a new state-of-the-art engine management system. Of course, every XJS features such amenities as Connolly leather, walnut fascia and trim, and is backed by a four-year/50,000 mile warranty.*

The 1995 XJS 4.0L Convertible. After all, why should teenagers have all the fun? For more information and your nearest dealer, call 1-800-4-JAGUAR.

JAGUAR

*njoy tomorrow. Buckle up today. *See your dealer for a copy of the limited warranty.*

TOUGHER TO CRASH, EASIER TO SURVIVE

You're driving along in blinding rain when your enhanced-vision system displays a downed tree directly on the road in front of you, well before your eyes can make it out. Stunned, you don't react immediately, but your car's radar senses the obstacle and applies the antilock brakes, bringing you to a safe stop.

Dream on. Technical, cost, and liability-law hurdles make it highly unlikely that such exotic safety gear will appear on cars this decade. Nonetheless, carmakers recognize that safety sells. So they are aggressively developing new features to add to the current list of air bags, antilock brakes, and other safety equipment. Here are some of the gizmos that will show up on cars over the next five years. Most will first appear as options on limited models before spreading more broadly through the market.

AUTOS

MORE VISIBLE. Auto safety features fall into two main categories: crash avoidance and crash protection. In the area of crash avoidance, the spotlight will be on lights. First up are daytime running lights: headlights that automatically come on at less than full brightness whenever the car's engine is on. The theory: make cars more visible and fewer drivers will say, "Officer, I never saw him coming." In Canada, where such lights have been required since December, 1989, a study found they produced a 9% decline in two-vehicle daytime crashes. Volvo offers daytime running lights on all of its cars this year. General Motors begins rolling them out this year and will make them standard on all models by the end of 1997.

In the hope that quicker brake lights will reduce rear-end collisions, manufacturers are altering cars' high-mounted brake lights. Look for more use of light-emitting diodes (LEDS), such as the string of tiny lights that compose the brake lights of the Cadillac STS, or neon lights, as introduced on the 1995 Ford Explorer. According t Osram Sylvania, which makes the Explorer's neon brak lights, they come on 200 milliseconds faster than conventional lights. At 60 mph, tha can give the car behind you an extra 24 feet of stoppin distance—more than th length of your car.

Watch for high-intensity discharge (HID) lights to begin replacing halogen bulbs in headlamps. HID lights us an electrically charged gas, s there is no filament to bur out. While the light from a HID headlamp is brighter tha that of a halogen bulb, it diffuses less over distance. Thi allows car engineers t "point" the light more precisely, reducing the glare tha oncoming drivers face. Th distinctive, bluish-white ligh also picks out embedded lane marker reflectors better tha do current headlamps.

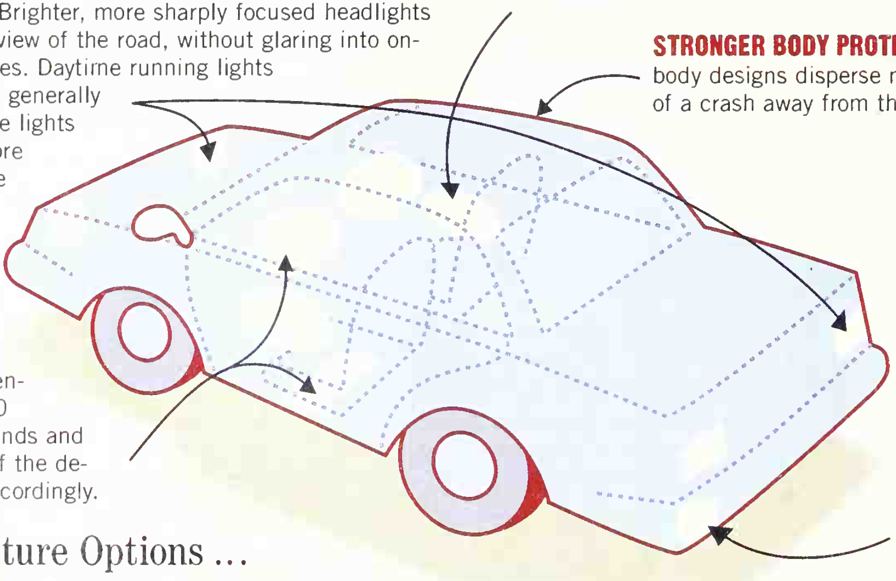
Several carmakers ar working on enhanced-visio systems that use infrared o ultraviolet light to spot ob

New Auto Safety Features

BETTER LIGHTS Brighter, more sharply focused headlights will improve your view of the road, without glaring into oncoming drivers' eyes. Daytime running lights will make vehicles generally more visible. Brake lights that illuminate more quickly will reduce the odds of your being rear-ended.

SIDE-IMPACT AIRBAGS Additional air bags will protect drivers and passengers in side collisions.

STRONGER BODY PROTECTION Improved body designs disperse more of the impact of a crash away from the occupants.



"SMART" RESTRAINTS Sensors will tell whether the passenger in front is 240 pounds or 95 pounds and adjust the force of the deploying air bag accordingly.

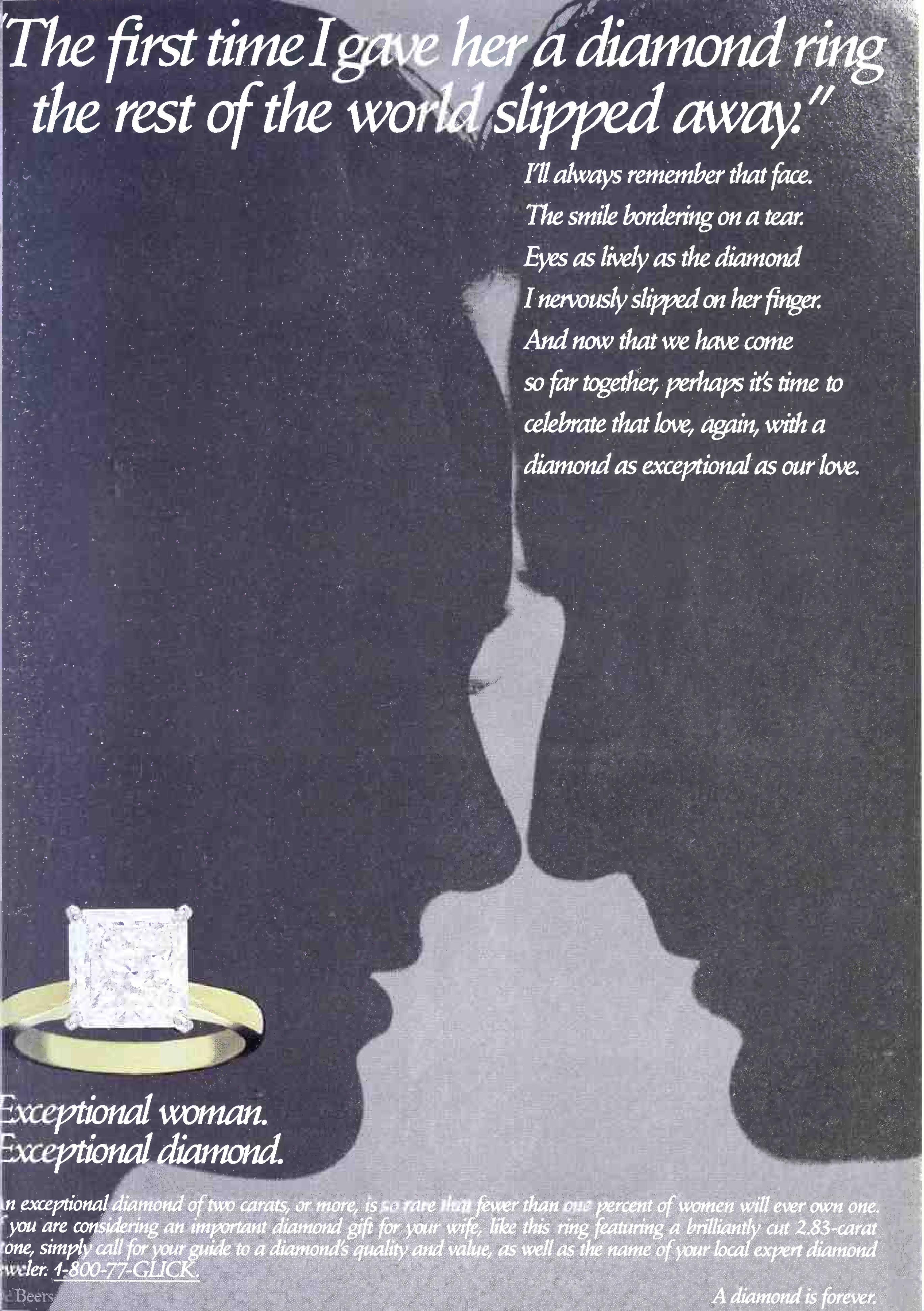
RADAR "Blind spots" just behind and to the left of the car will be checked. If another car is there when the driver flips on the turn signal, a flashing red warning light will appear in the driver's outside rearview mirror.

Possible Future Options ...

"SMART" CRUISE CONTROL If your cruise control is set at 60 mph and the car in front is going 55 mph, radar-monitored cruise control will slow you down and maintain a predetermined distance between your car and the one ahead.

AUTOMATIC 911 DIALING If you are in a crash, the car's phone automatically calls 911 with your location, vehicle identity number, and whether or not your air bags deployed.

LISA KNOUSE BRAIMAN/BW



"The first time I gave her a diamond ring the rest of the world slipped away."

I'll always remember that face.
The smile bordering on a tear.
Eyes as lively as the diamond
I nervously slipped on her finger.
And now that we have come
so far together, perhaps it's time to
celebrate that love, again, with a
diamond as exceptional as our love.

xceptional woman.
xceptional diamond.

n exceptional diamond of two carats, or more, is so rare that fewer than one percent of women will ever own one. you are considering an important diamond gift for your wife, like this ring featuring a brilliantly cut 2.83-carat one, simply call for your guide to a diamond's quality and value, as well as the name of your local expert diamond weler. 1-800-77-GLICK.

Beers

A diamond is forever.

YOU

probably feel like the

BEAR.

We'd like to suggest you're the

salmon.

(Now, let's talk disability insurance.)

Unum Life Insurance Company of America
Portland, ME (All states except NY)

First Unum Life Insurance Company (New York State Only
120 White Plains Rd, Tarrytown, NY 10591

NUM Corp. UNUM,® the lighthouse artwork, "We see farther," and "Here's to a long life," are service marks of UNUM Corp.

It happens like this. You're young. You're healthy. You're
mming along when, POW!

Nobody goes through life planning to be disabled. But, the
is, one out of four of us will suffer some kind of disability
our lifetime. So what should we do? Worry? Run? Hide?

We have a few thoughts on that subject. We're UNUM, the
ding provider of disability insurance coverage. And if
ve learned anything in our 145 years in the business, it's that
lership means more than just offering a handful of policies
l a promise to be there when it counts. It's about thinking
erently from other companies. It's about thinking ahead.

How? By planning to give people the help they need when they're disabled. Whether it's through an individual or group policy or a combination of both. And by making sure that any transition from short-term to long-term coverage is as smooth and painless as possible.

Meanwhile, we've heard some good news: We're all living longer. So now, we're even planning for that. Our long term care coverage can give people back their most valuable ability of all. The ability to remain independent.

It's simple. We offer more unique solutions than anyone in the business. So when people need help, they get it. Just like that.

Here's to a long life.

UNUM
We see farther

We invite you to contact your broker for more information.

CM LIMITED (UK)
DORKING, ENGLAND

COMMERCIAL LIFE INSURANCE COMPANY
PISCATAWAY, NJ (ALL STATES EXCEPT NY)

COLONIAL LIFE & ACCIDENT INSURANCE COMPANY
COLUMBIA, SC (ALL STATES EXCEPT NY)

SPEED OF LIGHTS: *Faster neon brake lights could save lives*

stacles farther ahead than is possible with ordinary light. Still, those systems remain costly and less than ideal. Take the infrared system that GM's Delco Electronics is developing. "We feel we have a design that is production-ready," says Thomas Evernham, Delco's senior vice-president for engineering research and development. That means the technology is reliable enough to use in regular cars. Too bad it still costs over $1,000 a car. Auto makers say they will have to trim that to several hundred dollars before consumers will ante up. Don't expect the infrared system to help in fog or rain. Infrared works by picking up heat from animate objects. It is best at "seeing" a human or deer on the road, weakest at finding a fallen rock, and useless when airborne water particles scatter its signals. Infrared may yet make it out of the lab but probably not in the next five years.

SMART BAGS. In the event of an accident, few safety features have proven as successful as air bags—when used with seat belts. Next up: side-impact air bags. Volvo was the first to offer them, packed into the side of the front seats in the 850 sedan for 1995. Other companies are expected to follow quickly. The technology is not simple. In a frontal crash, sensors have 16 milliseconds to determine whether the impact is severe enough to deploy a driver's air bag. With no front end to crumple first, however, side crashes happen much faster, and the sensors for a side-impact air bag have a mere four milliseconds to do the job. Because side-impact collisions account for about one-third of all motor-vehicle casualties in the U.S., side air bags "promise to take a bite out of injuries," says Brian O'Neill, president of the Insurance Institute for Highway Safety.

So-called smart restraints are designed to adjust to different occupants in different positions in the car. The goal is for the sensor to determine the size, weight, and position of the front passenger and to control the air bag's deployment accordingly. For instance, if the passenger is 6 ft., 4 in., and 220 pounds, the air bag needs to deploy quickly with as much force as possible. But for someone 5 ft., 2 in., and 110 pounds, a more slowly deploying air bag runs less risk of hitting the passenger with too much force. TRW, which makes a smart restraint system that also checks how close the passenger is to the dashboard, predicts these systems will become available by late 1997.

BLIND SPOT. Check your outside mirrors before changing lanes and you still might miss a car in the blind spot behind you. Engineers are trying to fix that with radar. Already, GM is marketing a $1,895 radar system for school buses, called Forewarn, that can detect a child in the driver's blind spot. Systems now under development for cars would check the blind spot for objects, using complex software to distinguish between an oncoming car behind you and a wall next to your parallel-parking space. If you turned on your blinker to signal a lane change and the radar detected a car there, a red warning light embedded in your outside mirror would flash. If you started to change lanes anyway, a warning beep would sound.

ON YOUR SIDE: *Side-impact air bags promise to "take a bite out of injuries"*

Radar also could mak
smart cruise controls possibl
by 1998. These systems wi
maintain a set distance be
tween your car and the on
in front, so that you won
have to keep fiddling with th
cruise control if yours is set
65 mph and the car in fror
slows to 60 mph. Howeve
some safety experts say th
convenience feature coul
make driving less safe. "
you take more of the tas
away from the driver, he be
comes less vigilant," warn
O'Neill. Even Delco's Evern
ham, a proponent of smar
cruise, says: "These are no
to be used in isolation, s
don't try to put your head be
tween your legs and drive

Besides these add-on safe
ty features, car designs ar
becoming safer thanks to th
use of sophisticated compute
models that can tell engineer
how to tweak a car's bod
structure so as to dissipat
the force of an impact witl
out harming the passenger
Those models led Volvo eng
neers to use a number of sp
cial materials, includin
closed-cell plastic honeycomb
and small tubes, to strengtl
en doors and protect passen
gers in side collisions.

After a crash, your ca
phone could summon an am
bulance—automatically.
consortium made up of Del
Electronics, several cellula
phone companies, and Cel
Port Labs of Boulder, Col
hopes to sell the technolog
to do that by about 1997. Sa
your car slammed into
bridge abutment on a lone
rural road. The car phon
would dial 911 and, using
built-in global-positioning sy
tem, tell the dispatcher whe
your vehicle was, the identi
cation number, and wheth
the air bag deployed.

All of these new featur
should help make driving sa
er. But they can only do
much. As Ronald Zarowit
Chrysler's manager for ca
and truck safety, points ou
"The most important safet
feature on a car is a sobe
alert driver wearing a se
belt."

Jim Tree

The pack that kept you organized in the '70s.

Contents: 8-track tapes, a comb (for when you bad bair), mood ring, history book, your dream journal, three-ring binder, chewing gum, your coolest puka shell necklace

The pack that will keep you organized in the '90s.

Notion
Notion: The Newton List Manager
ExpensePlus
Newton

The Newton Power Organizer Pack contains a Newton external fax/modem, Notion: The Newton List Manager, ExpensePlus and a travel case – all free when you buy a Newton by December 31

y a Newton® MessagePad® 110 now, and you'll also receive the Newton Power Organizer Pack – absolutely free. It includes a Newton external
fax/modem, Notion: The Newton List Manager, a program that offers a huge selection of templates for creating and managing all sorts
of lists – from meeting agendas to vacation itineraries. You'll get ExpensePlus, which organizes your expenses and lets you fax, print and
nsfer them to your PC or Mac.® You'll even get a travel case for taking your Newton out on the road. To get your Newton Power Organizer Pack,
sit any Newton dealer today. But hurry, this offer expires December 31. You may be able to survive without pet rocks
d feathered hair. But you don't want to manage your life without the most advanced organizing tool of all: Newton.

Apple

Free Newton Power Organizer Pack when you buy a Newton through December 31.

[illegible]

COLLECTING

FANFARE FOR THE COMMON MAN'S ART

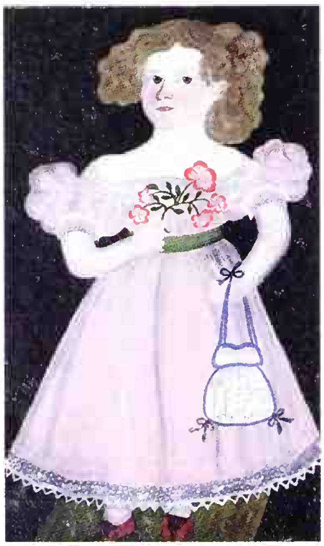
In 1825, Joseph Warren Leavitt was so excited about the Marquis de Lafayette's visit to the family tavern in Chichester, N.H., that he sketched the event in pen and ink, embellishing it with watercolors. The 7-inch by 9-inch painting, which shows an ill-proportioned Lafayette standing on a checkerboard floor, wouldn't win any art awards. But earlier this year, a private collector paid $101,500 for it, four times the projected price at Sotheby's.

VENERABLE BEADS *19th century lady's bag*

Not many people would put down that kind of money for a modest picture of Lafayette, but collectors are snapping up less pricey examples of old American folk art, driving up prices about 20% in the last five years. Thos. K. Woodard American Antiques & Quilts in New York sold an 1875 table painted to resemble stone for $9,000, but the dealer also does a brisk business in 1950s beaded fruit at $12. Cat's Cradle in Provo, Utah, sold an 1870 handmade cloth doll with oil-painted face, hands, and feet for $700. And in Denver, an 1850 sign advertising a bonnet shop went for $650 at Apiary.

Folk art is "a groaning board of options," says Nancy Druckman, Sotheby's senior vice-president. Traditionally, it has included antique samplers, duck decoys, gameboards, painted furniture, quilts, tavern signs, whirligigs, beaded and decorated objects, and weather vanes. But the definition is expanding. Woodard is opening a show on Jan. 18 of architectural details salvaged from old buildings. The gallery will offer a pair of bookend-size miniature columns at $600 and a green barn window with louvers for $4,500. Also hot are pre-interstate highway signs advertising cafés and rented rooms and Adirondack pack baskets made of woven wood strips, used through the 1950s as backpacks for toting kindling or game. Prices range from $35 to $200.

Traditionally, folk artists were self-taught, and few of them were full-time artisans. Some of their work, such as primitive portraits, was intended as decoration, but most wasn't meant to be art at all. A piece of scrimshaw was used as a corset stay, for instance.



PORTRAIT OF A LITTLE LADY
Oil on canvas, 1830s

VANITY FAIR *Federal, painted pine dressing table, circa 1825*

Known as the art of the common man, folk art is charming and unintimidating, which accounts for its appeal. "We like it because it's very personal," explains Marjorie Gage, arts and antiques editor at *Country Living* magazine, which has contributed to folk art's surge in popularity. Americans also enjoy it because it is a rich part of their heritage, which is why anything with flags and patriotic themes fetches high prices. An 1860 weather vane with a figure thought to be Abraham Lincoln sold for $770,000 at Sotheby's in 1990. "A perfect piece of folk art can be loved and cherished. It makes you smile," says Woodard, who advises collectors to look for pieces that "wink" at them.

Buying what appeals to you is good advice, since folk art is meant to be enjoyed. But don't throw caution to the winds. "Unless it truly is the doodle that Washington did when he was waiting for the troops to amass at Valley Forge, look for aesthetics," says Druckman. Craftsmanship and condition are important, although some wear is acceptable. A copper weather vane that has turned green from decades of rain and snow may be more desirable than one in mint condition. Wear is one thing, however; worn-out is another.

You can study folk art at several museums, including the Museum of American Folk Art in New York; the Shelburne Museum in Shelburne, Vt.; the Abby Aldrich Rockefeller Folk Art Center in Williamsburg, Va.; and the Museum of International Folk Art, located in San Fe, N.M. Two helpful ne books on the subject are *Li ing with Folk Art* ($2 Hearst) and *Sotheby's Gui to American Folk Art* ($1 Simon & Schuster).

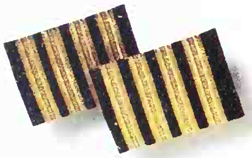
HEARTH THROB *Painted maple fireplace fan*

Folk art galleries are th safest places to buy. You wo find steals, b the quality's t rate, and deale often provi you with prov nance. Knowi who made t piece or deta of its history icing on t cake. Of cour you could di cover a gem a country aucti or an antiques mall, but wary. There are fakes, t so avoid pieces too cute f words or with sentimen that read like greeti cards.

Collectors favor antiq folk art. Still, pieces are b ing fashioned today th could turn out to be lon term investments. *Count Living*'s Gage believes colle tors are nostalgic for t things they grew up with. don't throw away those ne dlepoint mottoes and gard knickknacks. Your childr may one day consider the folk art. *Sandra Atchis*

BOEING
747-400

THE BUCK ROGERS* STOP HERE.



"Peering out of the flight deck windshield of a 747, the sight that greeted me was blackness, interrupted by incandescent bursts of lightning. Only the tightened seatbelt prevented me from hitting my head on the ceiling, the turbulence was so severe. In the left hand seat, the glow of the instrument panel lit the pilot's face, impassively statue-like, the concentration total.

As the computer voice droned "400 feet" my eyes were inexorably drawn back to the windscreen. Blackness still. More lightning. No runway. "300 feet" chanted the computer. The pilot remained expressionless.

"200 feet". Where was the runway? My eyes screamed at the windscreen. "100 feet". Why doesn't the pilot pull up? "50 feet". Absurdly, I suddenly noticed how damp my palms were. Then two things happened simultaneously. The pilot uttered his first words "runway in sight" and the wheels touched the ground in the smoothest landing I can ever recall. When I climbed out of my seat, I can't remember what I was more impressed with; the absolute reality of the world's most advanced pilot training simulators, or the calm, unflappable nature of the pilot who had just been tested."

Every day, SAA pilots are tested in the most punishing conditions possible. Not just to separate the men from the flyboys. But to ensure that they remain the finest commercial pilots in the world, in tune with the most advanced equipment. Allowing you to sit back, relax and discover why SAA has been voted "Best Carrier to Africa" six years in a row.

SAA
SOUTH AFRICAN AIRWAYS

AFRICA'S WARMEST WELCOME.

FOR RESERVATIONS CALL 1-800-722-9675

*BUCK ROGERS is a trademark of The Dille Family Trust

BRAVO!

Lincoln Center applauds almost 500 donors who have joined the Consolidated Corporate Fund to benefit:

THE METROPOLITAN OPERA

NEW YORK PHILHARMONIC

THE JUILLIARD SCHOOL

NEW YORK CITY BALLET

NEW YORK CITY OPERA

THE FILM SOCIETY OF LINCOLN CENTER

THE CHAMBER MUSIC SOCIETY OF LINCOLN CENTER

LINCOLN CENTER THEATER

SCHOOL OF AMERICAN BALLET

LINCOLN CENTER FOR THE PERFORMING ARTS, INC.

OUTSTANDING LEADERSHIP
$150,000 AND MORE

Bristol-Myers Squibb Company
The New York Times Company Foundation, Inc.
Real Estate and Construction Council
The Starr Foundation

GRAND LEADERSHIP
$100,000 AND MORE

Capital Cities/ABC, Inc.
The Chase Manhattan Bank
Chemical Banking Corporation
CITIBANK
Consolidated Edison Company of New York, Inc.
William Randolph Hearst Foundation
J.P. Morgan & Co. Incorporated
Philip Morris Companies Inc.
  Kraft General Foods
  Miller Brewing Company
Time Warner Inc.

DISTINGUISHED LEADERSHIP
$75,000 AND MORE

CBS Inc.
NYNEX Foundation

LEADERSHIP
$50,000 AND MORE

American Express Company
IBM Corporation
Marsh & McLennan Companies, Inc.
Merrill Lynch & Co. Foundation, Inc.
Metropolitan Life Foundation
Morgan Stanley & Co., Incorporated
The Pfizer Foundation
Price Waterhouse
RJR Nabisco
Sony Corporation of America/Sony Music Entertainment Inc.

PACESETTERS
$25,000 AND MORE

AGVAR CHEMICALS INC.
AlliedSignal Inc.
American Home Products Corporation
Arthur Andersen & Co.
AT&T Foundation
The Bank of New York
Bankers Trust Company Foundation
Bertelsmann Music Group
The Continental Corporation Foundation
CS First Boston Foundation Trust
Dean Witter, Discover Co.
Deloitte & Touche
Forbes Magazine
GE Fund
General Motors Corporation
Goldman, Sachs & Co.
Grubman Indursky Schindler & Goldstein
GTE Foundation
Hoechst Celanese Corporation
ITT Corporation
Kohlberg Kravis Roberts & Co.
Macy*s
The Marc Haas and Helen Hotze Haas Foundation
McGraw-Hill Foundation, Inc.
Mitsui & Co. (U.S.A.), Inc.
New York Life Foundation
The Prudential Foundation
The Rockefeller Group
Salomon Brothers Inc
Joseph E. Seagram & Sons, Inc.
Sterling Winthrop Inc.
Texaco Inc.
Times Mirror Company
Xerox Corporation

PATRONS
$10,000 AND MORE

ABD Securities Corporation
ADP Foundation
American Cyanamid Company
The Annenberg Foundation
Arnhold and S. Bleichroeder, Inc.
Avnet, Inc.
Avon Products Foundation, Inc.
Backer Spielvogel Bates Worldwide
Barclays Bank Foundation
Benenson Capital Company
The Blackstone Group
Block Drug Company Inc.
The BOC Group, Inc.
Brown & Wood
Bunge Corporation
Carter-Wallace, Inc.
Champion International Corporation
The Chubb Corporation Charitable Trust
Ciba-Geigy Corporation
Cleary, Gottlieb, Steen & Hamilton
The Coca-Cola Company
Coltec Industries Inc
Coopers & Lybrand
Crain's New York Business
Credit Lyonnais
Credit Suisse
Cushman & Wakefield, Inc.
Deutsche Telekom, Inc.
The Dun & Bradstreet Corporation
Equitable Real Estate Investment Management Inc.
Ernst & Young
The Fisher Brothers Foundation
Fleet Bank
General Reinsurance Corporation
Goldfarb & Fleece

Grand Metropolitan Incorporated
Eugene M. Grant & Company
Kathy and Alan Greenberg Foundation
Grey Advertising Inc.
L. Jay Grossman, Jr. Foundation Inc.
Gruss & Company
Guardian Life Insurance Company of America
Hoffmann-La Roche Inc.
Richard H. Holzer Memorial Foundation
International Paper Company Foundation
Johnson & Higgins
Johnson & Johnson
Florence and Robert Kaufman
KPMG Peat Marwick
Kyotaru Co., Ltd.
Lazard Freres & Co.
Mr. and Mrs. Peter L. Malkin
Matsushita Electric Corporation of America
McCann-Erickson Worldwide
W. A. McIntosh
McKinsey & Company, Inc.
Mercedes-Benz of North America
Merck & Co., Inc.
Mobil Corporation
National Westminster Bank USA
The New York Stock Exchange Foundation
Newmark and Company Real Estate, Inc.
Evelyn Paige, Inc.
PaineWebber Group Inc.
Park Summit Realty Corp.
Philips Electronics North America Corporation
Polo Ralph Lauren Corporation
Procter & Gamble Fund
Prudential Securities Incorporated
Restaurant Associates Corporation
Ruane, Cunniff & Co., Inc.
Lawrence Ruben Co. Inc
Saatchi & Saatchi Advertising Worldwide
Saks Fifth Avenue
Sandoz Corporation
Sara Lee Corporation
The Segal Company
Simpson Thacher & Bartlett
Solow Building Company
Swig, Weiler & Arnow Mgt Co. Inc.
Swiss Bank Corporation
J. Walter Thompson Company
Toyota Motor Corporation
Unilever United States, Inc.
Union Bank of Switzerland
U S. Trust Company of New York
E.M. Warburg, Pincus & Co., Inc.
The Warner-Lambert Foundation
Weil, Gotshal & Manges
M. R. Weiser & Co.
Wertheim Schroder & Co Incorporated
Witco Corporation
Young & Rubicam Inc.

FRIENDS
$5,000 AND MORE

American Stock Exchange, Inc.
Angel/EMI Classics/Virgin Classics
Banca Commerciale Italiana
Banca Nazionale del Lavoro
Broadcast Music, Inc.
Chesebrough-Pond's USA
Liz Claiborne Foundation
The Coach Dairy Goat Farm
Colgate-Palmolive Company
Continental Grain Foundation
Cosmair, Inc.
The Cowles Charitable Trust
Cravath, Swaine & Moore
Credit Agricole
R.R. Donnelley & Sons Company
Edison Parking Corporation
First Manhattan Co.
Ford Motor Company
Fulbright & Jaworski
The BFGoodrich Company
Thomas W. Strauss/Granite Capital International Group
International Flavors & Fragrances Inc.
Kajima International Inc.
The Donna Karan Company
Kekst and Company Incorporated
Kidder, Peabody & Co. Incorporated
Loews Corporation
Marine Midland Bank
The May Department Stores Company and its Lord & Taylor division
MCA/Universal
Melville Corporation
Milliken & Company
Minnesota Mining & Manufacturing Co
Neuberger & Berman
Newsweek, Inc.
Nomura Securities International, Inc.
Northrop Grumman Corporation
Ogden Corporation
Phoenix Home Life Mutual Insurance Company
Proskauer Rose Goetz & Mendelsohn
Republic National Bank of New York
Siemens Corporation
Edward Sulzberger Foundation, Inc.
USLIFE Corporation
UST, Inc.
Wells Rich Greene BDDP Inc.
Westvaco Corporation
Wien, Malkin & Bettex
One Anonymous

DONORS
$3,000 AND MORE

Advanced Monobloc Corporation
AFGL International, Inc.
Alusuisse-Lonza America Inc.
American Industrial Partners
ASCAP
Asiel & Co.
Banco Portugues do Atlantico
Bank Julius Baer & Co., Ltd.
Bloomberg L.P.
Bowne & Co., Inc.
Bozell Worldwide, Inc.
Brandon Systems Corporation/Ira Brown
Brother International Corporation
Brown-Forman Corporation
Canon U.S.A., Inc.
Carter, Ledyard & Milburn
The Chevron Companies
Cline, Davis & Mann, Inc.
Consolidated Rail Corporation
Corning Incorporated Foundation
CPC International Inc.
Crane Co.
Daiwa Securities America Inc
Datascope Corp.
Deblinger Sales & Marketing Corporation
Dresdner Bank AG
E.I. du Pont de Nemours & Company
Finkelstein Associates
Finlay Enterprises, Inc.
Florasynth Inc.
Frenkel & Co., Inc.
Furman Selz Incorporated
The Goodyear Tire & Rubber Company
Gould Paper Company
Hill & Knowlton, Inc.
Hilton Hotels Corporation
Honeywell Foundation
Hunton & Williams
The Industrial Bank of Japan Group
ITOCHU International Inc.
Kenwood U.S.A. Corporation
Kwasha Lipton
Lawrence, O'Donnell, Marcus & Co.
Long-Term Credit Bank of Japan
Loral Corporation
Mason & Company
Mattel, Inc.
Mitsubishi International Corporation
Mitsubishi Materials USA Corporation
Mitsui O.S.K. Lines (America) Inc.
Mitsui Petrochemicals (America) Ltd
Mitsui Toatsu Chemicals, Inc.
Benjamin Moore & Co.
North American Reinsurance Corporation
Ogilvy Adams & Rinehart
Platinum
Ply Gem Industries, Inc.
Random House
Refco Group, Inc.
Robinson, Lake, Lerer, Montgomery/Sawyer Miller Inc.
Royal Bank of Canada
The Sanwa Bank Limited
Schering Berlin Inc.
Shereff, Friedman, Hoffman & Goodman
Shiseido Cosmetics (America) Ltd.
Spears, Benzak, Salomon & Farrell, Inc.
Sprint Foundation
Paul Stuart
Sulzer Bros. Inc.
Sumitomo Corporation of America
Tishman Speyer Properties
The Tokio Marine and Fire Insurance Company, Ltd.
"21" International Holdings, Inc.
Weiss, Peck & Greer
Wilson, Elser, Moskowitz, Edelman & Dicker
One Anonymous

And 148 supporters and contributors under $3,000 as of August 18, 1994

For information please call The Consolidated Corporate Fund, 212-875-5430. A copy of the last annual report filed with the New York State Department of State may be obtained upon request by writing to the New York State Department of State, Office of Charities Registration, Albany, NY 12231 or Lincoln Center for the Performing Arts, Inc., 70 Lincoln Center Plaza, New York, NY 10023-6585.

LINCOLN CENTER
FOR THE PERFORMING ARTS

XURY, CALM, AND SPEED: ’S THE CHUNNEL TRAIN

TRAVEL

e sleek train
eaks across north-
n France at 185
h, then slows as it
hes the flat, windswept
s of the English Channel
t. Up ahead, the tracks
t to slope downward, to-
d two black holes that
e like tiny eyes at the
om of a concrete em-
ment. Without fan-
, the train swishes
the waiting tun-
It dives 425 feet
ath the water’s
face at 100
. A mere 19
utes later, it
sts into the
autumn light
gside English
dows and
zing sheep.
ot since Phin-
Fogg crossed
Channel by bal-
has there been
a pleasant way
ravel between
don and Paris.
new Eurotunnel,
h opens to passen-
trains on Nov. 14,
its share of financial
s: At $14 billion, it cost
ly twice as much to build
pected, and profits aren’t
y for years. But this engi-
ing marvel is a major
for business travelers.
aboard an ultrafast lux-
train at Gare du Nord in
s, and step off four hours
in a stunning new glass
inal at London’s Water-
tation. London-Brussels
s, starting the same day,
take 15 minutes longer.
rary to a common belief,
e’s no change of trains.
stop only once—for two
ites—at the French city
ille.

ying is still a bit faster, if
don’t check luggage or hit
her or air-traffic delays.

Downtown to downtown, air travel wins by about 45 minutes, but the train offers quality time. In first class, tables fold out between plush, reclining seats that face each other. You can set up a laptop computer, spread papers, or hold a four-person meeting. On the 40-minute plane ride, “you hardly have time to open a briefcase,” says Paris airline consultant Bertrand d’Yvoire.

Aboard the new Eurostar train—as this clone of France’s high-speed TGV is called—you’re just as pampered as on a plane. The first-class ticket includes a meal, brought to your seat. Hostesses in black and white polka-dot uniforms push free-drink trolleys in the aisle. Each car has a phone booth.

All this plus cheaper fares. A first-class, round-trip ticket costs $310. Airfare in equivalent business class is $540—although most passengers accept a modest refund restriction and pay $390. Second class on Eurostar is as little as $150 with four-day advance booking. No freebies in second class, though: Food and drink must be bought in a stand-up bar car. Happily, price wars are likely as airlines fight to keep customers. Air carriers already are improving service. British Airways, for one, is launching a telephone check-in service and sprucing up its lounges.

Eurostar does have drawbacks. Immigration and security checks are just as tedious as at airports and require you to arrive at least 20 minutes before departure. There’s no duty-free shopping or frequent-flyer mileage. Schedules are slim: two daily London-Paris trips, two to Brussels. That’ll slowly rise to 15 on each route, but airlines offer 60 Paris-London flights.

You can also drive between Britain and the Continent via the Chunnel in your car on a shuttle train that takes 35 minutes. Shuttles will run at least hourly, 24 hours a day, and are expected to cost $350 to $500 for a car and occupants. Car ferries are cheaper, at $120 to $490 depending on season and time of day but take 75 minutes or more from Dover to Calais on often-rough seas. Michelin has a map/guide, *The Channel Tunnel* ($3.75), showing road networks on both sides and giving practical info on the tunnel and tourism.

This undersea dream has been two centuries in coming. But for travelers between Europe’s two biggest cities, it should instantly become the preferred way to go. Better book early.

Stewart Toy

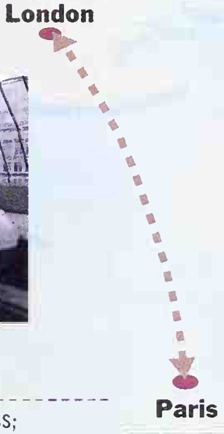
BRITISH AIRWAYS
TAT

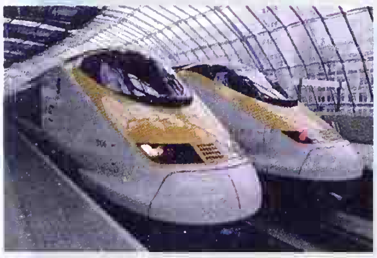
AIRLINES

TRAVEL TIME 3 hours, 15 minutes

ROUND-TRIP FARE $390 business class; $160 discount second class; TRIPS PER DAY 60

COMMENTS Delays are common





EUROSTAR PASSENGER TRAIN

TRAVEL TIME 4 hours

ROUND-TRIP FARE $310 first class; $150 second class

TRIPS PER DAY 2 at first, 15 by summer

COMMENTS Free meals first class only

CAR FERRIES, DOVER-CALAIS

TRAVEL TIME 6 hours

ROUND-TRIP FARE $120 to $490 for car with 2 occupants

TRIPS PER DAY About 40, depending on season

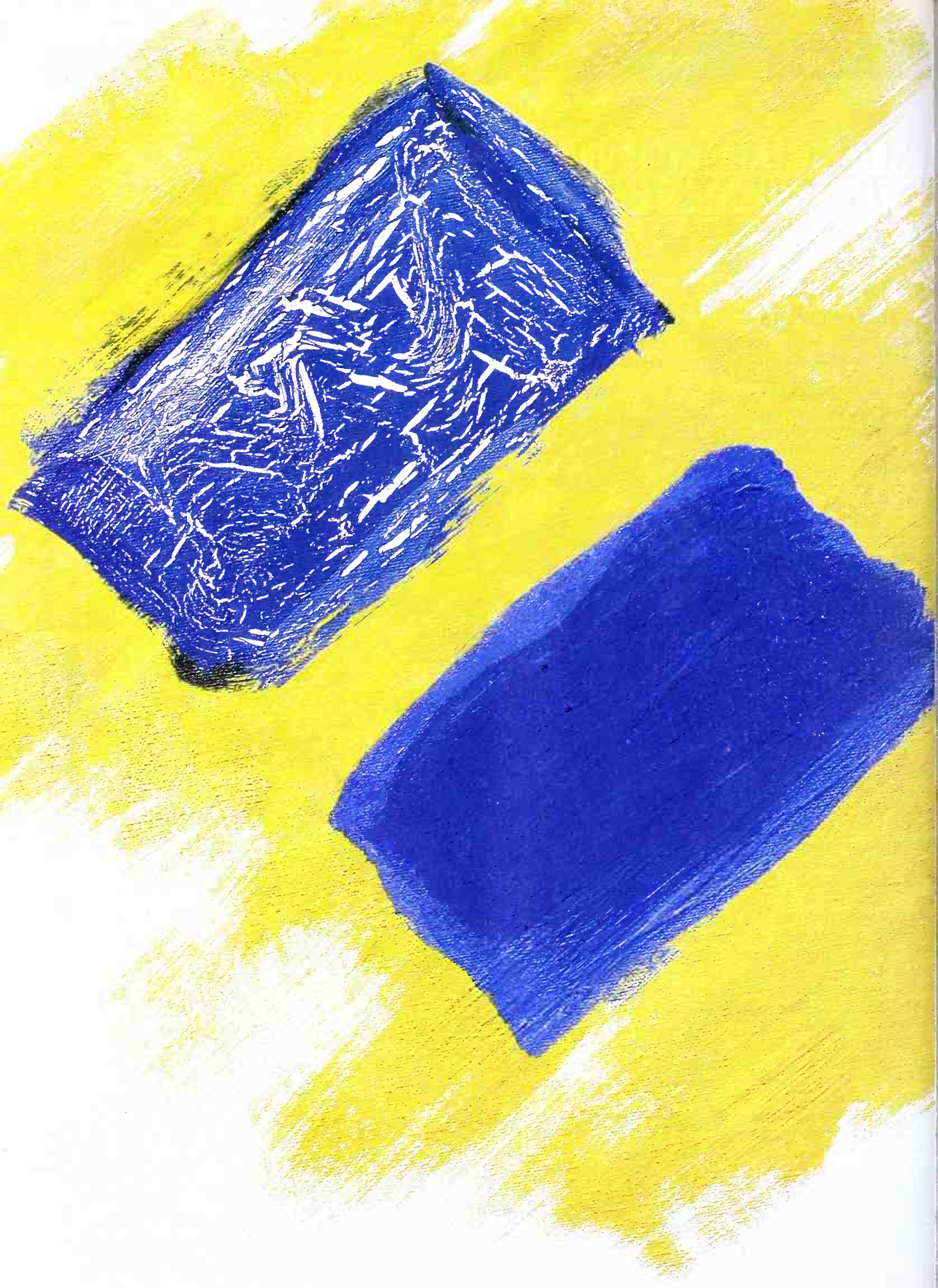
COMMENTS Reserve ahead

(CLOCKWISE FROM TOP LEFT) PHOTOGRAPHS BY DANIEL GIRY/SYGMA, ANTOINE GYORI/SYGMA, NIVIERE/SIPA, RAPHAEL GAILLARDE/GAMMA-LIAISON; MAP BY RAY VELLA/BW

WORTH NOTING

■ **ISRAEL INDEX.** The American Stock Exchange is giving investors a chance to bet on the expanding Israeli economy by offering options trading on a new index of 11 Israeli companies listed in the U.S. The AMEX/Oscar Gruss Israel Index appears under ticker symbol XIS.

■ **BUYER’S AID.** In the market for a new car? Compare the latest vehicles by computer. The *Popular Mechanics New Car Buyers Guide 1995* on CD-ROM includes dealer-invoice prices, specs, and options on 850 cars and trucks. The $50 disk is from Books That Work and Hearst New Media.



Now old is new.

Introducing the new System/390 Parallel Enterprise Server.

Wouldn't it be great if someone would offer you a way to fast-forward to new applications without having to leave behind your current investments in systems and skills? Well, that's exactly the offer the new System/390® Parallel Enterprise Server™ makes you. You can team it with powerful mainframes, or use it by itself as a general-purpose server in an open, client/server environment. With our new operating systems and software tools you'll be able to build on your current applications without having to rewrite code or retrain people. In fact, you can even run UNIX® applications on it. All in all, a rather prudent way to make old things new. For more information call your IBM representative or 1 800 IBM-3333 and ask for **STAR 84**.* We believe the more you know about where large-scale computing is going, the more you'll agree there is a difference in computers and the companies that make them.

IBM.

*In Canada call 1 800 465-1234, ext. 323. IBM and System/390 are registered trademarks and System/390 Parallel Enterprise Server is a trademark of International Business Machines Corporation. UNIX is a registered trademark in the United States and other countries, licensed exclusively through the X/Open Company Limited. © 1994 IBM Corp.

The Distinction Between Seeing and Vision.

If you've watched the world of business over the last decade, you saw it learn a lesson: What you see isn't necessarily what you get.

Companies looking for new financing got complicated transactions that lost sight of the objectives. CEOs looking for solutions just got more problems. Investors looking for consistent returns got anything but.

Except for investors with vision.

They insisted on sound opinions based on objective analysis that offered clear guidance. From a company upon whose judgment they could rely.

So before you come to your next investment decision, call S&P.

We can give you fresh insights.

Standard & Poor's

A division of McGraw-Hill, Inc.

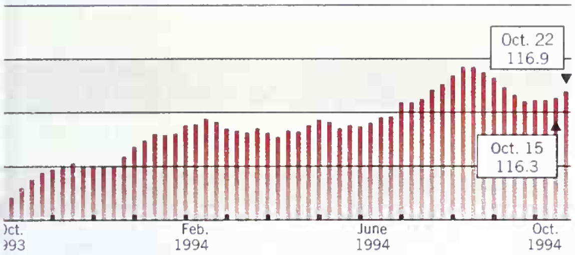
Corporate Finance *Financial Institutions* *Insurance Rating Services* *International Finance* *Public Finance* *Publishing Services* *Structured Finance*

usiness Week Index

ODUCTION INDEX

:hange from last week: 0.5%
.hange from last year: 7.4%

1992=100 (four-week moving average)



production index increased during the week ended Oct. 22. On a seasonally ;ted basis, output of trucks, electric power, coal, paper, and paperboard in- ed, while auto, crude-oil refining, and lumber output declined. Production of and rail-freight traffic were unchanged for the week Before calculation of the week moving average, the index increased solidly, to 118.3, from a reading of 9 the previous week.

BW production index copyright 1994 by McGraw-Hill Inc.

ADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
;INESS WEEK LEADING INDEX* (10/22)	246.58	246.42r	7.8
ICK PRICES (10/28) S&P 500	464.92	467.73	–0.2
PORATE BOND YIELD, Aaa (10/28)	8.65%	8.54%	28.5
USTRIAL MATERIALS PRICES (10/28)	107.9	107.5	14.3
;INESS FAILURES (10/21)	262	254	–22.7
L ESTATE LOANS (10/19) billions	$443.9	$444.2r	6.7
IEY SUPPLY, M2 (10/17) billions	$3,562.3	$3,558.5r	1.8
IAL CLAIMS, UNEMPLOYMENT (10/15) thous.	324	329	–7.7

rces: Center for International Business Cycle Research (CIBCR), Standard & 's, Moody's, *Journal of Commerce* (index: 1980=100), Dun & Bradstreet (failures ırge companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ıess failures and real estate loans. *Copyright 1994 by CIBCR.

TEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
ERAL FUNDS (11/1)	4.76%	4.67%	3.04%
IMERCIAL PAPER (11/1) 3-month	5.60	5.55	3.38
ITIFICATES OF DEPOSIT (11/2) 3-month	5.58	5.56	3.36
ED MORTGAGE (10/28) 30-year	9.17	9.01	6.97
IUSTABLE MORTGAGE (10/28) one-year	6.00	5.87	4.14

rces: Federal Reserve, HSH Associates

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (10/29) thous. of net tons	1,954	1,947#	2.4
AUTOS (10/29) units	140,378	140,885r#	3.6
TRUCKS (10/29) units	117,812	122,746r#	3.4
ELECTRIC POWER (10/29) millions of kilowatt-hrs.	55,833	56,077#	3.7
CRUDE-OIL REFINING (10/29) thous. of bbl./day	13,089	13,541#	–4.5
COAL (10/22) thous. of net tons	20,667#	20,520	6.2
PAPERBOARD (10/22) thous. of tons	914.0#	870.0r	10.9
PAPER (10/22) thous. of tons	850.0#	829.0r	4.0
LUMBER (10/22) millions of ft.	481.1#	480.2	–1.9
RAIL FREIGHT (10/22) billions of ton-miles	25.3#	25.1	5.9

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (11/2) $/troy oz.	383.850	388.900	5.6
STEEL SCRAP (11/1) #1 heavy, $/ton	133.50	133.50	1.5
COPPER (10/29) ¢/lb.	126.7	122.1	50.1
ALUMINUM (10/29) ¢/lb.	86.5	85.0	73.9
COTTON (10/29) strict low middling 1-1/16 in., ¢/lb.	69.38	67.28	23.3
OIL (11/1) $/bbl.	18.63	17.49	5.6

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (11/2)	96.20	97.01	108.25
GERMAN MARK (11/2)	1.49	1.50	1.70
BRITISH POUND (11/2)	1.64	1.63	1.48
FRENCH FRANC (11/2)	5.12	5.12	5.91
ITALIAN LIRA (11/2)	1538.5	1527.5	1642.0
CANADIAN DOLLAR (11/2)	1.36	1.35	1.29
MEXICAN PESO (11/2)[3]	3.436	3.431	3.147

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

---

v data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense pment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

SUMER CREDIT

day, Nov. 7 ▶Consumers likely added ıdditional $10 billion in installment in September, according to the median :ast of economists surveyed by MMS national, a division of McGraw-Hill Inc. ;eholds are borrowing at a furious pace year. Credit has risen by a monthly av- e of $10.5 billion since March. In Au- debt soared by $11.2 billion, with billion in the form of revolving credit.

DUCTIVITY AND COSTS

nesday, Nov. 9, 10 a.m. ▶Output per worked in the nonfarm business sector ably increased at a 2% annual rate in hird quarter, reversing the 2.7% drop posted in the second. Output appears to have increased at double the rate that work time rose. So unit labor costs likely grew at a 1.5% annual rate last quarter—better than their 3.5% jump in the second. Manufacturing productivity continued to outshine other sectors. Factory output per hour likely rose by about 5.5%, causing factory unit labor costs to slide by 1.5%. In the second quarter, factory productivity grew 4.4%, and unit costs fell 2.7%.

UNEMPLOYMENT CLAIMS

Thursday, Nov. 10, 8:30 a.m. ▶New filings for state unemployment-insurance benefits probably stood at 310,000 in the week ended Nov. 5. Improved job growth has slowed filings. Claims in September and October were running at a pace of about 325,000, well below the range of 350,000 to 360,000 posted in the early summer.

PRODUCER PRICE INDEX

Thursday, Nov. 10, 8:30 a.m. ▶The MMS median forecast is that producer prices of finished goods rose by 0.2% in October for all items—and after excluding food and energy. In September, a plunge in energy prices caused a 0.5% drop in the total PPI. Excluding food and energy, prices rose just 0.1% in September. The October PPI release will be the last inflation report issued before the Federal Reserve Board meets to set monetary policy on Nov. 15.

YOU'VE JUST MISSED THE FIRST SIGN OF BREAST CANCER IF YOU DIDN'T SEE THAT SMALL DOT IN THE UPPER LEFT HAND CORNER.

Because it can start that small inside your breast. That's why a yearly mammogram is a must, especially if you're over 50. Doctors agree that as you get older, the risk of breast cancer is higher. But with early detection, you increase your chance of successful treatment. Even though you may have missed the first sign of breast cancer, a mammogram won't. For information, please call the American Cancer Society at 1-800-ACS-2345.

A MAMMOGRAM.
EARLY DETECTION IS THE
BEST PROTECTION.

Ad Council A Public Service of This Publication

AMERICAN CANCER SOCIETY
MASSACHUSETTS DIVISION

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

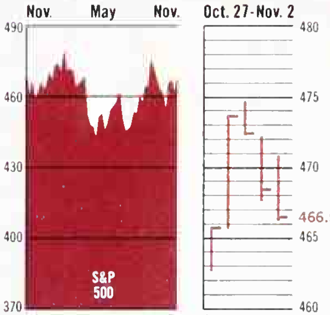
A
ABB 55
Accel Partners 80
ADM 142
Alfa Romeo 80
America Online 80
American Airlines 102
American Computer Group 80, 86
American Express 62
Amoco 55
Anchor Bancorp 38
Apache 6
Apiary 142E8
Apple Computer 18, 47, 80, 140
Applied Materials 52
Astra 47
AT&T 18, 80, 88
Atlantic Records 38
Automotive Industries 104
Avery Dennison 53
B
Banc One 98
Bank of America 80, 99
Bank of California 99
Bankers Trust 42
Bantam Doubleday Dell 8
Baring Securities 26
Bartlett 44
Bechtel Group 68
BevMark 44
Black Box 62
Books That Work 143
Borden 44
British Airways 143
Burlington Northern 100
C
Cabletel 104
Cablevision Industries 38
Callaway Golf 102
Cambridge Capital 95
Capital Growth 104
Cat's Cradle 142E8
CBS 102
CellPort Labs 142E2
Challenger, Gray 39
Charming Shoppes 108
Charoen Pokphand 53
Chase Manhattan 42
Chevron 68
Chrysler 47, 102, 104, 108, 142E2
Citicorp 55
Club Méditerranée 36
CNA Financial 98
Coca-Cola 44
Colgate-Palmolive 72
Comcast 95
Compaq Computer 80, 108
ComPsych 140
CompuServe 80, 86
ConAgra 142
Concern 140
Condé Nast 15
Continental Cablevision 95
Cox Cable 95
Credit Lyonnais 99
CS First Boston 26
Cultor 72
Cybersell 10
D
DDB Needham 84
DEC 80, 88, 108
DEKALB Genetics 142
Delphi Internet 80
DePuy 79
Deutsche Bank 98
Dewey Ballantine 39
Digital Pathways 88
Dime Savings Bank 38
DKB Securities 98
Doubletree Hotel 102
Douglas Elliman-Gibbons 47
Dow Chemical 72, 79
Dow Jones 95
Dreyer's Grand Ice Cream 102
Dun & Bradstreet 80
DuPont 62, 72, 108
E
EAB 99
Eastman Kodak 72
Eli Lilly 49, 72
Enterprise Integration 88
Enterra 6
Equity Group Holdings 42
Esprit 84
Evergreen CyberMart 80
F
Fairfield Communications 102
Fantastic Foods 102
Federal Paper Board 42
Fidelity Magellan 6
Fidelity Management & Research 104
First Albany 108
Fodor's 84
Ford 80, 104, 108, 142E4
Forrester Research 80
Furman Selz 38, 108
G
GE 80, 102, 108
Genencor 72
General Instrument 47
General Magic 18
GEnie Services 80
Georgia-Pacific 108
Gerbrüder Schnyder 72
Gibson Greetings 42
Gist-Brocades 72
GM 53, 80, 104, 108, 142E2
Goldman Sachs 72
Greyhound Lines 47
GTE 62, 95
H
Hale & Dorr 80
Hanna Andersson 39
Harris Computer 88
Harris Semiconductor 8
HBO 38
Hearst 143
Hello Direct 80, 86
Hershey Foods 47
Hewitt Associates 62, 102
Honda 104
HP 37, 47, 80
HSN 80
Hudson Foods 142
Hyatt Hotels 80
I
IBM 8, 10, 47, 80, 83, 108
Intel 47, 80
Internet Distribution Services 84, 86
Intuit 8
IPALCO Enterprises 79
Isuzu 104
J
J.C. Penney 39, 80
Johnson Controls 14E4
J.P. Morgan 80
Judy Bond 36
Jurika & Voyles 104
K
Kellogg 53
Kidder Peabody 108
KKR 44
Kmart 108
KPMG Peat Marwick 142
Kwasha Lipton 140
L
Lever Brothers 53
L.H. Alton 47
Life USA 6
Lillian Vernon 39
L.L. Bean 39, 68
Loews 98
Loral 49
Los Angeles Kings 99
Lotus Communications 18
M
Mammoth Records 80
Management Horizons 39
Mannesmann Demag 59
Market dot NET 80
McGraw-Hill 31, 147
MCI 68, 88
Merck 47
Merhav Group 55
Merrill Lynch 80, 99
Messner, Vetere, Berger 84
Michelin 143
Microsoft 8, 18, 47, 49, 80
Miller Brewing 80
Mitsubishi 80
MMS International 147
Monsanto 62
Morgan Stanley 98
Mosaic Communications 80
Motorola 18
Motto, Kryla & Fisher 14E4
Murphy Oil 6
N
National Semiconductor 88
NatWest Securities 142
Navisoft 80
NBC 38, 46
NEC 47
Nestlé 53
New Valley 47
New York Web 84
Nike 68
Nissan 104
Nova Hut Steelworks 59
Novo Nordisk 72
Nuclear Shield 79
Nynex 53
O
O'Reilly & Associates 84
Ogilvy & Mather 80
1-800-Flowers 84
Online Ad Agency 80, 84
Open Market 84
Oppenheimer 68
Oracle 47
Orbit Technologies 79
Oscar Mayer Foods 84
Osram Sylvania 142E2
P
Pacific Gas & Electric 68
Pacific Telesis Group 68
PacifiCorp 68
PaineWebber 108
Paper Direct 80
Paradigm Learning 8
Patterson, Belknap, Webb & Tyler 38
Penguin USA 8
PepsiCo 44
Performance Systems 80
Philip Morris 108
Pilgrim's Pride 142
Pioneer Hi-Bred 142
Premenos 80
Primestar Partners 46
P&G 42, 53, 72
Prodigy 80, 86
Prostar Interactive 18
Prudential Securities 68
P.T. Branta Mulia 53
Q
Quaker Oats 44
R
Radical Media 84
Random House 15
RCA 46
R.H. Donnelly 80
RJR Nabisco 44
Robert Mondavi 14E4
RSA Data Security 88
RSK Industries 36
S
Salomon Brothers 108
Samsung 59
S&P 6, 26, 104
Santa Fe Pacific 100
Scudder, Stevens & Clark 108
Seaport Capital 47
Secure Computing 88
Security Dynamics 88
Segal 46
Sentron Medical 79
Showtime Networks 95
Siemens 59
Sierra Pacific Resources 68
Silicon Graphics 80
Skytel 18
Smith Barney 98
Smith International 6
SMS 59
Snapple Beverage 44
Sony 18
Sotheby's 142E8
Southern California Edison 68
Sprint 95
SRI International 88
Stirling Connectors 104
Summa Stable 99
Sun Microsystems 80
Sundance Catalog 80
Superior Stamp & Coin
T
Tandy 47
Tech 21 80
TeleCable 38
Tele-Communications 4 95
Terisa Systems 88
Texaco 8
Textron 104
The Limited 108
Thomson Consumer Electronics 46
Thos. K. Woodard 142E
Time Warner 38, 39, 80 95
Times Books 8
Tippins 59
Tocqueville Asset Management 44
Towers Perrin 62
Toyota 53, 104
Toys 'R' Us 47
Trane 80
Trusted Information Systems 88
Tupperware 80
Tyson Foods 142
U
Unilever 72
Union Pacific 100
United Airlines 102
United Baseball League 47
United Technologies 10
USG 104
U.S. Generating 68
U S West 47, 95
UUNet Communications 80
V
Volvo 80, 142E2
Voyageur Asset Management 98
W
Wal-Mart Stores 53
Walt Disney 39
Wertheim Schroder 10
Westinghouse 55, 102
Woolworth 108
Worldview Systems 84
X
Xaloy 62
Xel Communications 6
Xerox 80, 102
Y
Yacktman Asset Management 44
Young & Rubicam 84
Z
Zenith Electronics 46

nvestment Figures of the Week

MENTARY

ond market tug-of-war contin-
The yield on the 30-year U.S.
ury bond fell below the 8%
on Oct. 28, when investors
preted the third-quarter GDP re-
as pointing toward a slowing
omy and low inflation. A few
later, the yield crossed the 8%
gain, as a purchasing man-
' survey suggested higher in-
n ahead. Stocks mirrored
s. The Dow Jones industrials
ed nearly 56 points when rates
But stocks gave ground once
as interest rates climbed.

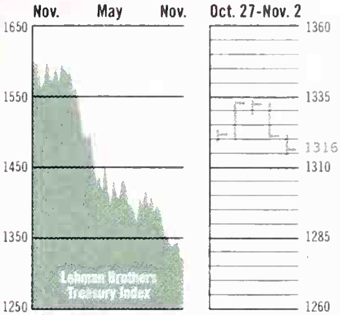
STOCKS



52-week change +0.8%

1-week change +0.8%

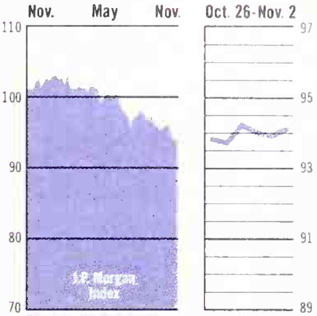
BONDS



52-week change −17.6%

1-week change −0.2%

THE DOLLAR



52-week change −6.6%

1-week change +0.3%

ARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
IONES INDUSTRIALS	3837.1	−0.3	4.8
ZE COMPANIES (S&P MidCap Index)	175.3	1.5	1.1
L COMPANIES (Russell 2000)	253.8	1.2	−1.3
OMPANIES (Russell 3000)	268.0	0.9	0.3

IGN STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
ON (FINANCIAL TIMES 100)	3081.3	2.7	−2.6
) (NIKKEI INDEX)	19,750.7	0.0	1.9
NTO (TSE COMPOSITE)	4229.0	−0.7	−0.4

FUNDAMENTALS	Latest	Week Ago	Year ago
90-DAY TREASURY BILL YIELD	5.21%	5.10%	3.14%
30-YEAR TREASURY BOND YIELD	8.09%	8.06%	6.12%
S&P 500 DIVIDEND YIELD	2.78%	2.81%	2.62%
S&P 500 PRICE/EARNINGS RATIO	17.3	17.5	22.4

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	460.3	460.4	Positive
Stocks above 200-day moving average	35.0%	32.0%r	Positive
Speculative sentiment: Put/call ratio	0.62	0.79r	Neutral
Insider sentiment: Vickers sell/buy ratio	1.44	1.45	Positive

BLOOMBERG FINANCIAL MARKETS

DUSTRY GROUPS

-WEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
MPUTER SYSTEMS	10.1	42.9	APPLE COMPUTER	28.0	40.2	43 1/8
MPUTER SOFTWARE	9.9	19.9	NOVELL	35.6	−7.0	20
STAURANTS	9.7	−1.2	McDONALD'S	10.0	0.7	29
STRUMENTATION	9.7	27.5	HEWLETT-PACKARD	11.4	32.3	97 3/8
YS	9.1	9.8	HASBRO	11.8	−8.9	33 1/8

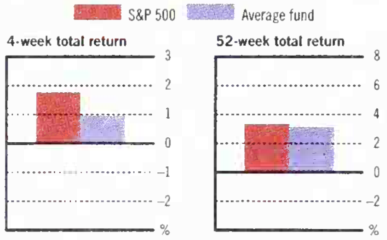
-WEEK LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
LD MINING	−12.1	−9.2	SANTA FE PACIFIC GOLD	−18.7	−3.4	14 1/8
PER CONTAINERS	−11.6	26.9	STONE CONTAINER	−17.3	126.3	16 1/8
EL	−9.7	9.7	NUCOR	−14.2	10.1	59 3/4
NUFACTURED HOUSING	−8.9	2.8	FLEETWOOD ENTERPRISES	−10.0	0.6	22 5/8
SPITAL MANAGEMENT	−8.3	38.1	COMMUNITY PSYCHIATRIC CENTERS	−28.4	−30.4	9 3/4

TUAL FUNDS

MORNINGSTAR INC

ERS	
week total return	%
LIANCE TECHNOLOGY A	9.7
ELITY SELECT DEVELOPING COMM.	8.8
ER LEVERAGED ALLCAP	8.3
eek total return	%
INGTON STRATEGIC INVESTMENTS	50.3
IGMAN COMMUNICATIONS & INFORM. A	45.0
INVESTMENT LATIN AMERICAN EQUITY	39.0

LAGGARDS	
Four-week total return	%
RYDEX PRECIOUS METALS	−11.4
CAPPIELLO-RUSHMORE GOLD	−10.7
BENHAM GOLD EQUITIES INDEX	−9.8
52-week total return	%
MONITREND GOLD	−44.8
AMERICAN HERITAGE	−32.3
STEADMAN OCEANOGRAPHIC TECHNOLOGY	−31.7



LATIVE PORTFOLIOS

DRI/McGRAW-HILL

amounts represent the
nt value of $10,000
ted one year ago
ch portfolio

ntages indicate
ay total returns

Foreign stocks	Gold	U.S. stocks	Money market fund	Treasury bonds
$11,948	$10,336	$10,213	$10,210	$8,745
+1.32%	−1.21%	+1.49%	+0.06%	−0.07%

a on this page are as of market close Wednesday, Nov. 2, 1994, unless otherwise indi-
Industry groups include S&P 500 companies only; performance and share prices are as
of market close Nov. 1. Mutual fund returns are as of Oct. 28. Relative portfolios are valued as of Nov. 1. A more detailed explanation of this page is available on request. r=revised

THE POLITICS OF FURY ISN'T THE ANSWER

A politics of polarization has taken hold in America, with Republicans and Democrats embroiled in an ideological conflict that promises few remedies to what truly ails the nation. Haunted by the growing specter of downward mobility, the middle class is demanding to be heard and is ready to strike out at those who do not listen. These voters are being told that government, and the people who run it, are the enemy, and, fearful and furious, they appear ready to agree.

But those politicians who seek to divide don't really get it. Paradoxically, as candidates campaign on platforms of divisiveness, a centrist political program is already being implemented at the local level. Those running for the Senate and House of Representatives would do well to look for guidance to a growing number of governors and big-city mayors.

Delivery, not destruction, is what the middle class wants. That's the heart of the new centrism. From Republicans such as Mayor Rudolph W. Giuliani of New York to such Democrats as Governor Roy Romer of Colorado, politicians are finding that these voters oppose only wasteful, corrupt government. Small, efficient governments that deliver education, protection, and help for the unfortunate are in favor.

Welfare reform is the second leg of the centrist political agenda. Workfare is a reaffirmation of basic middle-class values. Conservative arguments that IQ is the root cause of poverty or liberal bromides that the poor are victims of history have no constituency in the vast middle swath of voters.

Tax cuts for middle-income families with children is the third part of the new political centrism. The tax burden on the middle class has been rising steadily through the '80s and '90s, a time of declining real income. It is time for more of the financial rewards of work to stay within the family.

Curbing the growth of Medicare and Social Security spending is the only way to pay for these middle-class tax cuts. Both parties know there is no alternative, yet politics prevents either group from suggesting the truth. The solution: a bipartisan commission to recommend cuts and provide political cover. Building on the Kerry Commission would be a start.

The middle class wants government to work. It is angry at the institution but doesn't seek to destroy it, only to make it more effective. This is the chance for Americans to renew their sense of common citizenship.

A NET GAIN FOR BUSINESS

What ironies the booming Internet contains. Largely a product of cold-war research, it emerged last year as a hip digital hangout—a place where free-market capitalists and free-minded anarchists could regularly gather to trade barbs, share the coolest software, and info-surf to their hearts content. Now, this giant free-for-all seems to be transformin itself once again—this time, into a giant electronic marketplace that is open to all companies and circles around th globe.

Can the Internet survive as both free-speech cafe and marketplace to do deals? It can, and it will, for some impor tant reasons: No company or government owns or runs th Internet. Its basic design is flexible enough to exploit virtu ally every new telecommunications and computer technolog that comes along. It is based on stable technical standards tha are open to anyone. Its performance and function, alread unmatched, are constantly being improved and extended And as companies see its commercial potential, the Interne is enjoying a major influx of new capital and entrepreneur al zeal.

The challenge for businesses will be to learn how to use thi technology to their own advantage—and, just as important to learn all they can from the technical and social processe that help the Internet constantly reinvent itself.

IT'S TIME TO OPEN ALL OF ASIA'S MARKETS

As President Clinton prepares to leave for the latest Asia Pacific Economic Cooperation summit in Indonesia, h should bear in mind that a curious triangular trade has com to define much of the flow of capital and goods among th nations of APEC. Equipment and technology are imported b Thailand, Indonesia, South Korea, and other Asian countrie from Japan, who then export goods mostly to the open mar kets of the U. S. Trade among Asians is relatively small, a each nation strives to protect its own industries from globa competition. Even such a Japanophile as Malaysian Prim Minister Mahathir Mohamad recently complained abou Japan's closed markets to his country's manufactured good

Opening the fast-growing economies of APEC to free trad should be top priority for Washington. Already, some 3 mi lion Americans are employed as a result of U. S. exports to th countries of Asia and the Pacific Rim. More than one-sixth all jobs created in the U. S. from 1989 to 1993 are because trade with this region.

But tariffs are more widespread among APEC countrie than almost anywhere else, with the exception of the Midd East. They prevent Taiwanese from selling electronics i South Korea and Thais from selling rice in Japan.

Recently, advisers to APEC, the Eminent Persons Grou recommended abolishing all trade barriers by 2020. But 2 years is simply too long to wait for APEC to move to fre trade. The smaller Association of South East Asian Natior (ASEAN) is planning its own common market by 2003.

That's more like it. President Clinton should encourag this ASEAN "fast track" for all of APEC. Not only will he boo the fortunes of American exporters, he will be helping Filip nos, Chinese, Thais, and millions of other Asians as we

SPECIAL 1994 BONUS ISSUE

NESS WEEK
NOVEMBER 18

BURLINGAME PUBLIC LIBRARY
3 9042 03747864 8

BusinessWeek

McGRAW-HILL PUBLICATION $3.95

How nations and industries will compete in the emerging global economy

21ST CENTURY CAPITALISM

***********5-DIGIT 94010
0602 105811160 DEC94 102 5589
BURLINGAME PUBLIC LIBRARY
480 PRIMROSE RD
BURLINGAME CA 94010-4010

BURLINGAME
NOV 21 1994
LIBRARY

This small appliance is easy to customize.

Introducing the Digital Celebris,™ designed to be as simple and adaptable as your basic stereo. Like any small appliance, it comes with all the features you want, so it includes PCI local bus and 64-bit graphics performance. And you can choose the amount of memory a

speed, up to a 90MHz Pentium™ process

Once it's yours, it can be modified in s

onds to meet your changing needs, just

Sales Performance

This one is too.

ping the easy-access enclosure to switch cards or add

nory. Without tools. Without disconnecting peripherals.

always with the nice, secure feeling you get from a

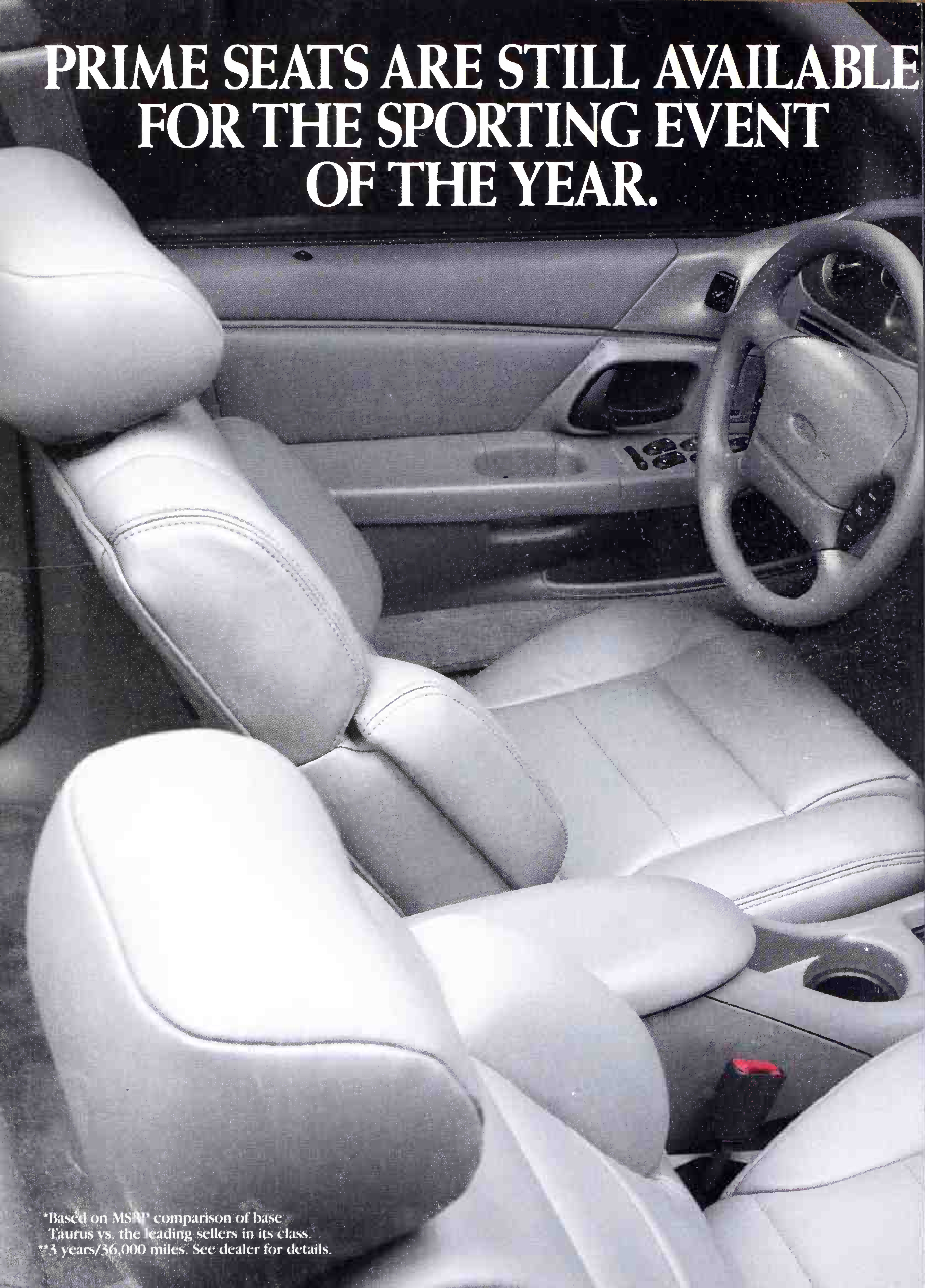
ital 3-year warranty. If you think the Celebris sounds

good now, wait till you own it a while. Call 1-800-210-8321 for your nearest reseller. Please reference JFB when you call. 8:30 a.m. to 8:00 p.m. Mon-Fri. ET.

digital™
PC

© DIGITAL EQUIPMENT CORPORATION 1994. The Digital logo and Celebris are trademarks of Digital Equipment Corporation. Pentium is a trademark of Intel Corporation and the Intel Inside logo is a registered trademark of Intel Corporation.

PRIME SEATS ARE STILL AVAILABLE FOR THE SPORTING EVENT OF THE YEAR.



*Based on MSRP comparison of base Taurus vs. the leading sellers in its class.
**3 years/36,000 miles. See dealer for details.

INTRODUCING THE NEW FORD TAURUS SE

It's the Taurus with a decidedly sporty edge. Taurus SE's cast aluminum wheels, new clear lens headlamps and available spoiler make a serious statement of style. Inside, the SE has a long list of driver-friendly touches. Even air conditioning comes standard. And, of course, Taurus SE also gives you the added safety of standard dual air bags to supplement safety belts for the front passenger as well as the driver, and available anti-lock brakes.

But the SE's news doesn't end there. There's a refined powertrain that delivers an especially smooth performance from the computer-controlled V-6 engine. And when it comes to value, Taurus performs equally as well, as a better value than its leading competition*.

FORD'S ROADSIDE ASSISTANCE.**

Help is only a toll-free call away if you should have a flat tire, get locked out or simply run out of gas.

The new Taurus SE. Sit back, relax and enjoy the sporting event of the season.

FORD TAURUS
AMERICA'S BEST-SELLING CAR.
AGAIN.

HAVE YOU DRIVEN A FORD LATELY?

Ford

21ST CENTURY CAPITALISM

INTRODUCTION 12

21st CENTURY CAPITALISM
With the collapse of communism, ingenuity, prosperity, and middle-class striving are becoming the norm

THE NEW ECONOMIC ERA 14

REASONS FOR OPTIMISM
Simultaneous upheavals in politics, technology, and economics could usher in a golden age of growth **16**

CAPITALISM IN TRANSITION
Market economies come in as many different flavors as there are countries

On the Frontier: Waiting for the law **26**

France: Cutting statist tentacles **30**

Japan: Selling an economic model **32**

FINANCE & CAPITAL 38

NEW-AGE MONEY
The instantaneous movement of money around the world will stoke growth —and shift power away from central bankers and politicians **40**

THE VIRTUAL BANK
The global banking system is being transformed into a seamless web **52**

SCOUTS OF CAPITALISM
In Poland, Alicja Malecka is helping create a mutual-fund industry **54**

PENSIONS GO PRIVATE
Argentina is one of the nations finding new ways to fuel domestic growth **56**

TAPPING GLOBAL CASH
With India opening its doors to foreign investment, capital is flowing in **60**

MANAGEMENT 78

THE NEW MODEL
The 21st century corporation will combine Western finance and Japanese teamwork with local savvy **80**

Ford: Melding global operations **85**

Citicorp: Asian execs get authority **86**

Ericsson: From R&D to market, fast **88**

Sony: Open to foreigners **90**

CONSULTANTS
These high-powered hired guns know their way around the world **92**

PORTRAIT GALLERY 99

VOICES FOR THE MILLENNIUM
Ten notables look into the future with lots of optimism and some dread **100**

THE NEW GLOBAL WORKFORCE 110

THE SKILLS EXPLOSION
The West will have less and less of a lock on skilled, high-paid jobs **112**

TEAMS AT WORK
How Motorola motivates its Malaysian and U.S. workers **122**

SHANGHAI WHIZ KIDS
The city's universities are turning out bright, inexpensive engineers **126**

RUSSIA'S STRIVERS
A new generation is growing up hard-working, educated, and ambitious **128**

THE FUTURE OF UNIONS
Workers in what were once cheap-labor havens start making demands **130**

ILLUSTRATION BY JEAN FRANCOIS PODEVIN

146

TROUBLE AHEAD? 134

THREATS TO PROSPERITY
Pollution, instability, ethnic hatred: There are plenty of forces that could derail global development **136**

POPULATION PRESSURES
India has too many mouths to feed **142**

TECHNOLOGY & MANUFACTURING 144

SMALLER, CHEAPER, FASTER
Leadership in the hotly contested global digital derby is up for grabs **146**

NOKIA CALLING
This Finnish company has turned itself into a cellular powerhouse **156**

THE AGILE FACTORY
Tomorrow's manufacturers will feature mass customization **158**

Where the U.S. factory jobs are **160**

JUMPING INTO MODERNITY
Developing countries learn there's more than one way to play leapfrog **162**

HIGH-TECH FREE AGENTS
Foreigners, often trained in the U.S., are bringing their skills back home **164**

BIOTECHNOLOGY
Europe's drugmakers are buying strategic stakes in U.S. startups **168**

The coming medical marvels **169**

THE EMERGING MIDDLE CLASS 176

THE GOOD LIFE
More wealth may someday mean more democracy, but now it means VCRS **178**

Mexico: Two incomes but scrimping **180**

South Africa: Out of Soweto **182**

India: Designing a new life **184**

GLOBAL MEDIA WARS
Western media giants are being forced to customize their offerings **186**

A talk with Viacom's Frank Biondi **190**

CITIES OF THE FUTURE
Some of today's second-tier cities will be thrust into the spotlight **192**

WHERE WE ARE GOING 194

SNAPSHOT OF THE 21st CENTURY
Here's a statistical sampler of life in 2010

182

SPECIAL ISSUE EDITOR
Robert J. Dowling
EXECUTIVE EDITOR
Frank J. Comes
MANAGING EDITOR
Christopher Power
SENIOR EDITORS
James E. Ellis, Christopher Farrell, William Glasgall, William D. Marbach, John Pearson, John E. Pluenneke, Stanley Reed, Elizabeth Weiner
ART DIRECTOR
Francesca Messina
PICTURE EDITOR
Scott Mlyn
PRODUCTION MANAGER
Richard Balestrino
SENIOR WRITERS
Joyce Barnathan, Paula Dwyer, Pete Engardio, Neil Gross, Bill Javetski, John Rossant
COPY EDITORS
Michael Mercurio (Chief), Hardy Green, Aleta Kaufman, Judith Levine, Harry Maurer
PRODUCTION COPY EDITORS
Donald Halsband (Chief), Lawrence Dark, Hallberg Hallmundsson, Celine Keating
PICTURE EDITORS
Katherine Bourbeau, Todd James, Anne Murray, Ronnie Weil, Bettina Baudoin (Paris), M. Margarita Eiroa (Traffic mgr.)
DESIGNERS
Laura Baer, Alice Cheung, Cynthia Friedman, Anton Klusener, Jay Petrow, Christine Silver, Steven Taylor
ART PRODUCTION
Steven J. Romeo (Mgr.), Alan Bomzer, Annette Kennedy
GRAPHICS
Alberto Mena (Coordinator), Lisa Knouse Braiman, Ray Vella
EDITORIAL OPERATIONS
Craig Sturgis (Systems), Bruce Colville, Joan Dorney, Mark R. Okladek, Joe Rhames, Ilse Walton
RESEARCHER
Jyllian Gunther

Equitable is The Equitable Companies Incorporated. Life insurance and annuity contracts, including variable annuities and variable life insurance, are issued by The Equitable Life Assurance Society of the United States or Equitable Variable

Will we be begging for scholarship money fifteen years from now?

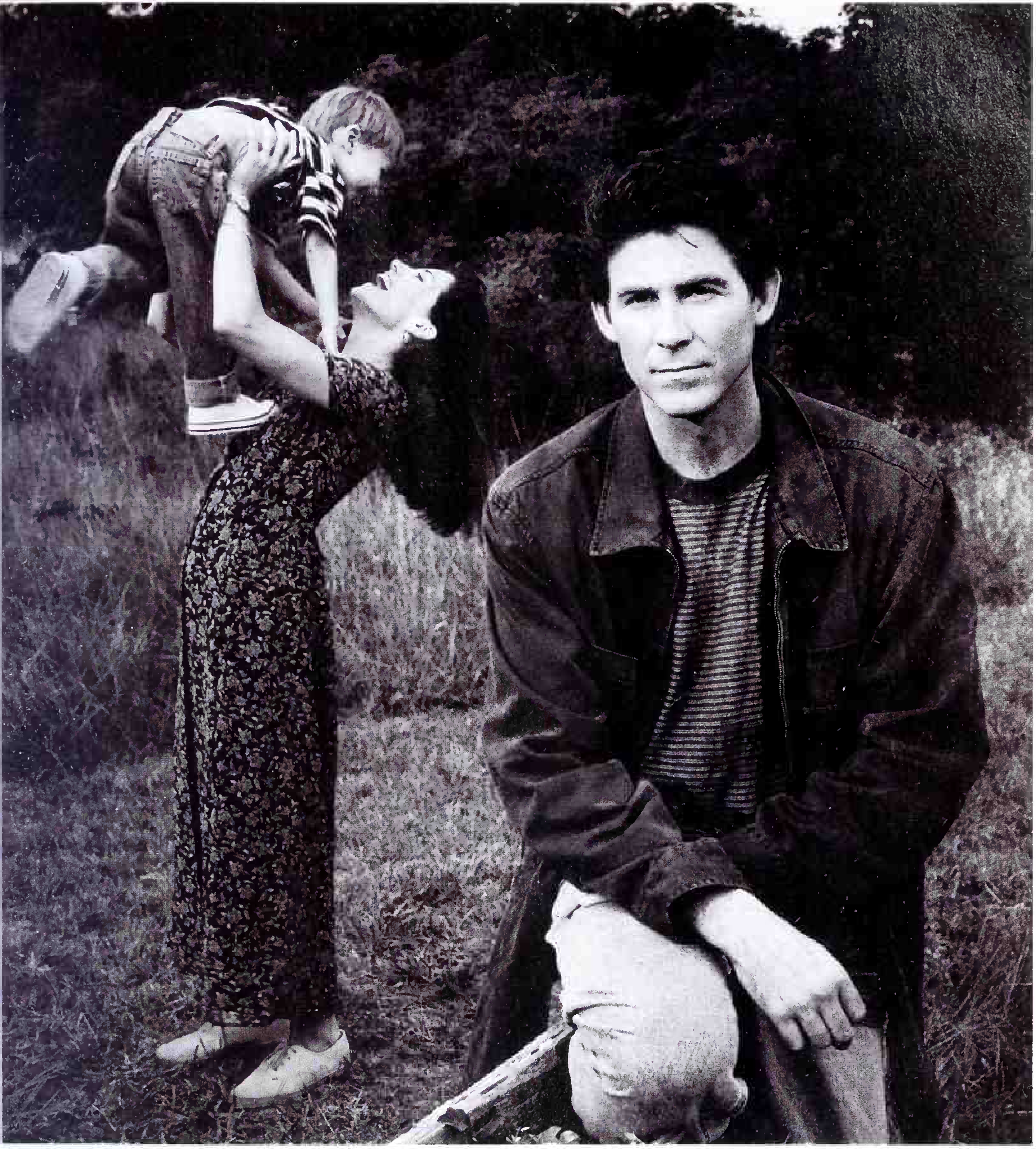
College comes at you like an express train. Like tomorrow, it'll be here before you know it. Is there any way you'll be able to meet it – other than hat in hand?

Yes. Talk to Equitable. We can introduce you to an array of mutual funds, variable annuities and life insurance – ideas to help you plan the future – some that even help defer taxes.

If you want to find out more about these products, including charges and expenses, ask your agent for a prospectus. Be sure to read it carefully before you invest or pay money.

And do it soon. You know how fast youngsters move from stage to stage. So you know that college will arrive as scheduled. We can help you be ready.

Company, New York, NY, which are subsidiaries of Equitable. Mutual funds, variable annuities and variable life insurance are distributed through Equico Securities, Inc. (Equico), New York, NY, and are offered by prospectus only. GE-94-193



EQUITABLE

Power over tomorrow

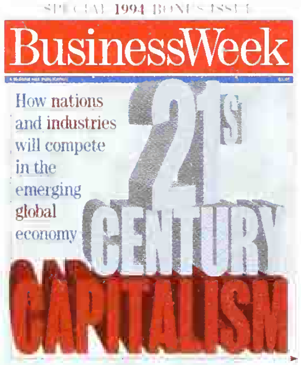
BusinessWeek

EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
CHIEF ECONOMIST: William Wolman
ASSISTANT MANAGING EDITORS:
Sarah Bartlett, Robert J. Dowling, G. David Wallace
ART DIRECTOR: Malcolm Frouman
SENIOR EDITORS: Bob Arnold, Frank J. Comes, Deidre A. Depke, Judith H. Dobrzynski, Marc Frons, Geoff Lewis, Ciro Scotti, Mark N. Vamos, Lee Walczak (Washington), Chris Welles, Seymour Zucker
EDITORIAL PAGE EDITOR: Bruce Nussbaum
CHIEF OF CORRESPONDENTS: Keith G. Felcyn
INTERNATIONAL EDITION: William J. Holstein (Editor), John E. Pluenneke, Elizabeth Weiner (Sr. Editors)
SENIOR WRITERS: John A. Byrne, James E. Ellis, William Glasgall, Jeffrey M. Laderman, Gene G. Marcial, John Pearson, Karen Pennar, Otis Port
ASSOCIATE EDITORS: Duane E. Anderson, Catherine Arnst, Amy Dunkin, William D. Marbach, John Meehan, Michael Oneal, Thane Peterson, Gary Weiss
DIRECTOR, EDITORIAL OPERATIONS: Thomas J. Reed
PICTURE EDITOR: Lawrence Lippmann
SENIOR ART DIRECTOR: Laura Baer
ECONOMICS: James C. Cooper (Sr. Economist/Business Outlook editor), Kathleen Madigan (Assoc.) Christopher Farrell, Michael J. Mandel (Economics editors) Gene Koretz (Economic Trends editor)
DEPARTMENT EDITORS: **Books:** Denise Demong **Computers:** Ira Sager **Corporate Finance:** Philip L. Zweig **Corporate Strategies:** Jane A. Sasseen **Information Management:** John W. Verity **International Finance:** Joan Warner **International News:** Christopher Power **International Outlook:** Stanley Reed **Investment Banking:** Leah Nathans Spiro **Legal Affairs:** Linda Himelstein **Media:** Mark Landler **Money & Banking:** Kelley Holland **News:** Keith H. Hammonds **Personal Business:** Edward C. Baig **Science:** Emily T. Smith **Scoreboards:** Frederick F. Jespersen. **Social Issues:** Michele Galen **Software:** Amy Cortese **Technology:** Peter Coy, Neil Gross **Up Front:** Larry Light **The Workplace:** Aaron Bernstein
STAFF EDITORS: Pam Black, Veronica Byrd, Bruce Einhorn, Paul M. Eng, Elizabeth Lesly, Ron Stodghill II, Amey Stone, Suzanne Woolley, Laura Zinn
ASSISTANT EDITORS: Lori Bongiorno, Julie Tilsner
COPY EDITORS: Harry Maurer, Michael Mercurio (Deputy chiefs) Prudence Crowther, Marc Miller (Asst. chiefs), Tim Belknap, Aleta Kaufman, Jack Robbins, Jim Taibi (Sr. copy editors), Carl Desens, Hardy Green, Cynthia McClean, Joseph Mandel, David Pengilly, Malka Percal, Doug Royalty, Maria Chapin, Gail Fowler, Jeneen Hobby, Aida Rosario (Researchers)
PRODUCTION COPY EDITORS: Donald Halsband (Chief), Lawrence Dark (Deputy), Hallberg Hallmundsson, Celine Keating, Robert S. Norman, Robert J. Rosenberg, Eva Stettner
ART: Steven Taylor (Deputy director), Cynthia Friedman, Francesca Messina, Jay Petrow, Christine Silver (Assoc. directors), Alice Cheung (Asst. director) **Graphics:** Arthur Eves (Director), Joan Danaher (Deputy director), Rob Doyle (Sr. Illustrator), Lisa Knouse Braiman, Alberto Mena, Ray Vella (Illustrators), Jaime Beauchamp (Computer artist) **Production:** Stephen J. Romeo (Mgr.), Annette Kennedy (Asst. manager), Alan Bomzer (Coordinator)
PHOTOS: Scott Mlyn (Deputy Picture editor), Todd James (Senior Picture editor), Anne Murray, Ronnie Weil (Assoc. Picture editors), Bettina Baudoin (Paris), Kathleen Moore (Asst. Picture editors), M. Margarita Eiroa (Traffic manager) Lawrence Crowe (Librarian), Michael Hirsch (Researcher)
EDITORIAL OPERATIONS: Yvonne Rodriguez (Production chief) Richard Balestrine, A. Peter Clem (Production managers) Karen Butcher, Thomas R. Dowd, Fidel Lee, Jose L. Martin, Jane M. Perkinson, Craig Sturgis, Edgardo Torres, Karen Turok, Ilse V. Walton, Nicholas White (Makeup editors) Donald C. Pearson (Traffic manager), Bruce M. Arnold, Stephen R. Lebron (Assts.)
CORRESPONDENTS: **Atlanta:** David Greising (Mgr.), Maria Mallory **Boston:** Mark Maremont (Mgr.), Gary McWilliams, Geoffrey Smith **Chicago:** Richard A. Melcher (Mgr.), Greg Burns, Susan Chandler, Kevin Kelly **Cleveland:** Zachary Schiller (Mgr.) **Connecticut:** Tim Smart (Mgr.), Chris Roush **Dallas:** Wendy Zellner (Mgr.), Peter Burrows, Stephanie Anderson Forest **Detroit:** Kathleen Kerwin (Mgr.), James B. Treece (Sr. Correspondent), David Woodruff **Los Angeles:** Ronald Grover (Mgr.), Larry Armstrong (Sr. Correspondent), Eric Schine **Miami:** Gail DeGeorge (Mgr.) **Philadelphia:** Joseph Weber (Mgr.) **Pittsburgh:** Stephen Baker (Mgr.), Keith L. Alexander **San Francisco:** Russell Mitchell (Mgr.), Richard Brandt, Joan O'C. Hamilton, Robert Hof, Kathy Rebello **Seattle:** Dori Jones Yang (Mgr.) **Washington:** Stan Crock, Owen Ullmann (News Editors), Amy Barrett, Amy Borrus, John Carey (Sr. correspondent), Christina Del Valle, Richard S. Dunham, Dean Foust, Susan B. Garland, Howard Gleckman (Sr. correspondent), Douglas Harbrecht, Mark Lewyn, Paul Magnusson, Mike McNamee, Mary Beth Regan, Michael Schroeder, Stephen H. Wildstrom (Technology & You), Catherine Yang **Bonn:** John Templeman (Mgr.), Karen Lowry Miller **Hong Kong:** Joyce Barnathan (Mgr.), Pete Engardio **London:** Paula Dwyer (Mgr.), Julia Flynn **Mexico City:** Geri Smith (Mgr.) **Moscow:** Peter Galuszka (Mgr.) **Paris:** Stewart Toy (Mgr.), Gail Edmondson, Bill Javetski **Rome:** John Rossant (Mgr.) **Tokyo:** Robert Neff (Mgr.), Larry Holyoke **Toronto:** William C. Symonds (Mgr.)
EDITORIAL SERVICES: **Broadcasting:** Ray Hoffman **Business Manager:** Barbara B[illegible] **Information Services:** Jamie B. Russell (Director), Judi Crowe (Asst. editor) Heather Hartley, Fred Katzenberg, Maria Maroniak, Karen [illegible] **Office Manager:** Roselyn Kopit **Public Relations:** Christine S[illegible], Josephine Coppola **Readers Report:** Yvette Hernandez **Reprint Permission:** Janet Gonzalez **Systems:** Ina L. Kichen (Mgr.), Andrew Bernardo, Marie Brown-Bryant, Marta Skrelja

PRESIDENT: John W. Patten
PUBLISHER: David [illegible]
SR. VP, OPERATIONS: Gary B. Hopkins
VP, CONSUMER MARKETING/CIRCULATION: Robert Montemayor
VP, INTERNATIONAL: Gerd H[illegible]
VP, STRATEGIC PLANNING & DEVELOPMENT: Cara Erickson
VP, MARKETING: Harold K. Somerdyk
VPs, SALES: Constance E. Bennett (Eastern Region) Dan Dunn (Midwestern Region), Louis R. M[illegible] (Western Region)
VP, STRATEGIC PROGRAMS: James H. McGraw IV
CONTROLLER: Gary M. Singer
DIRECTOR, ADVERTISING BUSINESS: Linda F. Carvalho
DIRECTOR, PRODUCTION: Mario J. Talluto

EDITOR'S MEMO

As this century ends, two great currents are running through the global economy: the Information Revolution and the spread of market economies nearly everywhere. Sure, communism might have fallen of its own weight, and the Information Revolution could have happened at anytime. But they didn't. Instead, these two forces have joined to create spectacular opportunities for all of us.


SPECIAL 1994 BONUS ISSUE
BusinessWeek
How nations and industries will compete in the emerging global economy
21st CENTURY CAPITALISM

Freely flowing information liberalizes markets, and vibrant markets impel ever greater leaps in technology. While no one can say how far this tide will carry us—some predict it will dominate the next 50 years—it's clear that the world we'll live in a decade hence is rooted more than ever in decisions we make today. Whether it's virtual banking, genetic forecasting, cities wired with fiber optics, shopping on the Internet, or learning to absorb a new class of white-collar professionals from China, India, and Vietnam, the framework of the next century is already in place. For many people, life will be immeasurably better. But as skill-driven markets realign the globe, the gap between the haves and have nots will widen, and that could have disastrous consequences.

BUSINESS WEEK has often treated such epochal changes with special issues. In 1981, we produced *The Reindustrialization of America*, which foresaw how a decade of corporate renewal would produce today's vibrant manufacturing comeback. In our pathbreaking *The Quality Imperative* three years ago, we showed how quality defines international competition. Last spring, *The Information Revolution* explored the wonders of digital technology in our lives.

In *21st Century Capitalism*, we're taking a longer leap. Recognizing that skills rather than borders will determine our global futures and that change is now compressed into months rather than years, we've asked a specialized team of journalists to look all the way out to 2010. Under the direction of editors Robert J. Dowling, Frank J. Comes, and Christopher Power, some 80 correspondents, editors, designers, and photo editors devoted six months to this project.

BUSINESS WEEK writers living in Europe, Russia, Asia, and Latin America joined with our domestic bureaus and editors in New York to explore how money managers, technologists, scientists, executives, labor leaders, and a rising global middle class will shape the next century. There's a separate chapter on each, along with insights from 10 visionary thinkers and a guide to some surprising new urban hot spots such as Bangalore, India.

Comparative journalism of this scope is a special strength of BUSINESS WEEK. We hope you enjoy this issue and benefit from it in years to come.

Stephen B. Shepard

Editor in Chief

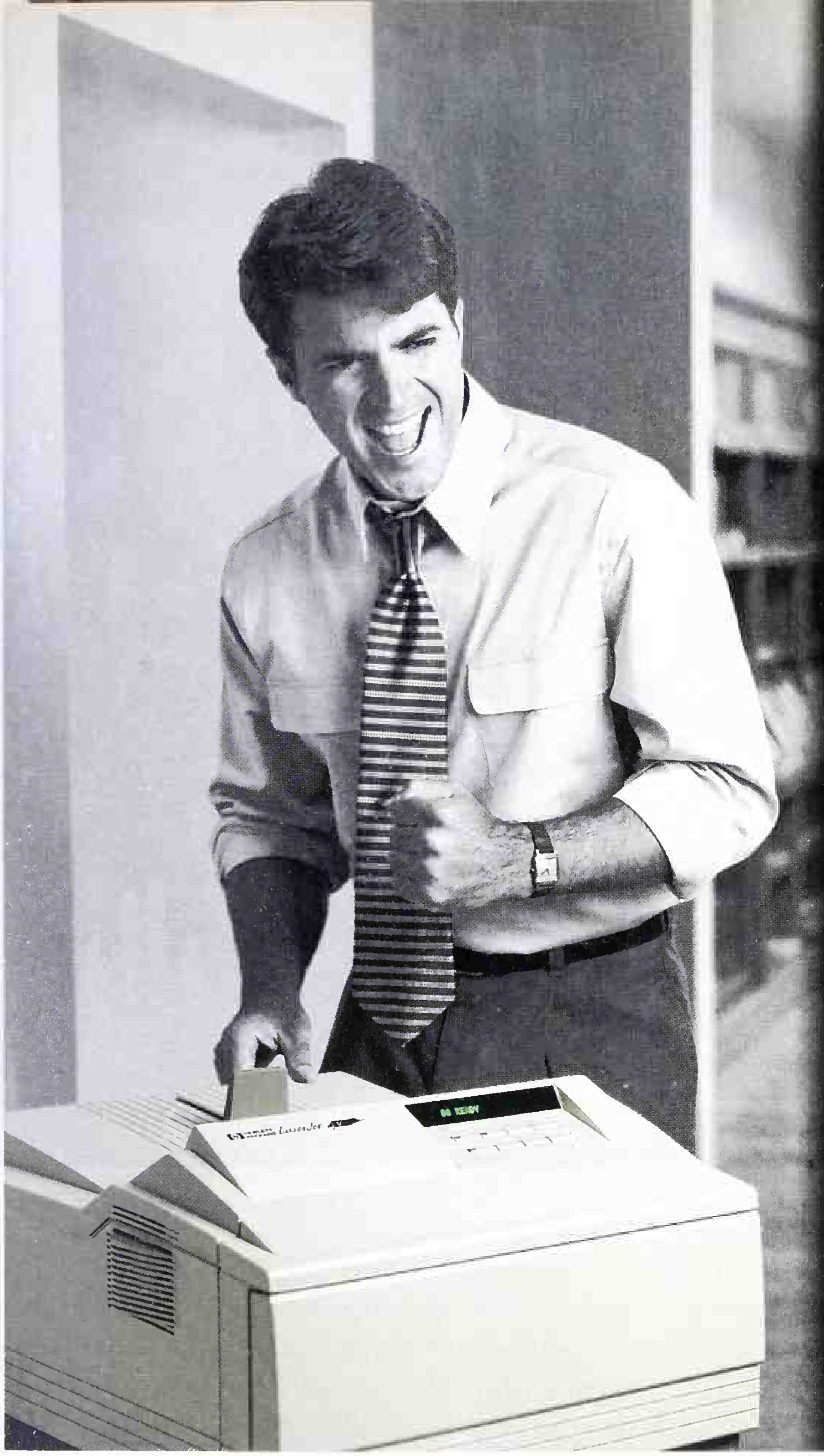
BUSINESS WEEK
NOVEMBER 18, 1994 3399
ISSN 0007-7135

Published weekly, except for one issue in January, by McGraw-Hill, Inc. Founder: James H. McGraw (1860-1948).

Executive, Editorial, Circulation, and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone 212-512-2000. Telex: Domestic 127039, Intl 2360127039. U.S. subscription rate $46.95 per year, 2 years, $78.95, 3 years, $104.95. Single copies, $2.75; back issues, $5. Write for rates in other countries. Subscriber Services 1-800-635-1200. TDD: 1-800-554-1579

Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, N.J. 08520. Second-class postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484. Registered for GST as McGraw-Hill, Inc. GST #R123075673. Copyright 1994 by McGraw-Hill Inc. All rights reserved. Title registered in U.S. Patent Office. European Circulation Center, McGraw-Hill House, Maidenhead, Berks, England. Telephone 0628-23431; Telex: 848640
Officers of McGraw-Hill, Inc.: Joseph L. Dionne, Chairman and Chief Executive Officer; Harold W. McGraw, III, President and Chief Operating Officer; Robert N. Landes, Executive Vice President, General Counsel, and Secretary; Robert J. Bahash, Executive Vice President and Chief Financial Officer, Frank D. Penglase, Senior Vice President, Treasury Operations.

PHOTOCOPY PERMISSION: Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy any article herein for the flat fee of $1.50 per copy of each article. Send payment to the CCC. Copying for other than personal or internal reference use without express permission of McGraw-Hill is prohibited. Address requests for customized bulk reprints to Business Week Reprints, P.O. Box 457, Hightstown, N.J. 08520, or call 609-426-5494. ISSN 0007-7135/94/$2.75
PRINTED IN THE U.S.A.



Double time.

HP LaserJet 4V
Documents in half the time.

If your printer keeps you waiting too often, you're ready for the new HP LaserJet 4V printer. The one that can give you 16 pages per minute instead of the usual eight.

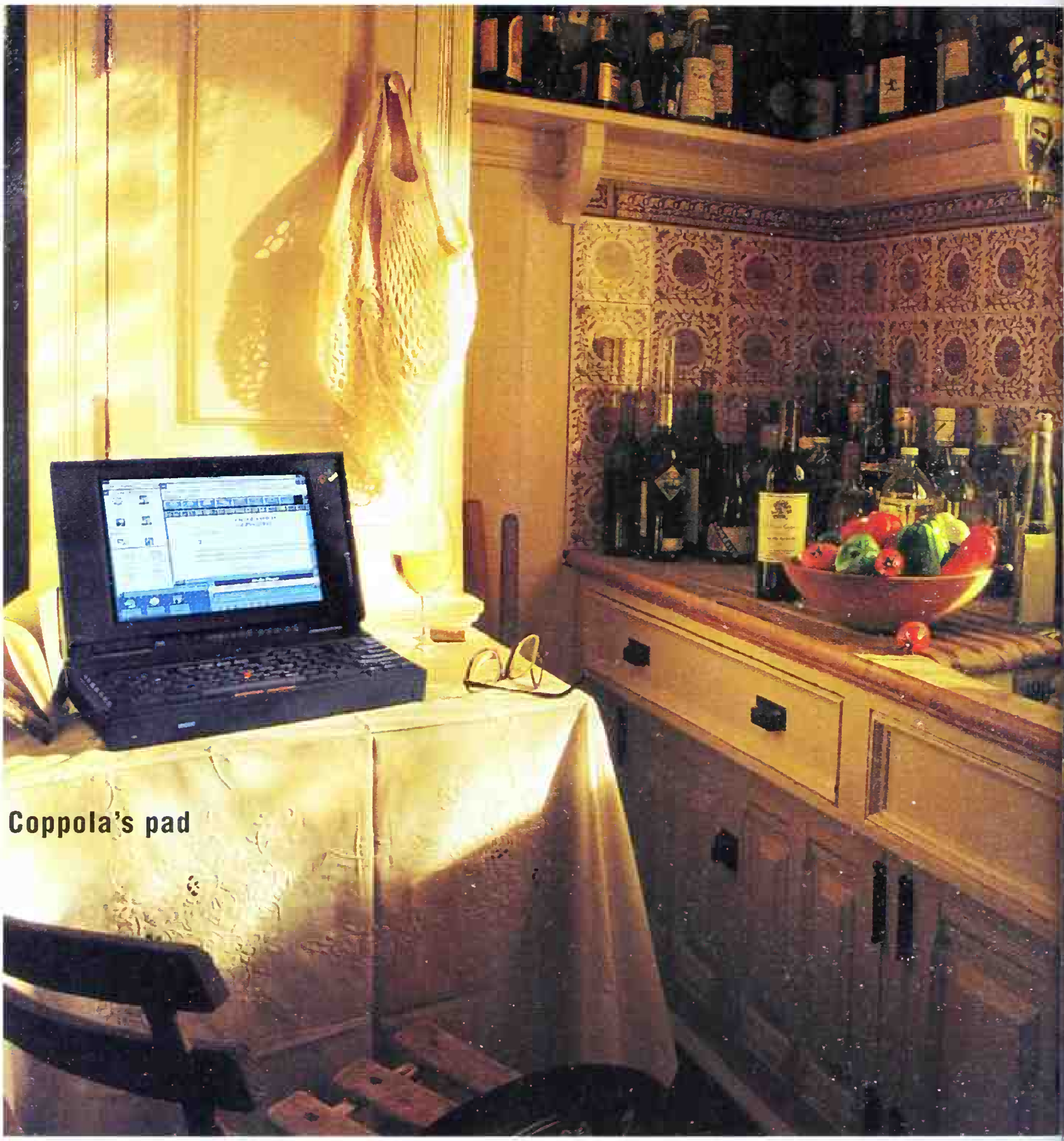
The LaserJet 4V handles a variety of paper sizes, including 11" x 17". It's got more memory. And it fits on a desktop. When you hit print, you get HP's true 600-dot-per-inch resolution. It's sharper. Crisper. Blacker. And only $2,449 U.S. list.

If you need to turn up the speed on your network, choose the LaserJet 4MV. Get your work in half the time it ordinarily takes. Just look in the Yellow Pages for the HP dealer nearest you.

You do your job. We'll do ours.
HP LaserJet Printers

HEWLETT® PACKARD

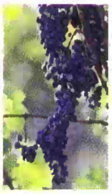
For more information, call 1-800-LASERJET, Ext. 8550. In Canada call 1-800-387-3867, Ext. 8550. ©1994 Hewlett-Packard Company PE12458



Francis Ford **Coppola's pad**

There is a difference™

IBM's [illegible] Available only in America where ThinkPad is sold and serviced by IBM. Registration required. Other restrictions apply. Available in US only. IBM makes no [illegible] IBM products. [illegible] and There is a difference are trademarks and IBM and ThinkPad are registered trademarks of International Business Machines Corporation. ©1994 IBM Corp.



ncis Ford Coppola's ranch, on a sweeping hillside in California's wine country, is a
ce that nurtures the wide-ranging interests of a creative mind. Not unlike the new
M ThinkPad® 755CD in residence here. Although Mr. Coppola may retreat to the
eening room or the research library or the bungalow to work, like many of us, he
s his best thinking at the kitchen table. And now all the power of a true multimedia
chine, with full-motion video with digital stereo sound, is available to him even there.

Mr. Coppola's IBM ThinkPad 755CD comes with:

Integrated 5.25″ **CD-ROM**

10.4″ black matrix TFT color screen (measured diagonally)

486DX4 100/33MHz processor

Removable hard drive

Fax/modem, answering machine, speakerphone

Software **motion video** acceleration

Built-in stereo speakers

3-year hardware warranty[1] with International Warranty Service[2]

EasyServ™ courier repair service[3]

Preloaded software and **CD titles**[4]

For information by fax, **call**
1 800 IBM-4FAX
(key-in ID# 1622)

IBM

INTRODUCTION

21ST CENTURY CAPITALISM

BY FRANK J. COMES AND CHRISTOPHER POWER

Inside a gleaming computer center in Taipei, a young engineer labors late into the night. Connected by the Internet to some of the best software writers in the U.S., he is helping design a digital phone system that will match anything the U.S. or Europe can muster.

In China's northern boomtown of Tianjin, an auto worker pores over documents on how to arrange a low-interest mortgage on a modern condominium.

In Mexico City, a working couple plows savings into a mutual fund, all to put two children through private school.

Ingenuity, new prosperity, middle-class striving—familiar Western values are appearing on the frontiers of capitalism. Multiply these scenes by the millions, and you see the shape of a revolution that will transform the global economy well into the next century. Already, capitalism is flourishing in regions as diverse as communist Asia and the former dictatorships of Latin America. Affluence is lifting millions out of poverty, giving many the chance to purchase their first Fiats and Toyotas as well as their first Apple computers and Panasonic VCRs. And inflation is brought to heel in even the most wayward economies.

Global politics is also entering a new age. Constitutional democracy is sweeping through Central Eu-

pe, Russia, Latin America, Korea, and Taiwan.
eas transmitted by satellite broadcasts, fax ma-
nes, and Internet ports are prying open even au-
oritarian regimes.

Why is all this happening now? The death throes
communism clearly gave birth to the era, leaving
ost nations with only one choice—to join, in one
hion or another, the market economy.

The implications are huge for rich and poor alike.
undreds of millions of peasants are leaving ancient
ys of life for the factory. Cities such as Guangzhou
l Bangalore teem with new inhabitants. Many are
ing poorly, of course, but just as many are thriving.

In this tumultuous era, not only is capitalism glo-
l but so is the Information Revolu-
n. "An unprecedented number of
ople around the planet are moving
m an agricultural economy to an in-
strial one just as the world is enter-
the digital age," says Robert Avila,
ef economist of The Futures Group,
Glastonbury (Conn.) consultancy. As
werful data networks spread, the
veloping nations will be drawn into
borderless information economy.
this world, a former Chinese peas-
t makes auto parts designed by CAD-
M engineers in Hong Kong, who
ld videoconferences with customers
Detroit.

Affluence is now lifting millions out of poverty—but inequitable distribution could prompt a backlash

Cheaper, more-powerful electronics
ll spread faster than imagined into every aspect of
onomic life. Virtual universities will seek students
m around the world, and doctors will diagnose
tantly located patients by way of fiber-optic hook-
s. Someday soon, electronic networks will connect
aver in Bremen with a small businesswoman in
karta. John S. Mayo, president of AT&T Bell Labo-
ories believes that the next stage of the Informa-
n Revolution will change the way we live.

These changes are creating new opportunities for
ofits—and money is in hot pursuit of them. Hun-
eds of billions of dollars from the West are
eaming into new markets. Capital hasn't flowed
oss the globe so copiously since the heyday, a century ago, of such financiers as the Morgans and the Rothschilds.

Yet for all its amazing promise, there is much uneasiness about the new era. The middle manager in Chicago, say, or the auto worker in Bavaria will find themselves, for the first time, operating in a world market of increasing pressures. In this new age, corporations will force constant change upon their employees as their executives pursue—sometimes unsuccessfully—a vision of the global organization. Jarring trends will include a much more diverse body of shareholders and managers, constantly changing partners and allies in the quest for new technology and markets, and an emphasis on rapid product development.

Advanced skills will be needed in this volatile atmosphere. The new technocratic elites will be adept at moving capital around the world, transferring knowhow, and shaping consumer culture worldwide. Increasingly, non-Westerners will make up their ranks.

Will optimism about 21st century capitalism ultimately prove misguided? Hundreds of millions of people will not benefit from this new economic order. Victims include an older generation of unemployable Russians, the uprooted of India, and the newly idle of Europe and the U.S. In its most unbridled form, capitalism certainly delivers wealth but stumbles when it comes to distributing its rewards equitably enough. Resentment against capitalism could provoke a backlash against free trade and its sponsors. And few institutions now exist to regulate the excesses of global finance and post-cold-war geopolitics.

But capitalism will probably surprise us with its inventiveness. It has proven its resilience over the competing systems of fascism and communism and transformed itself to accommodate dozens of cultures worldwide. Capitalism is already delivering the first fruits of prosperity to new adherents in China, Taiwan, and Mexico. Billions more are eager to benefit from this wealth. Their energy will help shape an age that is already upon us.

THE NEW ECONOMIC ERA

On the eve of the 21st century, the signs of monumental change are everywhere—and most a
for the better

THE TRIPLE REVOLUTION
itics, technology, and economics are undergoing vast
ieavals that are bound to reshape world civilization

WELCOME TO THE FRONTIER
m Russia's hinterlands to Brazil's Amazon, business is a
h-stakes game where nerve and energy can outweigh law

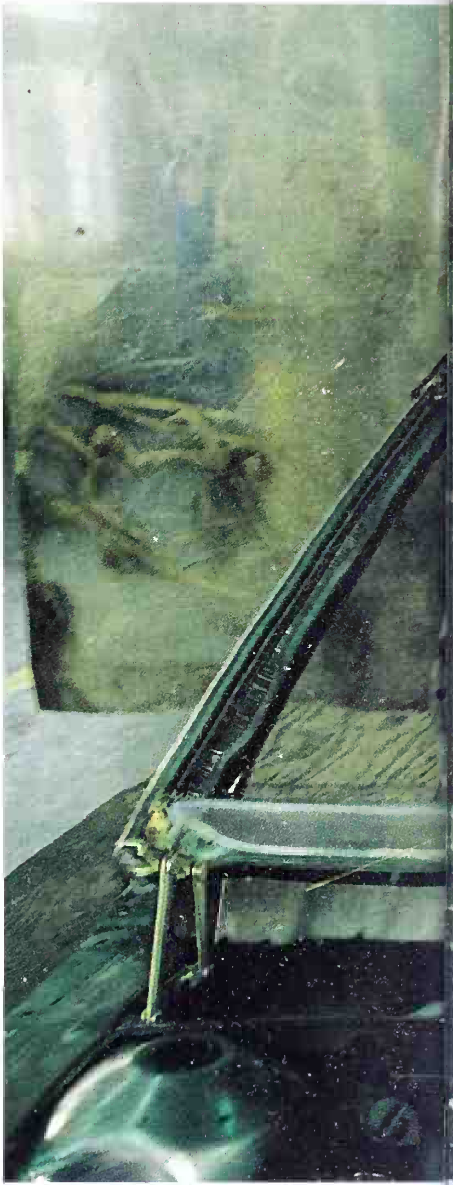
30 *NON-DIRIGISME* IN FRANCE
Hypereducated French technocrats are learning that
their statist system has become an economic handicap

32 ECONOMIC FUSION IN JAPAN
The Japanese are starting to export their model of
partnership-building between government and business

REASONS FOR OPTIMISM

THE TRIPLE REVOLUTION

Simultaneous upheavals in politics, technology, and economics could usher in an age of growth



Every once in a great while, the established order is overthrown. Within a span of decades, technological advances, organizational innovations, and new ways of thinking transform economies. From the 1760s to the 1830s, steam engines, textile mills, and the Enlightenment produced the Industrial Revolution. The years 1880 to 1930 were shaped by the spread of electric power, mass production, and democracy.

On the eve of the 21st century, the signs of monumental change are all around us. Chinese capitalists. Russian entrepreneurs. Nelson Mandela President of South Africa. Inflation at 7% in Argentina. Internet connections expanding by 15% a month. Fiber optics transmitting 40 billion bits of data per second. From government dictators to assembly-line workers, everyone seems aware that unfamiliar and unusually powerful forces are at work. Says Shimon Peres, Israel's Foreign Minister: "We are not entering a new century. We are entering a new era."

HIGH TECHNOLOGY

COMPANIES SUCH AS AT&T ARE BUILDING VAST FIBER-OPTIC NETWORKS FOR THE INFO SUPERHIGHWAY

A great transformation in world history is creating a new economic, social, and political order. Communism's collapse and the embrace of freer markets by much of the developing world are driving huge increases in global commerce and international investment. The Information Revolution is forging strong links between nations, companies, and peoples. Improving education levels are creating a global middle class that shares "similar concepts of citizenship, similar ideas about economic progress, and a similar picture of human rights," says John Meyer, professor of sociology at Stanford University. Almost 150 years following the publication of the *Communist Manifesto*, and more than half a century after the rise of totalitarianism, the bourgeoisie has won.

PLUNGING POVERTY. Indeed, behind these simultaneous revolutions lies one powerful idea: openness. Governments everywhere are pursuing liberal economic policies. Multinational corporations are accelerating the exchange of innovations across open borders. Global investors are pressuring companies everywhere to open their books. Populations are demand-

GROWING REGIONS

VOLKSWAGEN AND OTHER WESTERN CONCERNS HAVE INVESTED MILLIONS IN CHINESE PLANTS

ANDREW HOLBROOKE/MATRIX

ing stronger political and civil rights.

Already, signs of a payoff are apparent. The growth rate for developing Asia averaged a heady 7.8% a year from 1985 to 1990, and by the end of the decade, one-tenth of everything produced in the world will hail from developing Asia, according to DRI/McGraw-Hill, the economic consulting firm. In China, the percentage of people living below the poverty line has plunged from 33% in 1970 to 10% in 1990. Latin America, stagnant for much of the 1970s and 1980s, has been expanding at a 3% pace since 1991. The traumatized economies of Eastern Europe appear ready to generate growth rates of 4% to 6% over the next several years. Even in sub-Saharan Africa, a region of the world experiencing severe economic problems, the global investment community has been taking a keen look at the new South Africa.

→ Usual yardsticks may underestimate the chances for global prosperity

A growing number of governments in developing countries and emerging markets are struggling to get the fundamentals right: keep inflation low and fiscal policies prudent; maintain high savings and investment rates; improve the education level of the population; trade with the outside world and encourage foreign direct investment. In the 1990s, the 16 largest developing economies have all sharply reduced tariff, tax, and other barriers to foreign direct investment. And any country that runs the currency printing presses or walls out private foreign capital pays a steep price in economic welfare these days. "Most developing nations have turned away from self-sufficiency and hostility to the outside world, and see it is in their interests to connect [to it] as rapidly as they can," says Paul Romer, economist at the

University of California at Berkeley.

What's more, the usual yardsticks may underestimate prospects for global prosperity. In the decades following the Bolshevik Revolution of 1917 and colonialism's end in the 1950s and 1960s, economic-development efforts largely focused on central planning and government-led investment. And the best and brightest people from Brazil to the Soviet Union joined the government bureaucracy, the military, or other economically unproductive institutions. When P. T. Bauer, the late development economist, lectured at a dozen or so Indian universities and research centers in 1970, teachers and students alike believed that central planning was indispensable for raising living standards. The only question was whether the Soviet or the Chinese model was the superior approach for development.

Today, the balance of power has decisively shifted away from government planners and toward markets.

→ Openness: It's the one powerful idea that lies behind all these upheavals

When markets are large and laws allow people to build companies and keep their profits, more and more talented citizens become entrepreneurs and wealth-creators. One study, covering many of the world's economies, by economists Andrei Schliefer, Kevin Murphy, and Robert Vishny, estimated that if an extra 10% of university students went into engineering, the growth rate of an economy would rise by 0.5% a year. "What were once called Third World countries are developing much faster than you would suppose if constrained by the traditional models of economic growth," says Donald N. McCloskey, economist at the University of Iowa.

And over long periods of time, small differences loom large. For example, from 1870 to 1990, real per capita gross domestic product in the U.S. rose by 1.75% a year, to the world's highest level—from $2,224 to $18,258. Had the American growth rate been only one percentage point less a year—0.75%—then real per capita GDP in 1990 would have been $5,519, or about that of Mexico and Hungary, according to Robert J. Barro, economist at Harvard University.

ETHNIC CONFLICT. On a global scale, freer trade will spur growth by providing entrepreneurs from major economies access to bigger markets. Trade also encourages the spread of new technologies and manufacturing techniques. General Electric Co. is sinking tens of millions of dollars into building factories and power plants in Mexico and India. Microsoft Corp. gets more than 50% of its revenue from international sales. Toyota Motor Corp. is powering its way into Southeast Asia as is Volkswagen into China.

To be sure, revolutions are tumultuous. From the vast lands of the former Soviet Union to the Amazon forest in Brazil, frontier capitalism is brutal and very often criminal. In

OUT FROM UNDER

THE INVESTMENT COMMUNITY HAS BEEN TAKING A KEEN LOOK AT THE NEW SOUTH AFRICA

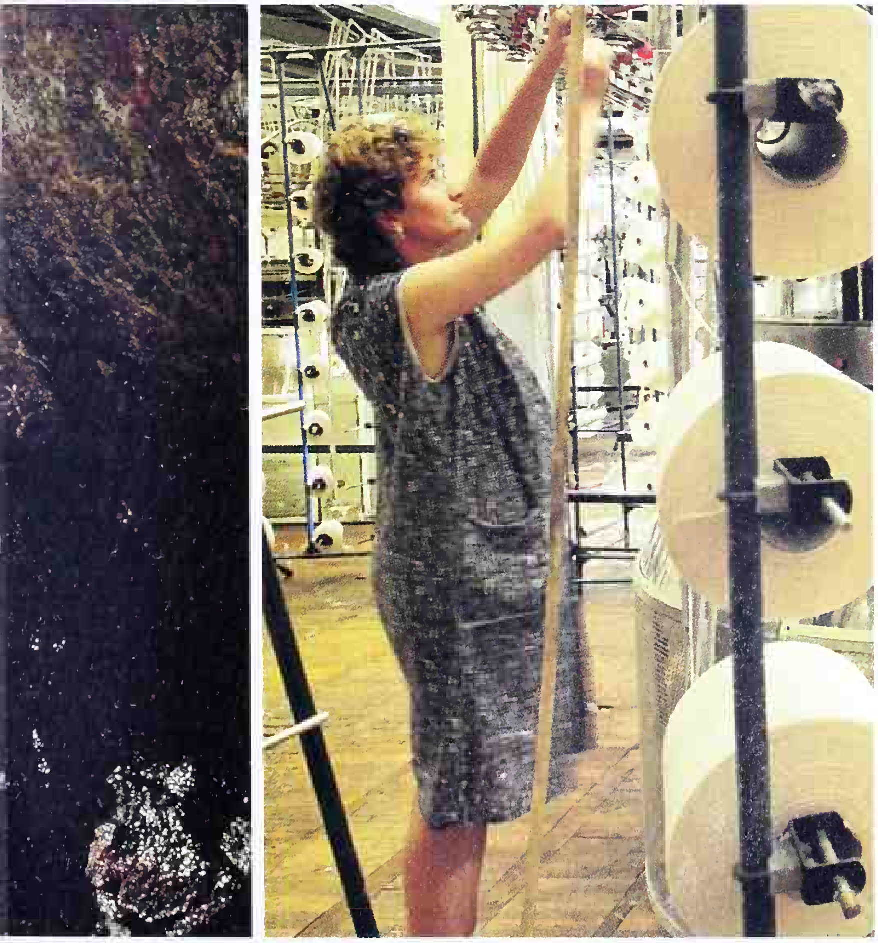
The Faces of Capitalism

	CONSUMER CAPITALISM	**PRODUCER CAPITALISM**	**FAMILY CAPITALISM**	**FRONTIER CAPITALISM**
	U.S., BRITAIN, CANADA, AUSTRALIA	GERMANY, FRANCE, JAPAN, MEXICO	TAIWAN, MALAYSIA, THAILAND, INDONESIA	CHINA, RUSSIA
TRAITS:	Laissez-faire, open borders, small government, profit mentality	• Emphasizes production, employment, statist policies	• Created by Chinese diaspora, extended clans dominate business, and capital flows	• Government pursues for-profit business activities, entrepreneurial class sprouts
POTENTIAL PROBLEMS:	Income inequality, low savings rates, weak central governments	• Fraying of social safety net, slowing innovation, consumer dissatisfaction	• Creating modern corporate organizations and money markets	• Must establish rule of law, open borders, curb criminal activity

many developing countries, sweatshops and slums are commonplace, a bleak, Dickensian world of worker misery and raw social and political tensions. Fast growth in China and elsewhere creates dismaying environmental destruction. Corruption and sclerotic bureaucracies are deeply entrenched. Ethnic conflicts are flaring.

Still, the impact of global integration on growth could be staggering. Over the past two centuries, as national boundaries have shrunk in importance, the pace of economic development has quickened. Britain needed nearly 60 years to double its output per person beginning in 1780. It took Japan 34 years starting in the 1880s and South Korea only 11 years after 1966. "At the turn of the century, stellar growth meant 4% a year. Now, it means 10% plus," says Jeffrey D. Sachs, economist at Harvard University. Adds Henry S. Rowan, a professor at Stanford University's business school: "A process is under way that promises within a generation to make most of the world's population rich or much richer than it is today."

Take the three regions of the world where private enterprise is being unleashed: most of Asia, including India and China; Mexico and parts of Latin America; and several East European countries. These areas make up 50% of the world's population and about 20% of the GDP of the industrial nations. If these three regions achieve annual growth rates of 8% over the next 10 years—somewhat less than the sizzling performance of Asia's Four Tigers in the 1980s—then they would contribute almost as much to world growth as the industrial nations. Within several decades, a number of developing nations including Taiwan and Korea will join the club of wealthy nations. "Because the emerging markets' growth rates are much higher than those in the developed world, we are definitely seeing convergence," says Giles Keating, economist at CS First Boston in London.



Another benefit of global interdependence is lower inflation rates. True, industrial commodity prices will go up, especially with the new demand from the emerging economies. But heated international competition will keep wage demands moderate and put a lid on the ability of domestic producers to hike prices, especially in the developed countries. Perhaps even more important, the policy actions of central bankers, the most powerful economic actors on the world stage, all share a similar anti-inflation ideology.

COLLAPSE OF COMMUNISM

THE CZECH REPUBLIC AND EASTERN EUROPE COULD GENERATE GROWTH RATES OF 4% TO 6%

HOTBEDS OF TALENT. It's ironic, then, that at a time when prospects for global prosperity seem better than ever, gloom envelopes much of the industrial world. Japan's economic juggernaut is stalled. Unemployment is at 11% in Europe. Companies are still slashing payrolls in the relatively vibrant U.S. economy. At the same time, U.S., European, and Japanese multinationals have stepped up their investment spending in developing and former communist countries. It's no surprise that "ordinary citizens in most advanced industrial countries are confused and scared by what is happening to them," says Richard Lipsey, econo-

LEE MALIS/ SPECTRUM PICTURES/ GAMMA-LIAISON

©1994 Canon U.S.A., Inc. One Canon Plaza, Lake Success, NY 11042

It means pulling together.

John Rooney collects baseball cards, comic books, you name it. But recently, John and his classmates pulled together to collect more old cans and bottles than any other class in school. There's no prize for winning, yet John's class is committed to recycling as much as they can. Because they know that together, they can help change the world. For themselves. And for future generations.

At Canon we believe that such dreams can become a reality. That's why we have a corporate commitment to global environmental concerns. A part of this commitment is our worldwide cartridge recycling program, The Clean Earth Campaign. It has been designed to reduce overall landfill waste and preserve natural resources by recycling cartridges from Canon Copiers, Facsimiles and Printers. As a part of this campaign, we've pledged one dollar for every cartridge returned to us, to help a variety of national environmental foundations.

The Clean
Earth Campaign

From the development of solar energy panels to cleaner manufacturing processes, we've placed a premium on environmentally correct programs throughout our business operations. The best evidence is the number of Canon products that reduce power consumption, earning the *Energy Star™ designation from the Environmental Protection Agency for energy efficiency. Because we know that caring for our planet is a responsibility we all need to take. Making the world a better place for all of us won't happen overnight. Unless we have a goal. Unless we pull together.

EPA POLLUTION PREVENTER

Focus on Your World

Call 1-800-670-4321 to enter the United Nations Environment Programme (UNEP) International Photographic Competition on the Environment 1994-1995.

* *The Energy Star emblem does not represent EPA endorsement of any product or service.*

Canon

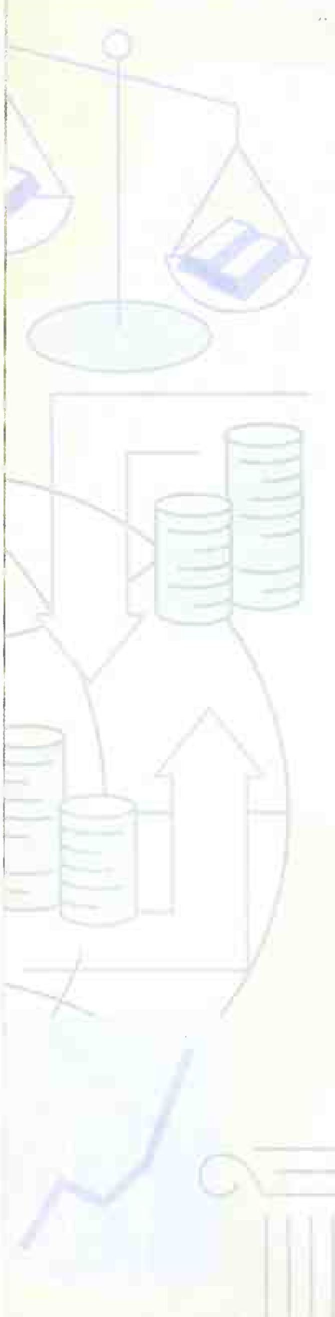
mist at the Canadian Institute for Advanced Research.

And there's much more to come. From Eastern Europe to Asia to Latin America, many countries are eager to compete with bountiful low-wage labor. Heightened international competition, along with rapid technological change, largely accounts for the 22.5% plunge in real hourly wages for high school dropouts from 1973 to 1993 in the U. S. And in a sharp break with the past, German manufacturers are looking elsewhere when building new plants. After all, hourly wages of German manufacturing workers are 4.5 times higher than in Taiwan, 9 times greater than for Mexican workers, and 54 times the wages of Russian labor.

It isn't just cheap brawn, however. The competition is heating up for producing the kind of high-quality goods and sophisticated services in which the industrial nations have traditionally dominated. Cities such as Singapore, Penang in Malaysia, and Taipei in Taiwan are hotbeds of engineering talent. India has millions of computer-literate workers. Central Europe is peppered with brilliant scientists. And when Hewlett-Packard Co. opened a research and development center in Guadalajara three years ago, it signaled Mexico's coming of high-tech age.

In the industrial world, protests against the new competition are starting to get louder and take on a nasty edge. Keep immigrants out. Bar low-wage imports from China and Hungary. Preserve our native culture. Frets André Lévy-Lang, chairman of the management board at Compagnie Financière de Paribas, the big French investment bank: "The great temptation is going to be to say: 'Let's close the borders, and let's live happily ever after by ourselves.'"

Yet if policymakers succumb, it could lead to political and economic devastation. That, at least, seems to be the lesson of history. The period

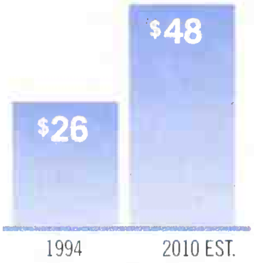


A DYNAMIC NEV

NEW MARKETS

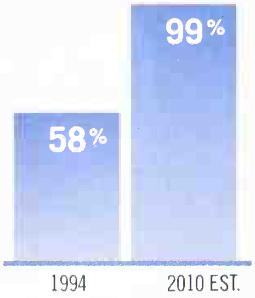
The world will get wealthier...

WORLD GDP
TRILLIONS OF 1993 DOLLARS
(PURCHASING-POWER PARITY)



...and more equitable...

GDP OF EMERGING ECONOMIC NATIONS AS SHARE OF INDUSTRIAL ECONOMIES
(PURCHASING-POWER PARITY)



DATA: DRI/McGRAW-HILL

...as the developing nations rise

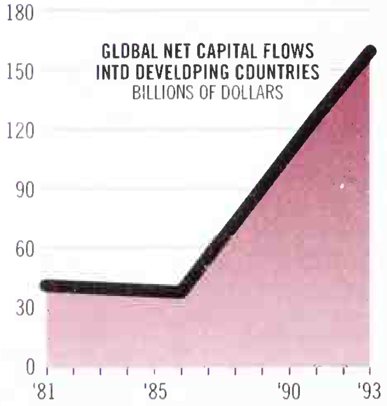
GROSS DOMESTIC PRODUCT*	1994	20
	BILLIONS OF 1993 DOLL	
NORTH AMERICA	$7,812	$11,
EUROPE	6,790	10,
CHINA	2,838	8,
REST OF DEVELOPING ASIA	3,318	7,
SOUTH AMERICA	1,660	3,
JAPAN	2,540	3,

*PURCHASING-POWER PARITY

CAPITAL MOVEMENT

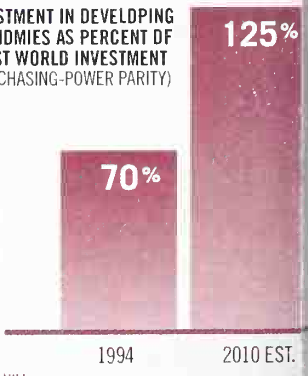
Capital flows are increasing...

GLOBAL NET CAPITAL FLOWS INTO DEVELOPING COUNTRIES
BILLIONS OF DOLLARS



...and investment in emer markets will race ahe

INVESTMENT IN DEVELOPING ECONOMIES AS PERCENT OF FIRST WORLD INVESTMENT
(PURCHASING-POWER PARITY)



DATA: BANK FOR INTERNATIONAL SETTLEMENTS, 1994; DRI/McGRAW-HILL from 1870 to 1913, like this one, was a time of vast international capital flows. In 1913, the share of foreign securities traded in London was 59% of all traded securities; and by 1914, the stock value of foreign direct investment had reached an estimated $14 billion, or one-third of world investment. Some 36 million people left Europe; two-thirds of them emigrated to the U.S. and an even larger number of Chinese and Indians went to Burma, Indonesia, and elsewhere. Trade soared, technological innovation flourished, and economic growth surged. Yet beggar-thy-neighbor protectionist policies ended up contributing to two global wars and the Great Depression.

Today, international economic interdependence is once again generating a lot of discord. Nations are engaged in bitter international negotiations over cross-border pollution, intellectual-property rights, and differing workplace standards. Worse are the savage wars in Kuwait, the Balkans, Angola, and other hot spots. Military buildups and the spread of nuclear weapons in Asia and elsewhere offer the potential of even larger conflagrations.

Still, there's no gainsaying the geopolitical progress in the Middle East and in relations between the U.S. and Russia. And global economic integration isn't a zero-sum game. Worldwide trade has expanded by more than 6% a year since 1950, more than 50% faster than the growth in world GDP. The growing numbers of working-class and middle-class citizens in the emerging capitalist nations are demanding better housing, roads, water, and phones, as well as more consumer goods. Rising demands will create bigger markets and new opportunities for profits for everyone including the industrial nations. "The forces of integration are so much more powerful than at the end of the 19th century," says David Hale, economist at Kemper Financial Cos.

Thanks largely to the Information

ORLD ECONOMY...

OPEN BORDERS

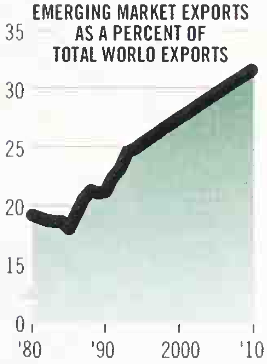
ore people will cross the world's borders...

FOREIGN POPULATION AS
RCENT OF TOTAL POPULATION

TRY	1985	1991
TRIA	3.6%	6.6%
GIUM	8.6	9.2
EDEN	4.6	5.7
TZERLAND	14.5	17.1
	7.0	8.0
TRALIA*	20.8	22.7

*1985 FIGURE

...emerging markets will become powerful traders...



...and new trade and political links may form

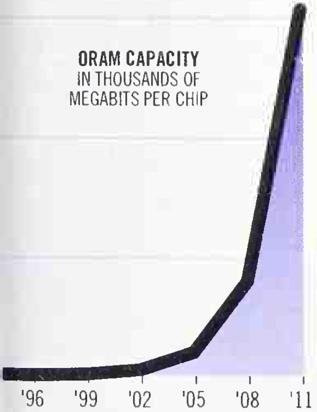
Megastates will emerge with open regional borders and similar economic systems

- NORTH AMERICA-MERCOSUR
- ASEAN
- TURKEY-CENTRAL ASIA
- NEW MIDDLE EAST
- GREATER EUROPE
- INDIAN OCEAN RIM

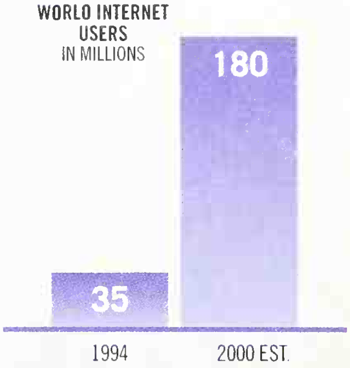
DATA: *WORLD INVESTMENT REPORT, 1994;* DRI/McGRAW-HILL, ORGANIZATION FOR ECONOMIC COOPERATION & DEVELOPMENT

TECHNOLOGY

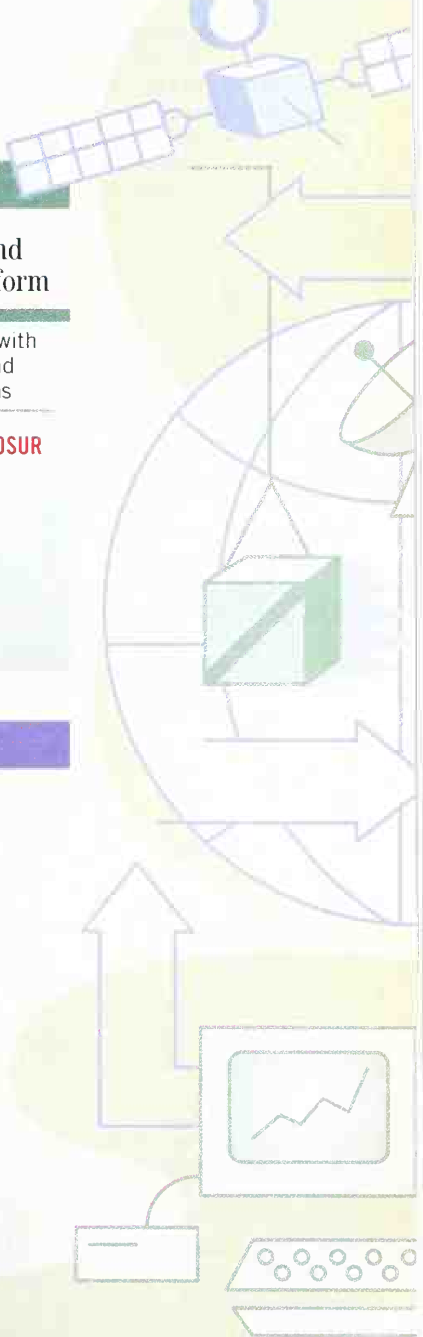
Powerful catalysts for rosperity are technology...



...and exploding communications links



DATA: SEMICONDUCTOR ASSN., COMPANY REPORTS, INTERNET SOCIETY, BUSINESS WEEK



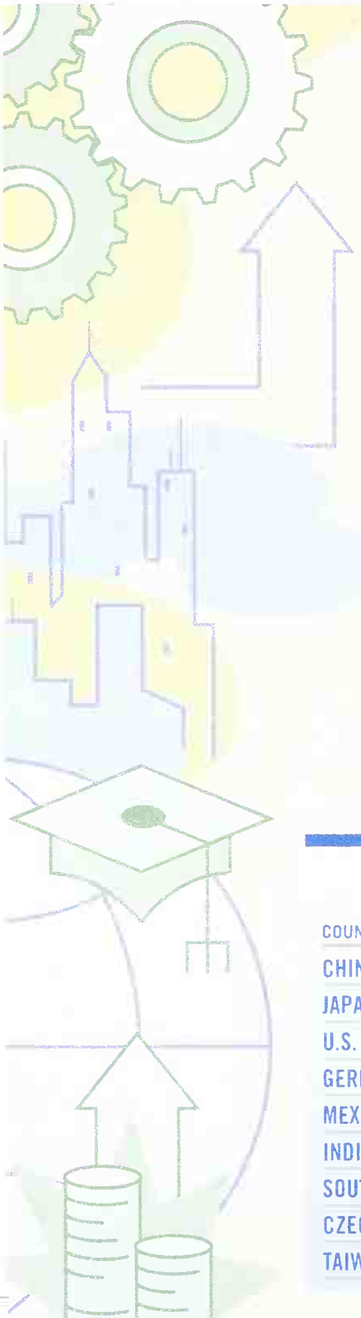
Revolution, companies headquartered in the industrial nations will still have a formidable edge in the global growth stakes. "Information technologies are the most powerful forces ever generated to make things cost-effective," says John S. Mayo, president of AT&T Bell Laboratories. It is the industrial nations, especially the U. S., that are behind the Internet boom and that are building the vast fiber-optic networks and web of new services of the Information Superhighway. The industrial world is setting high standards for quality and manufacturing flexibility to produce low-cost goods, and its rich capital markets offer ample resources for financing new ventures or rejuvenating old ones.

WEALTHY ELITE. Of course, it's a market axiom that big returns come attached with greater risks—some fortunes will suffer spectacular declines even as others leap forward. It's a world where IBM can show a net income of $6.5 billion in 1984 and a loss of nearly $9 billion in 1993. And emerging-country stock markets are up an average of 20% in 1994 in dollar terms. But that spectacular return masks some huge setbacks, including a drop of 50% in the Turkish market, 48% in China, and more than 30% in Israel.

Such nerve-racking volatility is encouraging a lot of U. S., Japanese, and European multinationals to link up with foreign partners. It expands their presence in the world economy and hedges their investment risks at the same time. AT&T is forging broad alliances with a host of European telecommunications companies, and Mitsubishi has a cooperative relationship with Daimler Benz. Alliances are common in such knowledge-based and capital-intensive industries as information technologies and biotechnology. Says Paul A. Allaire, chief executive of Xerox Corp.: "You will see people working more closely than ever before."

There will be no shortage of consumers to buy products and services. Global capitalism is creating a wealthy international elite of cosmopolitan professionals comfortable working for companies headquartered in New York, Tokyo, or Buenos Aires. Millions more are joining the middle class in Asia, Latin America, and elsewhere. As in the U. S. or Japan, the middle class in the emerging capitalist nations is boosting its living standards by buying material goods. In Ho Chi Minh City, Vietnam, three Toyota dealerships are within a few miles of one another, and a Mercedes dealership is being built.

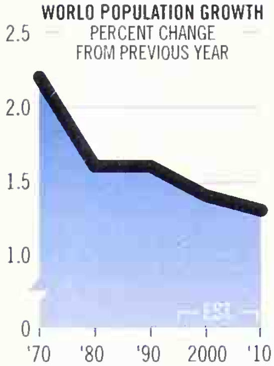
Consumers are demanding better services, too. Poorer countries will spend trillions of dollars on new roads, sewers, telephone systems, education, and health-care facilities in coming decades. Over the past 15 years, the share of households with access to clean water has increased by half, and power production and telephone lines per capita have doubled in developing nations. Still, 1 billion people lack clean water, electric power has yet to reach 2 billion people, and the demand for modern telecommunications networks far outstrips supply, according



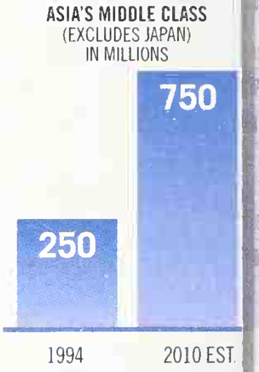
...AND GREATE

SMARTER LABOR FORCE

Population growth will slow



A new global middle class will aris



DATA: WORLD DEVELOPMENT REPORT, 1994, DRI/McGRAW-HILL, BUSINESS WEEK

Skilled workers will be plentiful

ANNUAL GRADUATES IN...

COUNTRY	ENGINEERING	NATURAL SCIENCES
CHINA	113,000	49,000
JAPAN	81,000	25,000
U.S.	80,000	105,000
GERMANY	38,000	26,000
MEXICO	30,000	9,600
INDIA	29,000	147,000
SOUTH KOREA	28,000	23,000
CZECH REP.	9,400	3,000
TAIWAN	8,900	6,500

Wages and incomes will improve

DRI WAGE PROJECTIONS 1994-2

WORLD LABOR COSTS, HOURLY, MANUFACTU

COUNTRY	1994	2000-10
GERMANY	$26.30	$ 4
JAPAN	24.10	4
U.S.	17.10	2
FRANCE	16.40	2
SINGAPORE	6.40	1
TAIWAN	5.60	
SOUTH KOREA	5.30	1
HONG KONG	4.50	
MEXICO	2.50	

DATA: NATIONAL SCIENCE FOUNDATION, MORGAN STANLEY & CO., DRI/McGRAW-HILL to the World Bank. To boost efficiency, many countries are privatizing their infrastructure. From 1988 to 1992, the value of developing-country privatizations in 25 countries totaled $61.6 billion. And infrastructure investment can propel giant leaps in economic activity.

Clearly, global integration comes with enormous benefits. At the same time, pessimists proclaiming the decline of the industrial world often argue that global convergence is closer at hand than is the case. Even if all went smoothly, the inequalities between rich and poor nations are so vast that it will take decades for them to disappear. Much of the wage gap between manufacturing workers in rich and poor nations reflects large skill differences and exchange rates. According to Harvard economist Richard B. Freeman, some 43% of Mexican manufacturing laborers have less than six years of schooling, vs. 3% of American manufacturing workers.

Nor do economies grow in a straight line. At capitalism's frontier, including many of the Soviet Union's successor states and China, vicious cycles of reform and regression are probable in coming decades. Environmental problems and population pressures will worsen in many developing nations. Policymakers worldwide also worry that rising social and economic pressures in a competitive global economy will spark "culture wars." Hinduism vs. Islam. Confucian values vs. Western values. "The fault lines between civilizations will be the battle lines of the future," wrote Harvard University professor Samuel P. Huntington in an influential 1993 *Foreign Affairs* article.

SIMILAR LOGIC. Cultural differences between economies are deep-rooted. Modern Japanese capitalism has been extremely successful in building large organizations, while American capitalism does better creating whole new industries, says Peter Berger, director of the Institute for the Study of Economic Culture at Boston University. Chinese capitalism is very different from French *dirigisme*. Yet the remarkable aspect of capitalism is the ability of citizens from around the world to strike deals with one another. Japanese, American, French, Chinese, and Russian capitalists can compete, negotiate alliances, and trade securities with the same goals and similar logic, according to economist Robert Heilbroner.

Indeed, capitalism is triumphant because it is multicultural. Unlike communism, it is open-ended and adaptive, and in the 21st century a range of capitalisms will evolve.

Ever since the Industrial Revolution began, the reality has been how much material wealth has grown in the modern nations of the industrial world. Given time, the triumph of the liberal ideas of the bourgeoisie, from free trade to democracy, coupled with the spread of technological innovations, should improve living standards throughout the world—bringing most people an opportunity for a better, richer life.

By Christopher Farrell in New York, with bureau reports

ROSPERITY

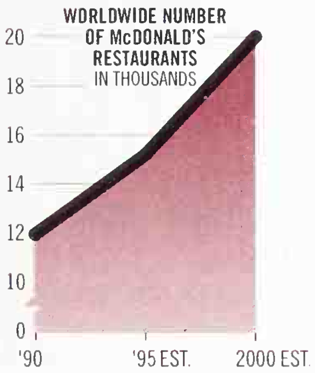
MORE CONSUMPTION

The newly affluent will buy more cars...

VORLD AUTO PRODUCTION

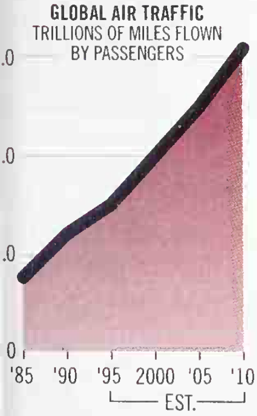
	1994	2010
ON OR COUNTRY	MILLIONS OF UNITS	
OPE	13.7	19.8
AN	12.0	14.2
	11.7	13.6
A LUDING JAPAN)	4.1	10.4
ADA	2.2	2.9

...eat out more often...

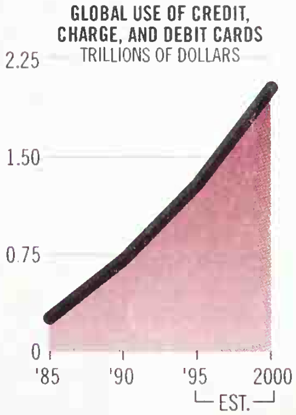


DATA: DRI/McGRAW-HILL, COMPANY REPORTS

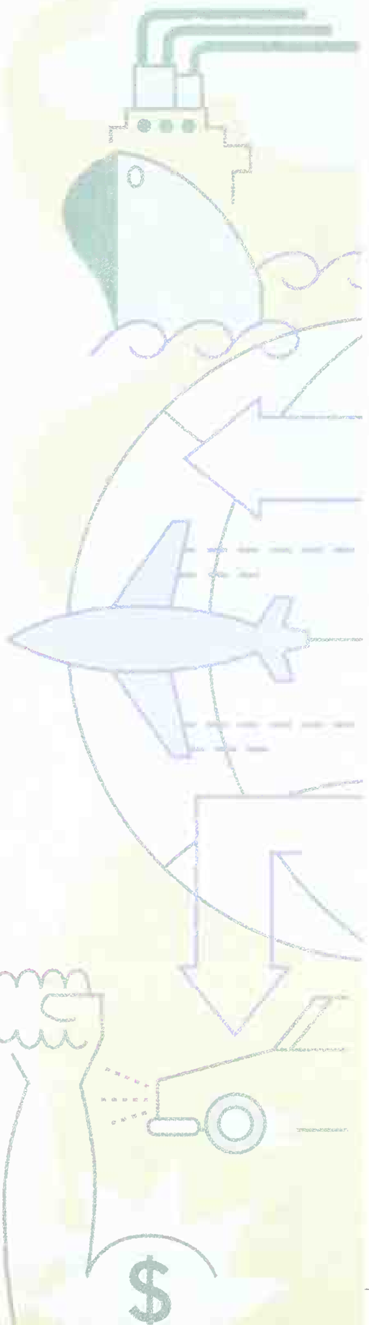
...will travel more widely...



...and wield more financial power



DATA: BOEING CO., *THE NILSON REPORT*



CAPITALISM IN TRANSITION

FRONTIER ECONOMIES: ENTER IF YOU DARE

It's the Wild West again—in Russia, China, Vietnam, and parts of Latin America. But if these markets are to really grow, rampant crime and corruption will have to go

ON THE LOOKOUT IN MOSCOW: WITH SHOOTOUTS COMMON, SO ARE BODYGUARDS

WAITING FOR THE LAW: Strong growth needs more than reckless risk-taking

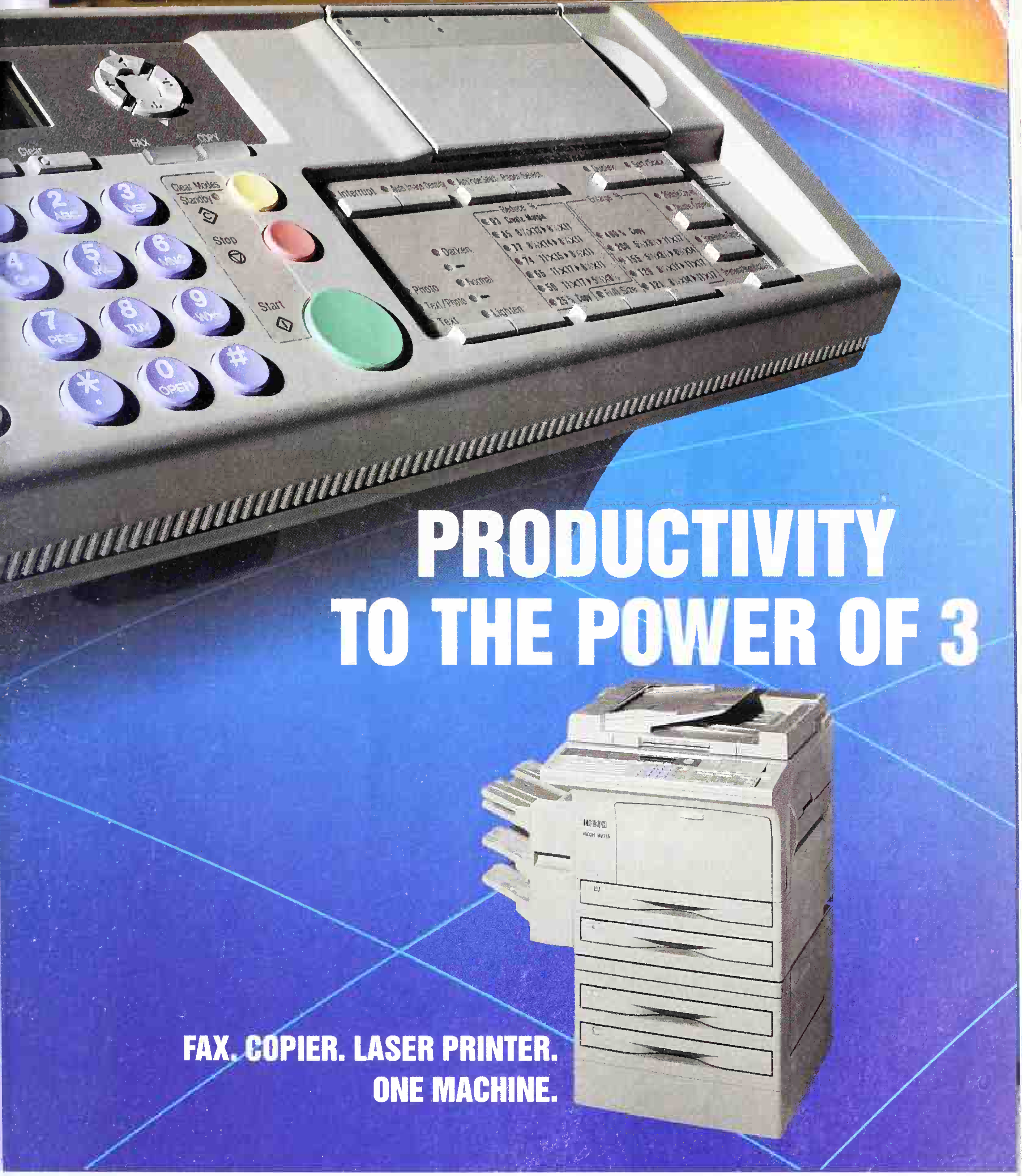
Every day, faxes hum, computer screens glow, and container ships pull into ports around the globe. Today, the veneer of modern capitalism can as easily be found in St. Petersburg as in San Francisco. But take a look just beneath the surface and you'll see a different form of economic life on the banks of Russia's Neva River or Brazil's Amazon–a scrappy, brutish, high-stakes game in which sheer nerve and raw energy count for more than rules, laws, or justice.

This is the frontier of capitalism, a zone of new economic activity that now includes stretches of the former Soviet Union, China, parts of Latin America, and Vietnam. Corruption and criminal activity are rampant, violence erupts regularly, legal systems are weak, and scams abound. The risks to life and limb–not to mention the pocketbook–are huge. But the winnings can be great for those who jump in.

Sustained growth requires more than just reckless risk-taking, however. Eventually, frontier economies need large capital infusions from outsiders–be they individual investors, corporations, or banks. And to make that leap to the next stage of growth, these economies will have to begin "civilizing." That is, they will have to put in place an array of laws and institutions, from effective judiciaries to functioning financial markets. By 2000, economies such as Russia and China should be well on their way toward making those changes.

SIGNS OF PROGRESS. Not all frontier economies make this next step–as the endemic lawlessness in places such as Sicily and Colombia shows. Still, there are signs of progress. Central Europe had a frontierlike atmosphere five years ago, after the Berlin Wall fell, and troubling pockets of crime and corruption remain. But civil codes governing private commercial transactions were updated, and financial markets have been developing rapidly.

Although Central Europe is well



he world leader in digital technology leads the way again. The new multi-functional RICOH MV715 — the beginning of a new machine age. You will marvel at the V715's laser plain paper fax capabilities, including emory upgradable to a massive 1,200 pages. You can ven send faxes of book pages and other 3-D objects by simply placing them on the exposure glass. And since this machine is also a *digital* copier, you're outputting copies so close in quality to the original, you'll have to look twice. Plus the MV715 can also function as a PC-connectable laser printer emulating the HP LaserJet® IIIP with PCL5.

The RICOH MV715—three functions in one compact unit. It's where office equipment is heading. To find out where you should be heading, just call 1-800-63-RICOH for the Ricoh office nearest you.

RICOH CONNECTS

THE NAME TO KNOW

RICOH®

1-800-63-RICOH

Official Copier and Fax

USA Volleyball Team

ahead of China and Russia in this development process, there are civilizing signs in those countries, too. In China, village enterprises are taking government bureaucrats as well as other businesses to court for failing to meet their obligations. Russia has a new constitution, and a commercial code is in the making.

YOUNG AND HUNGRY. Frontier capitalism is only for the hardiest. In the U. S., most of the early homesteaders and miners in the West were young and relatively poor, yet better educated than their peers, and they were invariably great risk-takers, says Gary D. Libecap, an economic historian at the University of Arizona. There were many failed ventures, but the winners amassed wealth quickly.

It's no different in Moscow or Shenzhen. In Russia, the smartest ones started as early as 1987, when reforms were initially introduced under Mikhail Gorbachev. "There's always a first-mover advantage," notes Simon Johnson, program developer at the RJR Nabisco-Fuqua School of Business in St. Petersburg: "The biggest profits go to the first one to sell bananas, the first one to sell computers."

TAKING OFF

How frontier capitalism evolves

Stage One Statist economies collapse or fade away. Black marketeers profit enormously, with some becoming gangsters. Government corruption spreads.

Stage Two Small-scale entrepreneurs, often financed by family loans, flourish. Rule of law remains weak but businesspeople start evolving their own rules of commerce.

Stage Three Economic growth is brisk but hard to measure. Financial markets begin to evolve, tapping savings and attracting foreign institutional investors. Clearer legal code appears.

In China, the opening of the economy has produced thousands of success stories, along with tales of failure. Han Wei, a former commune husbandry official, started a business nine years ago with 50 chickens. Now, he's known as China's "Chicken King" and has a net worth of $25 million. Yet "there's a lot of churning in China," says Barbara Sands, economist at the University of Arizona. "There are bankruptcies, then new startups and new failures. A number of village enterprises do well because of one smart guy. Others fail repeatedly."

In Russia, China, and Central Europe, such fledgling private businesses are contributing markedly to economic growth. In Poland, 60% of employment and output comes from the private sector. In Russia, thanks mostly to rapid privatization, 70% of the workforce is on private payrolls.

It should come as no surprise that entrepreneurs are surviving without the laws and courts that U. S. businesses take for granted. Throughout history, a great deal of trade and business has been conducted through what economist Mancur Olson of the University of Maryland calls "self-enforcing markets"–that is, markets operating largely on mutual trust and individual responsibility. Today, self-enforcing markets are at work in the frontier economies.

At the same time, entrepreneurs in such markets–like the early robber barons in the U. S.–police their businesses and partners as they see fit, without concern for the law. Cornelius Vanderbilt, who rose from wharf rat to shipping magnate in New York City, once wrote to associates who had seized one of his properties: "Gentlemen, you have undertaken to cheat me. I will not sue you, for law takes too long. I will ruin you."

In the American West of the mid-1800s, prospectors displayed a more benign side of lawlessness. They evolved a system of self-government through "miners' clubs," says the University of Arizona's Libecap, which parceled out land claims and adjudicated disputes with relatively little violence. Eventually, federal law codified the miners' conventions.

Often, such self-government is extended within families and through ethnic networks, offering a way to make new ties and build businesses. Among the five major Chinese linguistic groups, business networks grew rapidly in this century. Trade in one sector of the rubber market, for example, was dominated by the Hokkien Chinese during the economic boom of the 1950s, says Janet T. Landa, an economist at York University in North York, Ont. Similar networks, part of the Chinese diaspora, have recently invested heavily in China and the Pacific Rim countries.

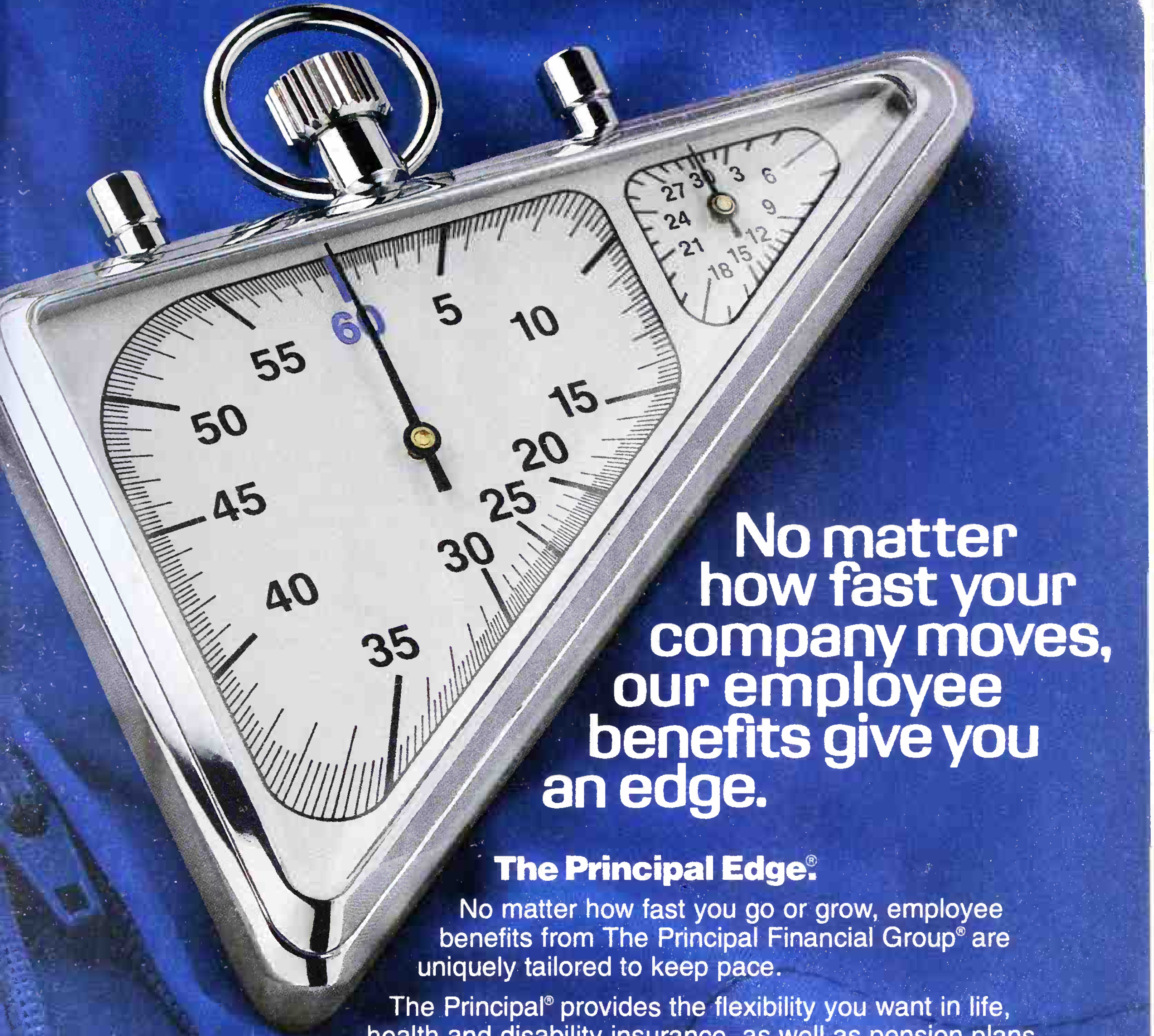
→ "It will become a comparative advantage to become honest"

Yet ethnic networking can take other, more insidious forms. Chechen, Azerbaijanis, and other ethnic groups operate some of the most notorious gangs in Russia today. On-the-street gunfights for control of businesses and locations are familiar occurrences in Moscow, and bankers and other businesspeople routinely employ bodyguards and bouncers to protect themselves and their families.

It's scary. But many economists believe that these criminal elements will eventually recede in Russia, though there isn't any evidence of this happening so far. "It will become a comparative advantage to become honest and to honor contracts," predicts Judy Shelton, an economist at the Hoover Institution at Stanford University.

SLOW DAWNING. Even if that happens, government corruption, which is a problem in both Russia and China, could remain. "Corruption is endemic in almost all countries that are part-way between the statist and the market models," observes Jeffrey Sachs, a Harvard University economist who has advised both Poland and Russia in their transition to free-market economic policies. The most important thing, Sachs says, is to liberalize trade and end price controls. In Bolivia, even after 1985, when a license was no longer required to conduct certain businesses, people lined up to pay bribes to get one–until they finally realized that licenses, and hence the traditional bribes, were no longer necessary.

But it's another sort of lawlessness–the absence of clear property rights and laws governing everything from land to equity ownership–that hinders frontier economies from evolving toward more sustainable patterns of growth. Entrepreneurs need to raise capital in the markets rather than deal with only those they know and trust, or those they must bribe or fear. And they must have the recourse that an effective legal system can pro-



No matter how fast your company moves, our employee benefits give you an edge.

The Principal Edge.®

No matter how fast you go or grow, employee benefits from The Principal Financial Group® are uniquely tailored to keep pace.

The Principal® provides the flexibility you want in life, health and disability insurance, as well as pension plans. With the quick response you need, at an average claims payment turnaround of eight days.

And, The Principal services more 401(k) plans than any other life company. Bring your benefit plan up to speed. With The Principal Financial Group. For more information, call 1-800-986-EDGE(3343).

Your edge on the future.℠

thePrincipal®
Financial Group

©1994 Principal Mutual Life Ins. Co., Des Moines, IA 50392-0150

Products and services offered through Principal Mutual Life Insurance Company (The Principal) and its subsidiaries.

vide when financial transactions go bad.

This institution-building is already well along in Central Europe. Poland has a powerful Securities & Exchange Commission and strict regulations governing share listings, credentials for brokers, and the like. Today, its market capitalization is $3.5 billion. The Czech Republic, with a more stable economy but with looser securities regulations, has a more volatile market, with a capitalization of $14 billion. European and U. S. institutional investors are taking an active interest in these economies as well as Russia's, where laws governing securities trading are more rudimentary.

HARD LESSONS. As in any case where fledgling markets begin to take off, speculative frenzies and scams are commonplace. Just last summer in Moscow, a pyramid scheme engineered by a mutual fund, MMM, collapsed and left several investors–most of them poor Russian citizens–empty-handed. However, such events don't seem to have turned people off to capitalism and free markets. "People learn through experience about speculative excesses," says Robert W. Vishny, an economist at the University of Chicago's Graduate School of Business.

Again, history offers some perspective. Financial scams were a regular occurrence in the U. S. when the markets were growing in the latter half of the 19th century and in the early years of the 20th century. Regulations didn't exist to protect investors, and greed was contagious.

Today, the impulse to get on the moneymaking bandwagon is no different in fast-growing frontier regions. And as regulations improve–provided they are not onerous–investment opportunities will broaden, and still more people will be drawn to the markets. That, and the effective introduction of legal codes governing transactions between private parties, should also pull in more institutional investors from overseas, especially those with deep pockets.

Scandals and failures will continue to make world headlines. But by the early 21st century, today's frontier economies could well be on their way toward becoming modern capitalist economies in reality as well as in appearance.

By Karen Pennar in New York, with Peter Galuszka in Moscow, Karen Lowry Miller in Bonn, and bureau reports

NON-DIRIGISME: Dragging France's bureaucrats out of industry

COUSSIROU, WHO EDUCATES THE ELITE TECHNOCRATS, SAYS HE'S NOT A STATIST

You are an official of the French Treasury. You have six hours to prepare a background paper for a minister on monetary reform in the former Soviet Union, prior to an international conference. Start writing.

That recent class assignment is typical of the course work at one of the world's most prestigious schools, France's Ecole Nationale d'Administration. An institution of just 100 students, ENA is the training ground for the brightest technocrats–those who run ministries, manage big companies, and pull the *dirigiste* strings of the centralized economy. Graduates include Prime Minister Edouard Balladur and his chief rival for France's presidency, Jacques Chirac. ENA does not preach state control, says Director Jean Marie Coussirou. But "we give people the intellectual tools to intervene in the economy."

Yet France's hypereducated technocrats are realizing that the statist system has become a serious economic handicap. Paris has wasted resources on ill-conceived ventures in computers and high-definition television. The state's overbearing role is a bugaboo for potential foreign partners. That's what killed Renault's planned merger with Sweden's Volvo last year. In a recent survey by the World Economic Forum gauging approval of government economic roles, business executives ranked France a dismal 28th.

→ Future economic leaders will be forced to choose between boardroom and ministry

At the same time, the French practice of blurring the line between public and private is under intense attack. A series of investigations is probing corruption at the highest level of French public life. Many of the questions magistrates are asking concern possibly illegal campaign contributions by the largest French companies to the most important politicians.

The scandals are occurring just when France's rulers are trying to reshape the country's ponderous "mixed economy." Until now, the brainy graduates of ENA and other elite schools have hopped back and forth between government posts and plum jobs in in-

© 1994 ITT Corporation

ITT AUTOMOTIVE
CREATED SOMETHING THAT MAKES DRIVING
SAFER THAN EVER BEFORE.

(WE'LL GIVE YOU A HINT.)

TT Automotive is not only a pioneer in hydraulic drum and lisk brake technology, it has become the world's leading innoator and manufacturer of four-wheel passenger car nti-lock brake and traction control systems. Eighteen f the most highly regarded auto makers here and abroad lepend on them.

ITT Automotive is also a global supplier of a variety f other products: ITT Koni shock absorbers, ITT SWF windshield wiper systems, switches and rear lighting modules. Fluid handling systems. Plus a wide range of body hardware and structural components.

In addition, we've given the green light to reinvest $2.7 billion in ITT Automotive for engineering R&D and capital expansion over the next five years. At ITT, our mission is to make your car a safer place. Stop and think about it.

ITT

dustry. Currently, ex-bureaucrats from ENA are the chief executives of such giants as Renault, Peugeot, and Elf Aquitaine. Such executives have traditionally retained lifetime appointments to *grands corps d'état*–the quasimilitary bodies that supply top functionaries. The old-boy networks that result keep business closely attuned to government wishes.

But future *énarques*, as ENA alumni are called, will have to choose between industry and public service. Since July, those who pick business must resign from their *grands corps*. The idea is to encourage managerial independence. At recently privatized Elf Aquitaine, Chairman Philippe Jaffré has voluntarily quit his state corps; 55 senior managers have done the same.

This separation of boardroom and state is long overdue, believes *énarque* Yves-Thibault de Silguy, one of two newly named French members of the European Commission in Brussels. France's elitist schools such as ENA and the Ecole Polytechnique have produced "too many underemployed bureaucrats" who meddle in business and limit France's "spirit of enterprise," he says.

FIGHTING CHANGE. That's not to say French *dirigisme*, first introduced by Louis XIV's finance minister, Jean Baptiste Colbert, is ready to die. Some politicians will have trouble changing stripes. And strong forces in French society are fighting change. Workers have protested Renault's planned privatization and battled efforts to cut Air France's bloated costs. According to a recent poll, 54% of the French want more state involvement in the economy vs. 11% who want less. In moving toward free markets, "we would go faster if we could, but French society is holding us back," claims a key Balladur aide.

Nonetheless, economic efficiency is gradually replacing political goals in France's economy. Socialist leaders began the change in the 1980s by introducing the profit motive at state companies–a revolutionary notion at places such as Renault, whose *raison d'être* had been to provide jobs. The planned privatization of 22 large French companies will accelerate the process.

A reborn ENA should help speed France's shift to a more globally oriented capitalist economy. In January, it will open a second campus in Strasbourg—home of the European Parliament. All of the students will spend half of their 14-month course time there studying European Union law and international economics. They will have to learn two foreign languages instead of one. And in a major innovation, students will be required to work abroad for six months in a company or foreign agency.

> ➛ Privatization is unpopular: Only 11% of the French want less government control of business

It's not as though ENA isn't demanding enough already. To prepare for the entrance examination, EU member De Silguy had to absorb 20,000 pages of economics, history, and law. Some French executives insist that policy from such cerebral central planners is preferable to the dog-eat-dog capitalism practiced in the U. S. France would no longer have a steel industry, for example, if the state hadn't forged Usinor-Sacilor from a group of near-bankrupt companies in the 1980s. The creation of Airbus Industrie also benefits from *dirigisme*.

Yet heavy-handed state protection clearly is hurting France as the new century approaches. Massive tax aid to companies such as Air France, Credit Lyonnais, and computer maker Groupe Bull has failed to make them competitive. ENA's Coussirou hopes that his school can help. "We plan to open students more to international realities," he says. That could be the school's most useful–and painful–lesson yet for France's technocrats of the future.

By Stewart Toy in Paris

JAPANESE FUSION: Business thrives under the state's protective wing

GŁÓWNY URZAD CEL
URZAD
TUT FINANSOW

MAILLE/GAMMA LIAISON

EXPORTER: FINANCE OFFICER HONMA TEACHES JAPAN'S WAYS TO THE POLES

Masaru Honma is your typical bureaucrat in Japan's elite Finance Ministry. At 41, he has worked there since college, developing expertise on insurance and banking supervision, taxes, and bond issues. He regularly briefs top government officials–even the Prime Minister. But there's one atypical thing about Honma: The officials he advises are Polish, not Japanese.

Honma is an evangelist of the Japanese way. He and dozens of other Japanese from ministries, think tanks, and universities have spread out through Eastern Europe and Southeast Asia to proselytize Japanese-style economics to governments eager for advice. This missionary work goes largely unnoticed by the Western press, but in the next decade it could have a profound effect on global capitalism.

A likely outcome of this quiet coun-

“SINCE TODAY’S BUSINESS BUZZWORD IS ‘GLOBAL,’ IT’S A GOOD THING WE ALREADY ARE.”

Bill Marriott

With over 250 hotels in 27 different countries, you can count on Marriott to serve all your business needs all over the world. Call your travel agent or 1-800-228-9290.

Marriott
HOTELS · RESORTS · SUITES

WE MAKE IT HAPPEN FOR YOU.℠

Argentina, Aruba (1995), Australia, Austria, Barbados, Bermuda, Canada, Costa Rica (1996), Egypt, Germany, Greece, Hong Kong, Hungary, Indonesia (1999), Japan, Jordan, Malaysia (1996), Mexico, The Netherlands, Pakistan, Poland, Puerto Rico (1995), Saudi Arabia, Singapore (1995), Thailand, United Arab Emirates, United Kingdom, United States of America.

©1994 Marriott International, Inc.

MATSUSHITA IN MALAYSIA: JAPAN'S PUPILS ARE ALSO ITS CUSTOMERS

sel: Many nations will absorb at least some of the lessons of Japanese industrial policy, which include protection of infant industries and emphasis on exports. As a result, the world probably won't embrace wholesale neoclassical, American-style capitalism, which largely trusts markets over state intervention.

"Leaders of developing countries will blend models," says Majmul Saqib Khan, former Pakistani ambassador to Saudi Arabia and Japan, and author of *The Japanese Experience & Nation-building in Southwest Asia*. Although educated in Britain and the U. S., Khan strongly endorses Japan's "government-plus-market" formula.

BEST TEACHERS? Why are the Japanese going to all this trouble? They believe their long-term interests lie in flourishing economies throughout the world. They also feel they're better at development than America, which inherited Britain's nascent form of capitalism and has never had to try anything else. "Americans see the market mechanism in their own terms, but they were originally given theirs, so they don't know how to build one," says Noriyuki Yonemura, referring to the American economists who have advised Poland, Russia, and other former Soviet republics on their economic transitions. Yonemura is a former official at the Ministry of International Trade & Industry and a veteran of several missions abroad.

Yonemura points out that in the 1880s, Japan acquired its modern legal code mainly from the Germans, its railroad network from the British, and its educational system from the Americans. This kind of fusion, he says, works best.

The Japanese also want to develop profitable ties with their pupils, as in Malaysia, which has copied Japan's aggressive partnership between government and the private sector. In the Malaysian version of Japan Inc., government officials meet formally with representatives of industry and commerce to decide how much funding will go to each sector before the national budget is drafted. The government taps pension funds to help pay for power plants, just as Japan's Finance Ministry dips into the Postal Savings system for infrastructure development. Not surprisingly, Japanese companies, such as Matsushita Electric and Mitsubishi Motors, have robust operations in Malaysia, which imports more from Japan than from anywhere else.

More surprising is Japan's influence in Eastern Europe. No Malaysian-style economy has emerged there yet, but the Japanese lessons are being examined more and more. "I went to Czechoslovakia in 1992 and the [government ministers] said that what's happening in the Far East was irrelevant," recalls Yoshiaki Nishimura, a professor of developmental economics at Hitotsubashi University in Tokyo and a frequent visitor to the region. "But in 1993, they said they had to start thinking about industrial policy and asked us to teach them." Nishimura says Poland, Romania, and Hungary have undergone similar about-faces.

➛ Japanese ideas are now influencing Eastern Europe and even the World Bank

The Japanese have also been active in Russia, despite some doubts by the Russians themselves. Oleg S. Vikhanski, head of the school of business administration at Moscow State University, notes that Japan's industrial policy of "administrative guidance" requires a strong corps of savvy, trustworthy ministry officials. "Our bureaucrats all grew up in the communist system, so all they know how to do is steal," he says. But Japanese efforts continue, with teams of experts visiting Russia to advise on subjects ranging from industrial policy to distribution of goods.

The steadily plodding Japanese are winning more admirers among conventional Western economists, many of whom have advocated shock therapy over statist policy. Says Joseph E. Stiglitz, a member of the President Clinton's Council of Economic Advisers: "Most of those who are are not ideologues would say most successful cases of development have included a significant dose of government involvement."

TRANSPACIFIC OPENING. Even the World Bank, long a bastion of Western economic thought, has published a study on East Asia's growth, acknowledging for the first time that government involvement in an economy, à la Japan, can work better than the doctrine of laissez faire. "Intellectually, there's an opening on this side of the Pacific to learn from [Japan's] experience," says John Page, an economist who supervised the World Bank's study.

That's not to say Japan's model is always the best to follow. Most Japanese agree that their current prolonged recession shows they don't have all the answers. But the undisputed might of Japan's economy—and the behind-the-scenes labor of public servants like Masaru Honma—will make the Japanese way one more powerful export that the West must learn to compete with.

By Robert Neff in Tokyo, with Jacek Dobrowolski in Warsaw, Dean Foust in Washington, and Peter Galuszka in Moscow

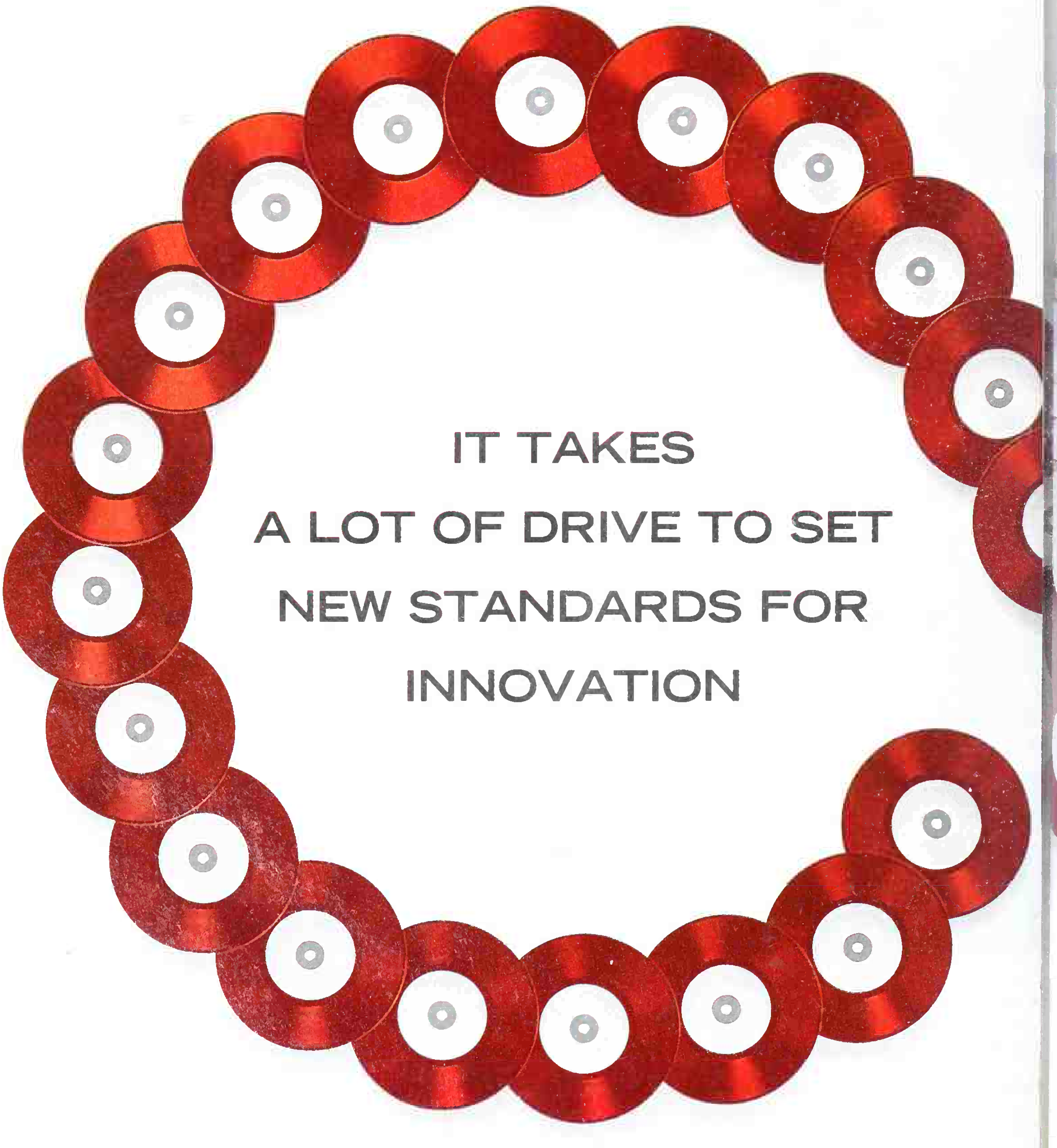
THE NEW LONG RANGE FALCON 900EX. NOW THERE'S NOTHING STOPPING YOU.

Vital cities that once exceeded your reach are now within grasp. Nonstop. In the new, far-reaching lcon 900EX. Nothing stretches you further. 4500 nm range (8 passengers, NBAA IFR). Three engines. idebody cabin. Advanced avionics. Autothrottles. The EX tops all current jets in mission capability.

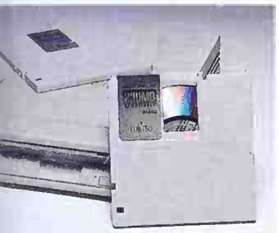
So don't let fuel stops slow you. Call Gene Rainville at 201-967-2746 and ascend to the perfect rporate jet for the nonstop business mind.

Falcon 900EX

Falcon Jet Corporation, Teterboro, NJ 07608


IT TAKES
A LOT OF DRIVE TO SET
NEW STANDARDS FOR
INNOVATION

The programs your personal computer runs — and the data files it generates — are gluttons for storage space. ∞ So we created a new standard in data storage: 3-1/2 inch magneto-optical disk drives with 230MB capacity that store as much as 160 conventional floppy lisks. ∞ It's not the first time we've established a world standard in iew technology. And, with our $3 billion annual investment in R&D, we don't expect it to be the last. ∞ We helped establish the ATM standard for multimedia communications. For America's first information superhighway, we delivered all-bandwidth ATM switching systems for handling voice, data and video. And were the first to offer a comprehensive set of ICs for ATM. ∞ Our omputer breakthroughs include some of the world's fastest and smallest — from supercomputers to pen-based, hand-held mobile computers. And credit-card-sized PCMCIA devices for memory and peripherals. ∞ Like you, we've learned that today's creative environment offers two choices: lead or follow. With our drive, we're not looking back.



FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

FINANCE & CAPITAL

What kind of world will it be where mon
knows no boundaries? For many, it will
scary. Almost certainly, though, it will
spawn a golden era of investment and
growth not seen for more than a century

ILLUSTRATION BY POL TURGEON

100,000
500,999
700,000

0 NEW-AGE MONEY

e nearly instantaneous movement capital around the world will stoke onomic output. However, it will also ve traders and fund managers powers at will eclipse those of central nkers and politicians

52 THE VIRTUAL BANK

The world's banking system is being transformed into a vast electronic web

54 SCOUTS OF CAPITALISM

Alicja Malecka is helping create a mutual-fund industry in Poland

56 PENSIONS GO PRIVATE

Countries such as Argentina are finding new ways to fuel domestic markets

60 TAPPING GLOBAL CASH

With India opening its doors to foreign investment, capital is pouring in

NEW-AGE MONEY

BORDERLESS FINANCE: FUEL FOR GROWTH

As trillions of dollars and a barrage of financial instruments whirl around the globe, whole new industries will emerge—but not without a price

It's Apr. 20, 2010, a fine spring day in Shanghai. You stroll up to a Citibank automated-teller machine along the Bund, insert your plastic card, and log on. A computer in Bombay greets you, and you get down to business.

First, you shift 10,000 German marks into today's special—an Australian-dollar certificate of deposit issued by GE Capital in Rome. Equities are looking good, so you punch in an order for 500 shares of Teléfonos de México on the New York Stock Exchange. Then, at the press of a button, an account officer in South Dakota comes onto the screen to answer your questions about a loan for your factory in Argentina.

➤ Using ever more complex instruments, the markets will turn more cruelly efficient and risky than ever

This is the new world of finance, one where money—and opportunity—know no bounds. It will be a scary new world, one where the sheer might of traders and fund managers will eclipse that of central bankers and politicians. But as trillions upon trillions flow around the globe, the market will also become an even more efficient and potent instrument for economic change than it already is today. Indeed, with its power amplified by incredible leaps in communications and information technology, the evolving financial market may even spawn a golden era of global investment and growth not seen since the days of unfettered international capital flows a century ago.

In this milieu swiftly flowing money and common financial instruments, global interest rates will start to converge (charts, p. 48) as a single standard of finance prevails. Supercurrencies spanning entire regions may emerge, dwarfing Western Europe's recent quest for one unit of exchange. And whole new financial systems will spring up in Asia, Africa, Latin America, and the farthest reaches of the former Soviet empire. With more and more emerging-market consumers and businesses able to tap the savings of the industrial world for the first time, it will be possible to move cash from the mutual fund of a retiree in Great Neck, N.Y., to an industrialist in Guangzhou with no more than one phone call (page 52).

The new financial markets of the developing world will also give consumers access to the West's array of investment tools. This will permit them to save as they never have before and creating vast pools of domestic capital to fuel the growth of tens of thousands of new businesses.

THE DARK SIDE. China is building a nationwide foreign-exchange network and bringing in foreigners to sell life insurance and annuities. Thailand is pushing mutual funds. And Russia is considering a nationwide stock market, modeled on America's NASDAQ. Such efforts could generate a stupendous amount of capital to bankroll growth. "If the five biggest emerging markets—China, India, Indonesia, Brazil, and Pakistan—accumulate just $400 per capita in mutual-fund and pension assets over the next decade," notes Morgan Stanley & Co. strategist Barton M. Biggs, "this will create $1 trillion."

But this wide-open global money market will also force the world to grapple with a dark side of finance that is only now starting to emerge. As traders pump up their supercomputers and merge physics, math, and money to create ever-more-complex instruments and techniques, capital markets will turn more cruelly efficient and risky than ever. Financial volatility will become "a fact of life," says World Bank Managing Director

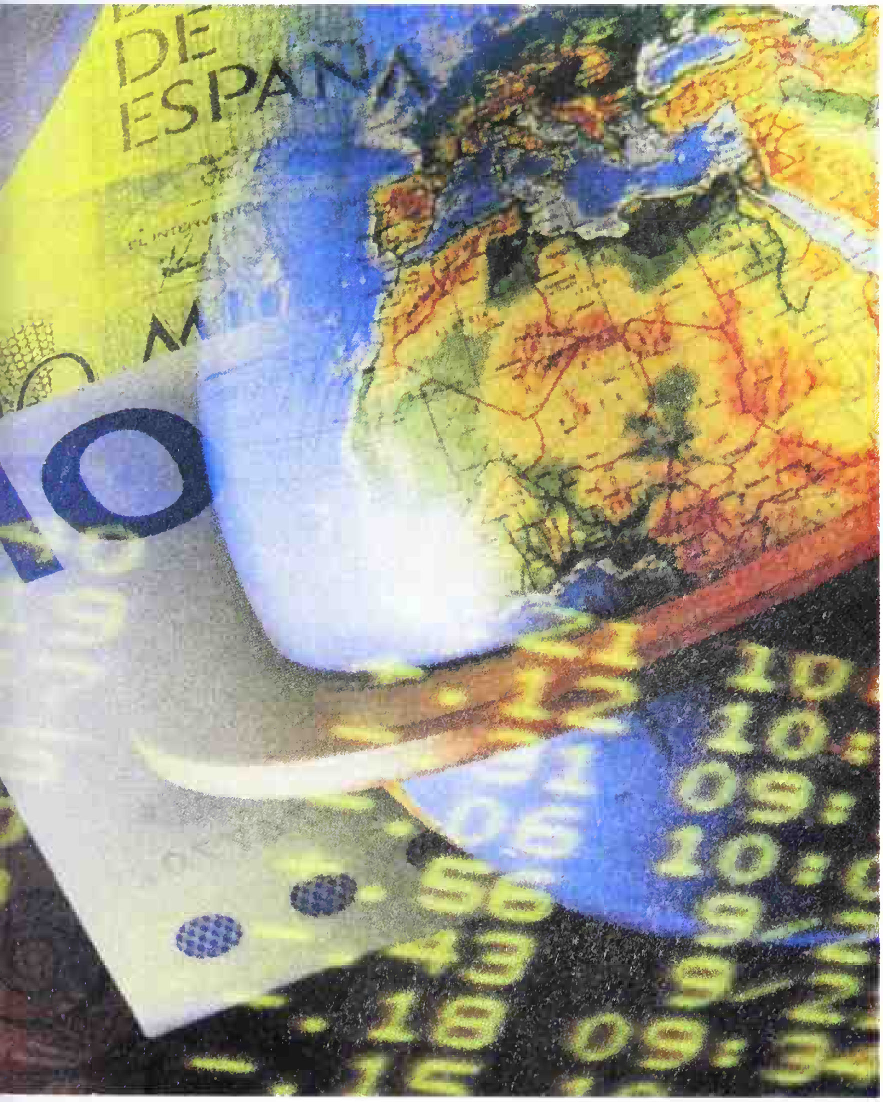
PHOTO ILLUSTRATION BY KARL [illegible]

Ernest Stern, who believes that the once-staid global market for government debt has already turned into a $16 trillion casino that behaves more and more like the rough-and-tumble market for stocks.

In this new battleground for savings, market players will become a new class of stateless legislators. With the power of the purse, they will check governments' ability to tax, spend, borrow, or depreciate their debts through inflation. To be sure, money mavens sitting at computer screens already vote their portfolios on issues as diverse as the value of the Mexican peso, U. S. trade imbalances with Japan, and Sweden's struggle to maintain the archetype of the European welfare state. But that's only the starting point.

As more countries and companies hook themselves up to the global financial network, this shifting and stateless corps of fund managers and traders will not only be passing judgment. To preserve the value of their investments, they will become more and more directly involved in day-to-day affairs of state, meting out guidance, encouragement, and discipline on a daily basis. "The very sovereignty of nation-states," says London-based economist David C. Roche, "is being defeated."

And woe to the government that fails to measure up. Canada, for example, currently must pay 9% yields on its 10-year government bonds, despite an inflation rate under 1%. Why? Many global investors are shunning the Canadians because their lavish social spending has swelled the national debt to a staggering 100% of gross domestic product. Faced with an investor revolt, Prime Minister Jean Chrétien now has to make deep—and unpopular—spending cuts.



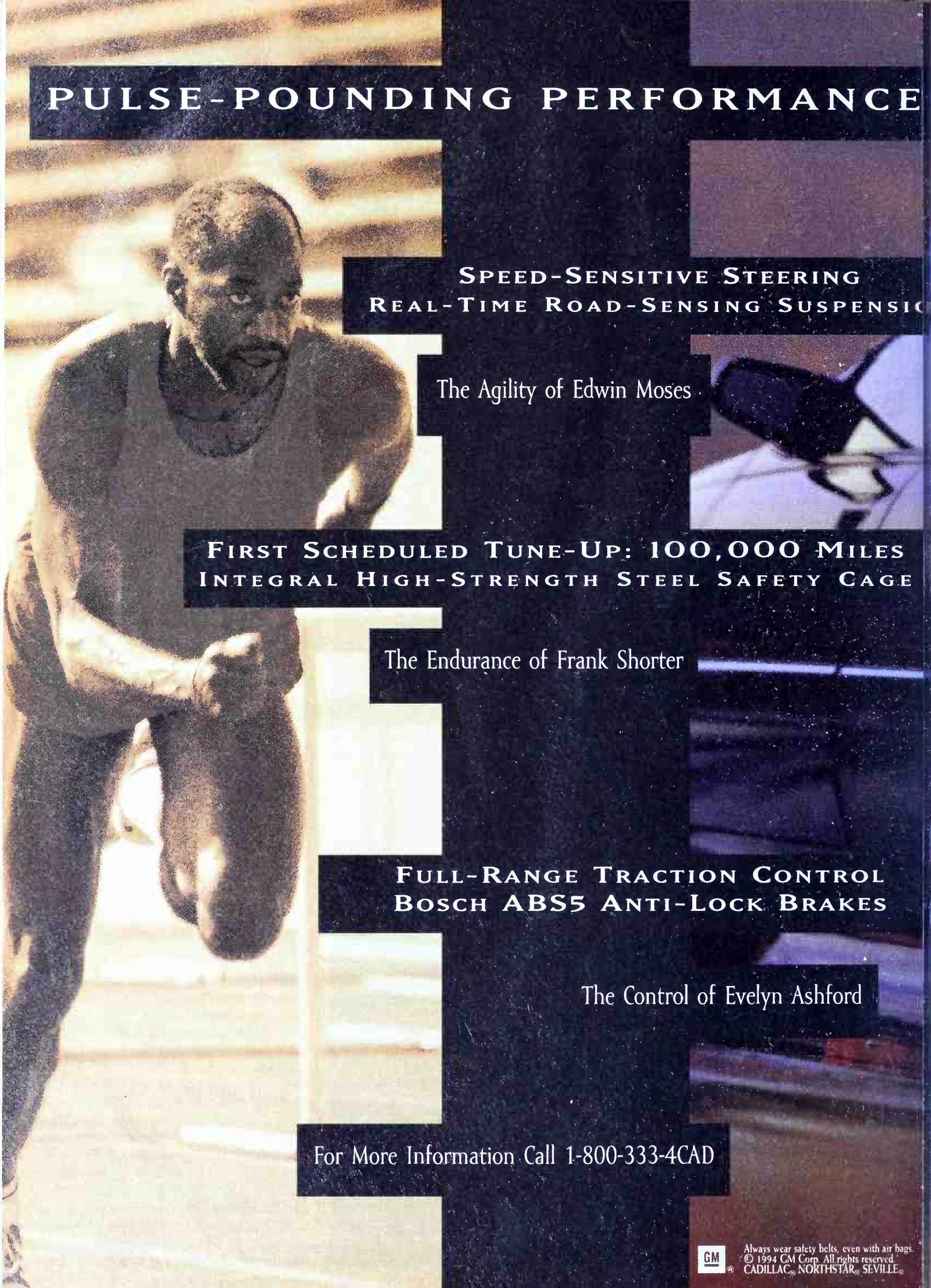
"Who says you have to be elected to influence policy?" asks Nicholas P. Sargen, managing director of Global Advisors in Newark, N. J. "The market is saying to policymakers, 'We're your watchdog.' "

This enforcement of fiscal rectitude holds profound implications for companies and countries alike. "Competition between nations" will be the order of the day on capital markets, predicts André Lévy-Lang, chairman of the management board of Compagnie Financière de Paribas. So will competition between countries and private corporations. Some even see the market measuring corporations and governments by the same yardsticks. Says David C. Mulford, chairman of CS First Boston Ltd. and a former U. S. Treasury Under Secretary: "It's remarkable how the system has promoted rising prosperity to those who are prepared to reform their economies and compete for capital. The market responds to that, and very efficiently."

Of course, some national leaders will try to defy the market. But the cost of facing up to a force collectively worth trillions of dollars is becoming nearly unbearable. Refusing to play ball with the traders could subject an economy to staggering interest rates or a cessation of equity investment in privatizations needed to boost productivity and create jobs. That could lead to increased social tensions that would push an economy even further from the road to fiscal stability. "You can opt out of the system," warns money manager George Soros, "but if you do, that destroys prosperity."

INVESTOR POWER. Many countries are already heeding that warning. And that's probably all for the better, because no longer will the bureaucrats of the World Bank and International Monetary Fund be the prime interlocutors between the First and Third Worlds. Instead, investors, many of them supplying equity and demanding decent returns, will take their place. The International Institute of Finance estimates that $200 billion will flow to developing countries this year, 90% of it coming from private investors. With governments around the world planning to sell off some $350 billion in assets by the century's end alone, private investment will remain a driving force for decades.

Such massive movement of cash to the Third World will create divides among the developing countries them-



PULSE-POUNDING PERFORMANCE

SPEED-SENSITIVE STEERING
REAL-TIME ROAD-SENSING SUSPENSI

The Agility of Edwin Moses

FIRST SCHEDULED TUNE-UP: 100,000 MILES
INTEGRAL HIGH-STRENGTH STEEL SAFETY CAGE

The Endurance of Frank Shorter

FULL-RANGE TRACTION CONTROL
BOSCH ABS5 ANTI-LOCK BRAKES

The Control of Evelyn Ashford

For More Information Call 1-800-333-4CAD

GM®

Always wear safety belts, even with air bags.
© 1994 GM Corp. All rights reserved.
CADILLAC®, NORTHSTAR®, SEVILLE®

32V NORTHSTAR
Cadillac
SEVILLE STS
WITH THE NORTHSTAR SYSTEM
CREATING A HIGHER STANDARD™

selves. Already, nations are splitting into haves and have-nots defined by market criteria. Argentina, Brazil, Mexico, Thailand, China, and several other nations, for example, have seen cash flood in as private stock and bond investors have bet on the spread of democracy. They also are rewarding the development of sound fiscal, monetary, and legal standards; the growth of a managerial middle class; and transparency of corporate accounting. Left behind are such onetime Third World stars as Nigeria and Venezuela, whose political strife and fiscal mismanagement are driving foreign investors to move on to more friendly locations.

> ➛ As traders veto government actions, "the very sovereignty of nation-states," says one economist, "is being defeated"

Yet the biggest challenge posed by the end of financial geography may be for regulators. Increasingly, the central bankers, finance ministers, and officials of international institutions who have served as custodians of the global financial system are wondering how they can blunt the market's brute force. They are still reeling after a series of routs starting with Europe's currency wars of 1992 right up to the dollar crisis of '94. Indeed, the once-powerful central banks look ever more beleaguered in their efforts to control a foreign-exchange market that now is trading $1 trillion a day.

As world trade and GDP continue to expand, this market is likely to get even bigger. And with savers increasingly able to move funds around the world at will, some economists even see central banks being forced to shift their focus from the domestic to the global money supply when considering policy moves.

Making that task easier may be the advent of supercurrencies that will help make trading and political blocs more efficient. Elke Thiel, an economist at Munich's Research Institute for International Affairs believes that despite the turmoil of the past several years in European Union foreign-exchange markets, the EU will have little choice but to move toward a single currency in the next century. Although it will resemble the German mark and will be strongly influenced by the anti-inflation hawks of the Bundesbank, she argues that such a broader-based currency will still be an important symbol of regional political unity.

But elsewhere around the world, the Americanization of global finance may make the greenback the prime monetary standard. With fast-growing economies from Argentina to Hong Kong already pegging their monetary systems to the U.S., and Russians abandoning the ruble for Federal Reserve notes, "the dollar will conquer all," says Nicholas Knight, Nomura Research Institute's London-based strategist. But hopes for an emerging yen bloc in Southeast Asia are "probably wrong," says Knight, in part because the dollar already is the denominator for trade and investment in the region.

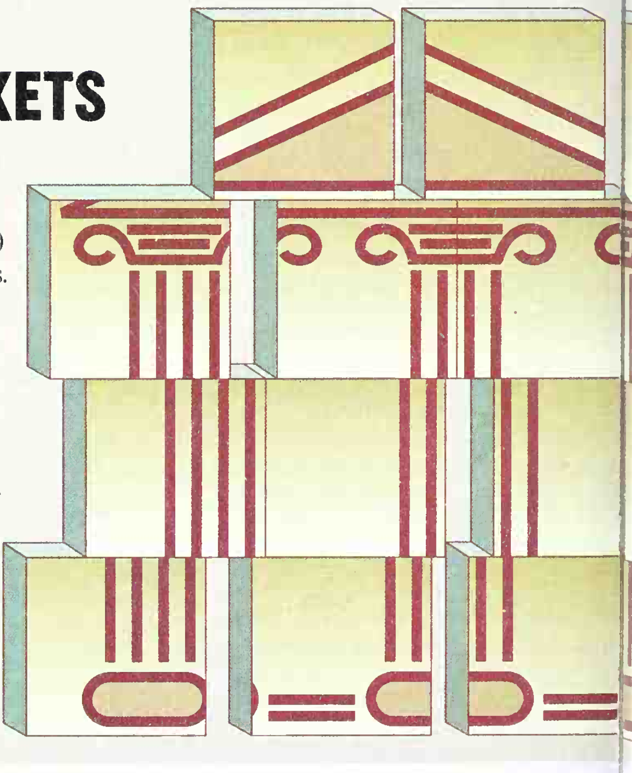
The globalization of stocks will become perhaps as powerful a force as the spread of supercurrencies. Baring Securities Ltd. analyst Michael J. Howell estimates that investors worldwide have already poured more than $1.3 trillion into stocks outside their home markets. Much of that has gone into industrial countries. But now, the push is on to make emerging markets the focus of investor attention worldwide.

THE BUILDING BLOCKS OF THE NEXT CENTURY'S MARKETS

MOSCOW A stock market is rising from the ashes of communism, giving newly privatized companies easy access to investors. Some 16 companies already trade over the counter, and perhaps 150 more could be on the bourse in a few years as privatization spreads. Other markets are opening in St. Petersburg, Ekaterinburg, Novosibirsk, and Vladivostok, and mutual funds are springing up.

PRAGUE Eastern European governments are becoming the darlings of the world bond market. Leading credit-rating agencies have already awarded investment-grade status to Prague's municipal bonds, and western investors can now buy huge blocks of Czech Republic debt with ease.

ROME Privatization fever is expected to sweep western Europe into the next century. Some $100 billion worth of Italian, German, and other state-owned companies will go on the block. That holds out the hope for more efficient industry—and dramatically widening choices for equity investors.

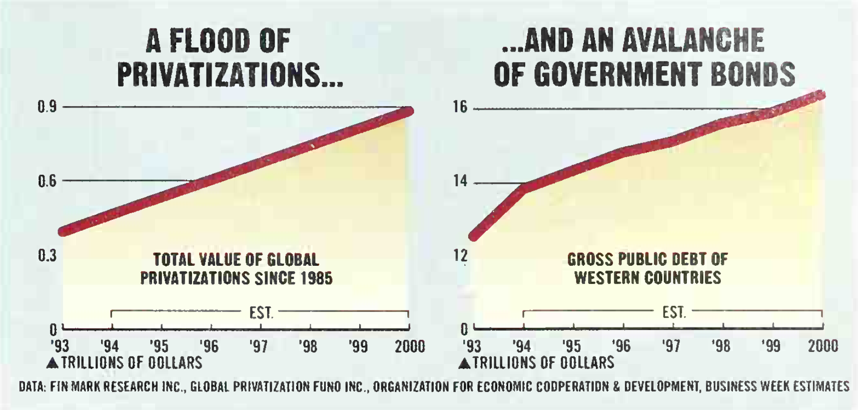


DATA: BUSINESS WEEK

ILLUSTRATED TABLE BY ALBERTO MENA/BW

A FLOOD OF PRIVATIZATIONS...

...AND AN AVALANCHE OF GOVERNMENT BONDS



DATA: FIN MARK RESEARCH INC., GLOBAL PRIVATIZATION FUND INC., ORGANIZATION FOR ECONOMIC COOPERATION & DEVELOPMENT, BUSINESS WEEK ESTIMATES

The flow of equity capital from the developed to the developing world has surged twentyfold since 1988. By 2010, emerging economies may account for 44% of world stock market capitalization, against only 15% today. Howell figures that just as they did in the 19th century, rich industrial nations could continue pumping money into emerging markets for 50 to 100 years.

FEAR OF FLIGHT. The flow of capital from north to south and east is becoming a more pervasive political force. Offshore investors hold some 50% of the Mexican stock market's shares and 25% of the country's government debt, for example. Says Arturo Acevedo, chief economist for the Vectormex brokerage group: "The bond market plays the role of Congress, checking executive powers." In fact, the threat that U. S. and other foreign investors may flee has encouraged the ruling Institutional Revolutionary Party to press ahead with economic restructuring and move to open up its political system to more debate.

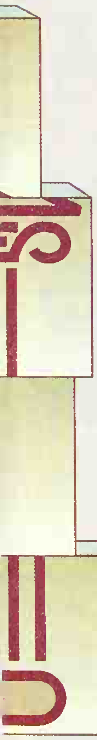
For those that win the markets' favor, the rewards can be substantial. The Czech Republic, now entering its second round of post-communist privatizations, recently won praise from Standard & Poor's Corp. for its conservative fiscal policies. Its debt and deficit levels are healthier than those of most EU countries. So foreign investors don't hesitate to snap up Czech bonds. Prague's municipal debt now sells on the Euromarket at yields just 115 basis points higher than U. S. Treasuries.

Many global companies, too, will be forced to play by stricter rules. "If you have to raise capital, you have to open your books. It's as simple as that," says Nicholas V. Didier, who runs Morgan Stanley & Co.'s American depositary receipts business. In the first half of this year, 61 overseas companies raised $8.4 billion from Yankee investors via ADR listings on American stock exchanges. A dozen of them were newly privatized entities from around the world.

One company that recently raised its standards of transparency is Fletcher Challenge Ltd., a New Zealand-based forest-products group. Worried about getting brushed off by American or Asian investors, it spent two years converting all its books from New Zealand to U. S. accounting principles. Indeed, American Express Bank Ltd. Chief Economist Richard R. O'Brien observes that "any closed cartel or club is generally being broken up" by market forces.

OPEN-BOOK POLICY. That's clearly the case in Germany. With such a large proportion of domestic savings diverted to the huge costs of unification, Germans will have to open their books as they turn to outsiders for new investment capital. When Daimler Benz broke ranks by opening its books last year to gain a listing on the New York Stock Exchange, other German corporations jumped to criticize the nation's biggest industrial conglomerate. But for a global producer such as Daimler, the move was little more than a bow to the inevitable. "The days in which [German] banks held all the shares, sat on all the boards, and failed to disclose investor information are essentially over," says London economist Roche.

A new sense of openness is also lighting up emerging markets, where once-secretive technocrats and executives now know that disclosure is the price of entry into the global money network. Dozens of Indian manufacturers (page 60) are queuing up to list shares in London and perhaps even New York. So are plenty of companies from China. In August, CS First Boston Group rolled out $333 million worth of ADRs for expansion plans by Shandong Huaneng Power Co. To seal the deal, the Chinese company had to set up a new accounting system from

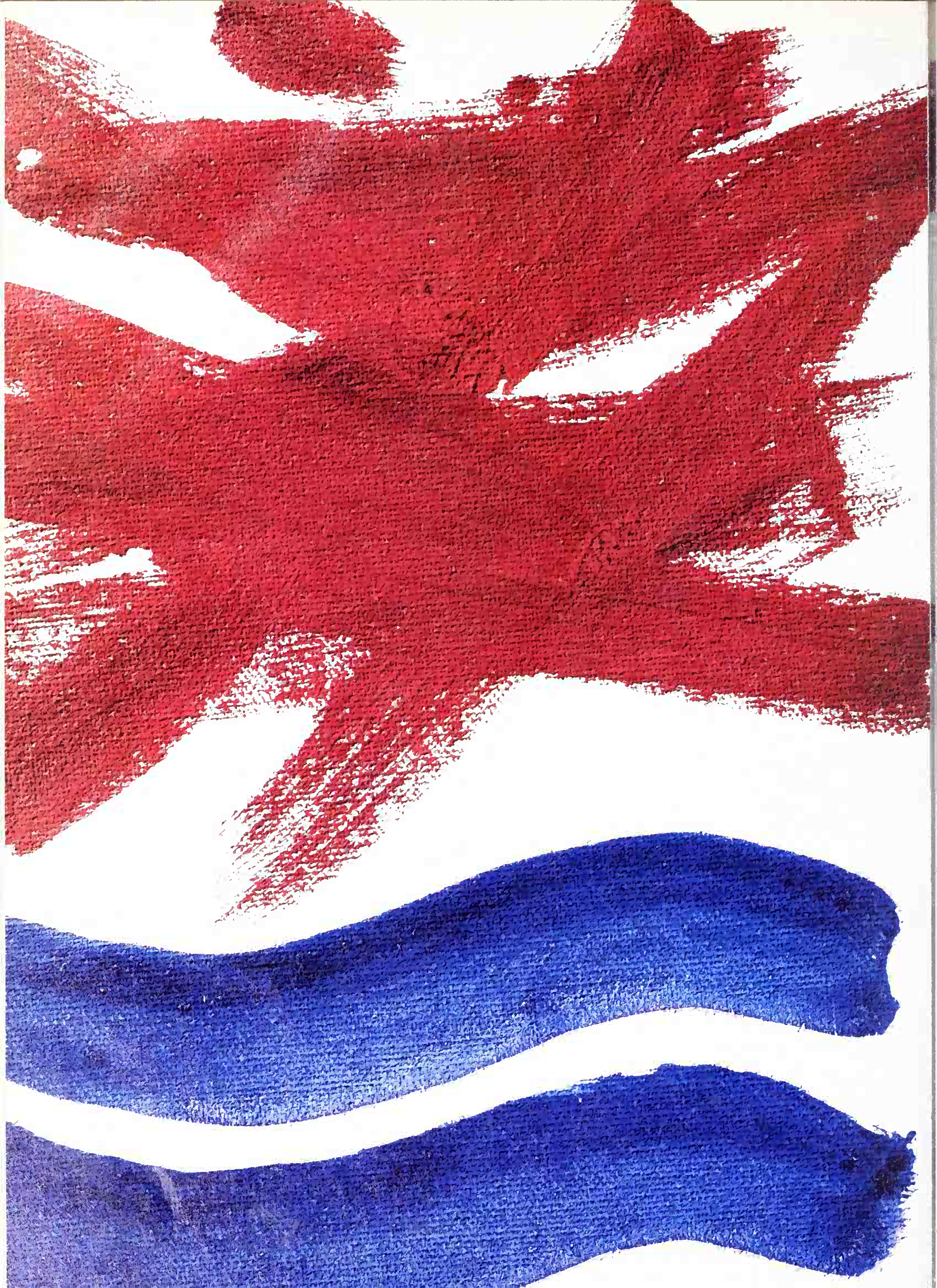


NEW YORK A stateless stock market is mushrooming on Wall Street. Companies from around the globe are scrambling to list shares and American depositary receipts to gain access to U.S. investors. The New York Stock Exchange may even begin 24-hour trading in overseas equities.

BUENOS AIRES With Chile leading the way, pension-fund privatization is spreading across Latin America. Argentinian workers are expected to move as much as $25 billion into privately run pension plans by the year 2000, and Bolivia and Peru are also building private systems. Mexico is thinking of following suit. The plans will supply cash for infrastructure and industrial development.

BANGKOK Across southeast Asia, governments are loosening ties on financial markets and forcing banks and other institutions to compete by offering new products and services. Thais have gone wild over U.S.-style mutual funds, which have become an important new source of equity for corporations.

SHANGHAI China is rushing to build a financial market that will finance its development into the next century. To do this, it is encouraging more companies to shake up their accounting systems and list their shares on domestic, Asian, and U.S. markets. It is getting its central bank out of the lending business so it can focus on getting the money supply under control.



Now risky is safe.

Introducing the new System/390 Parallel Enterprise Server. New hardware and software technologies are always tempting. But which are good investments that can grow with you? And how do you put them to work smoothly and still maintain the reliability and security you've come to depend on in your current system? The answer to both questions is the new System/390® Parallel Enterprise Server.™ With new software that's more open than ever before, as well as services to help you migrate, this server helps lay the foundation for true network-centric computing. And it does it without turning your business inside out or sacrificing the proven mainframe strengths of safety and dependability. Sometimes you *can* have your cake and eat it too. For more information call your IBM representative or **1 800 IBM-3333 and ask for STAR 82.***

We believe the more you know about where large-scale computing is going, the more you'll agree there *is* a difference in computers and the companies that make them.

---

*In Canada call 1 800 465-1234, ext. 323. IBM and System/390 are registered trademarks and System/390 Parallel Enterprise Server is a trademark of International Business Machines Corporation. © 1994 IBM Corp.

TRADING IN SAO PAULO: THE MOVEMENT OF CASH IS SPLITTING THIRD-WORLD COUNTRIES INTO HAVES AND HAVE-NOTS

PHOTOGRAPH BY JOHN MAIER [illegible]

scratch. But to win over Western investors, it also had to cut a U.S.-style rate agreement with regulators to give it a 15% return on capital.

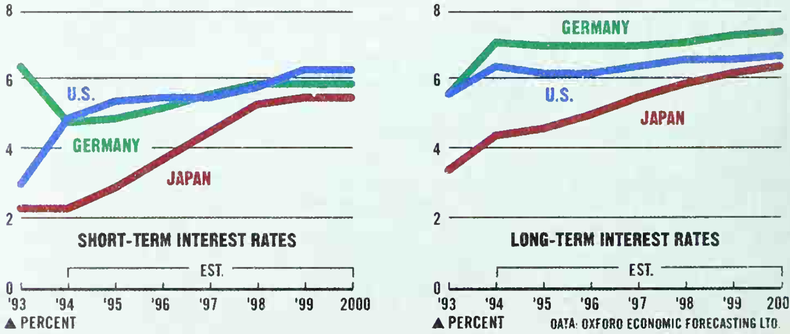
To make the transition, many emerging-economy companies are calling on investment bankers and money managers to help shape business plans from the ground up. Indeed, for the first time, big-bucks equity managers are taking an active role in Third World corporate management. Alliance Capital Management's Mark H. Breedon, who runs the $1.1 billion Global Privatization Fund, found himself helping several Eastern European companies decide how to raise capital and structure takeovers. He has also been thrust into the role of accounting cop—a job normally reserved for securities regulators.

ASIA'S WALL STREET. Alongside such efforts to remake companies comes a parallel drive to remake markets themselves. Not only are emerging economies from Vietnam to Russia opening bourses, they're also building new financial institutions that will yield more control over their economies. In Hong Kong, Peregrine Investments Holdings, a fast-moving securities house with strong mainland Chinese ties, is emerging as Southern Asia's answer to Wall Street. Only eight years old, it already boasts an impressive roster of major deals and $1 billion in assets. Thailand, meanwhile, is building a mutual-fund industry to deepen its domestic savings base and dampen volatility caused by foreign investors. Poland is doing the same (page 54).

The need for deep local equity markets is fast becoming apparent to Western Europe, too. Countries across the Continent are preparing to sell off $100 billion in state assets—from Deutsche Bundespost Telekom to Spain's state-owned tobacco company. They would like to keep the crown jewels of their national industrial bases out of foreign hands, but they face a dilemma. Since they don't have funded private pension systems, France, Germany, and Italy all are short on equity capital needed to buy the assets. So they may finally be forced to overhaul their deficit-ridden state systems, which now operate on a pay-as-you-go basis.

As more countries adopt new financial technologies, open new markets, and join the ever-expanding quest for equity capital, one weak spot remains. Amid ever-more sophisticated instruments, regulators have shown little understanding of the new linkages springing up among instruments, markets, and economies. Some $20 trillion worth of swaps, options, caps, collars, and other "derivative" products now circulate around the world, giving investors and issuers the ability to do everything from hedging foreign-exchange exposures to speculating on minute spreads among global interest rates. These new financial instruments are becoming so sophisticated that Bankers Trust New York

AS CAPITAL FLOWS MORE FREELY, WILL GLOBAL RATES CONVERGE?



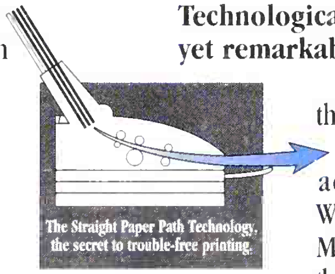
DATA: OXFORD ECONOMIC FORECASTING LTD.

Who would have believed you could buy a Laser Printer for only $399?

We Did.

Introducing the Brother HL-600 Series Laser Printers, with exclusive Straight Paper Path Technology that sets a new standard in quality and value.

If your next laser printer doesn't have our exclusive Straight Paper Path Technology, that may put a wrinkle in many of your printing projects.


The Straight Paper Path Technology, the secret to trouble-free printing.

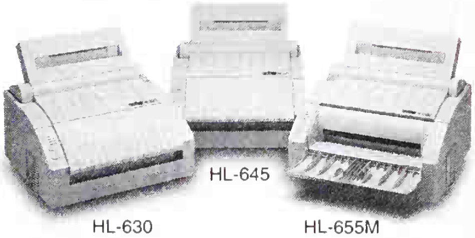
That's because our laser printers don't take your paper down a curvy, twisty paper path like other laser printers. So everything comes out straighter and faster (up to a blazing 6 pages per minute). You'll be able to automatically stack and feed those troublesome envelopes (up to 10 at a time), and paper sizes as small as 2.75" X 5" without having to worry about how they'll look when they come out. You can print not only standard paper stocks, but also tri-fold brochures, invitations, newsletters, etc. It's like having your own personal print shop!

AVAILABLE AT: Office Depot, OfficeMax, Staples, Circuit City, Fry's, Best Buy, J & R Music World and fine retailers and dealers everywhere

Versatility is just the beginning because our Straight Paper Path Technology virtually eliminates those horrifying paper jam glitches that usually force you to disassemble your laser printer.

Technologically remarkable... yet remarkably affordable.

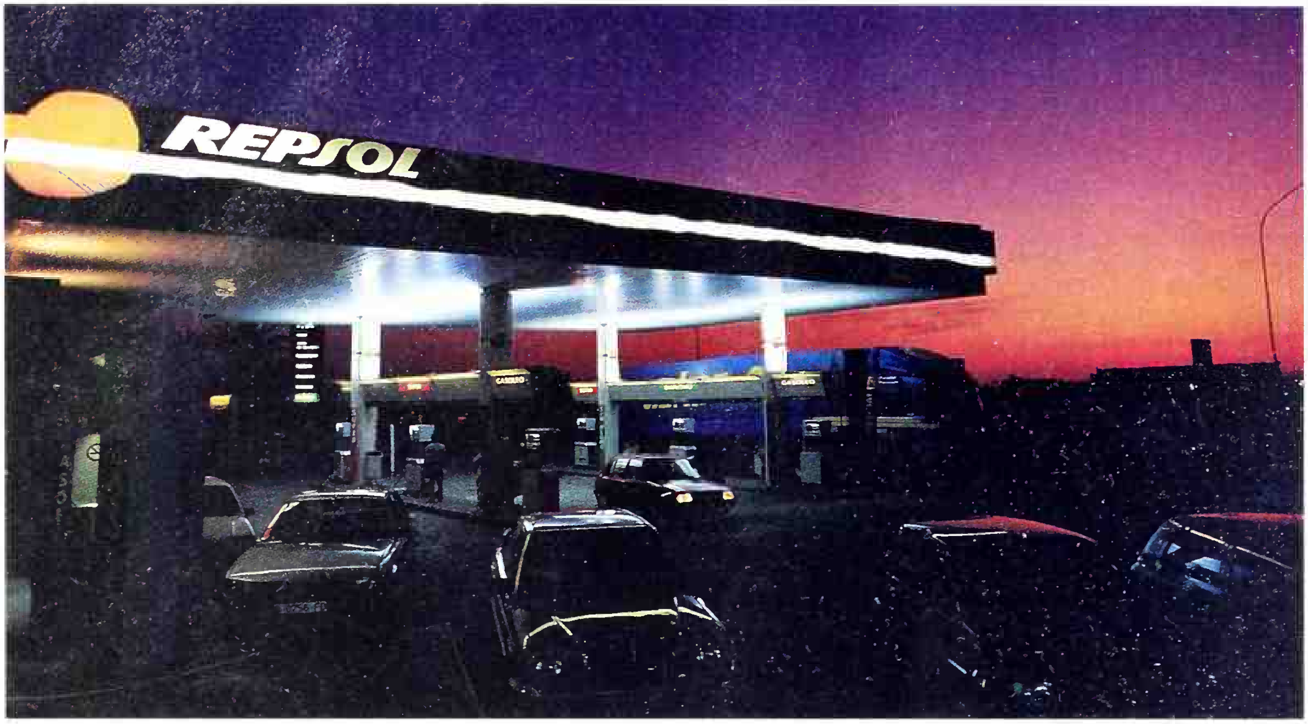
Our HL-600 Series Laser Printers, the first in a new family of quality printers, also offers other advanced features like fast Windows™ printing, Enhanced Memory Management to help you fly through large complex files, numerous fonts, auto power save mode to save energy costs, microfine toner, optional Macintosh® compatibility, and more. Yet, unlike other laser printers with similar high-end features, our new laser printers don't come with a high-end price tag. They start at $399. (Yes, laser for $399!)



We're at your side.

brother®

Brother International Corporation, 200 Cottontail Lane, Somerset, NJ 08875-6714.
Windows™ is a trademark of the Microsoft Corporation. Macintosh® is a registered trademark of Apple Computer Incorporated.



SPAIN'S REPSOL IS AMONG THE DROVE OF FOREIGN COMPANIES WITH AMERICAN DEPOSITARY RECEIPTS LISTINGS ON THE NEW YORK STOCK EXCHANGE

Corp. Chairman Charles S. Sanford Jr. sees markets eventually driven by "particle finance," with money engineers breaking down any given deal into minute components that may be hedged, sold, or kept in portfolios for the long haul.

In coming years, investors will even be trading instruments based on acts of God, predicts financier Richard Sandor, CEO of New York-based Centre Trading Partners and a pioneer in interest-rate and currency futures and options. The Chicago Board of Trade already lists catastrophe reinsurance futures, which permit insurance companies to hedge against future earthquakes, hurricanes, and other disasters by purchasing contracts based on the industry's history of claims and premiums. The proliferation of such high-tech instruments could, over time, even blur the definition of what constitutes money.

But will these new products act like global dominoes in a global financial crisis? This year's bond-market collapse in the U. S. was a prime example of technology getting ahead of the market cops.

SUPERINVESTOR GEORGE SOROS

→ Technology is ahead of the market cops, as shown by this year's bond-market collapse

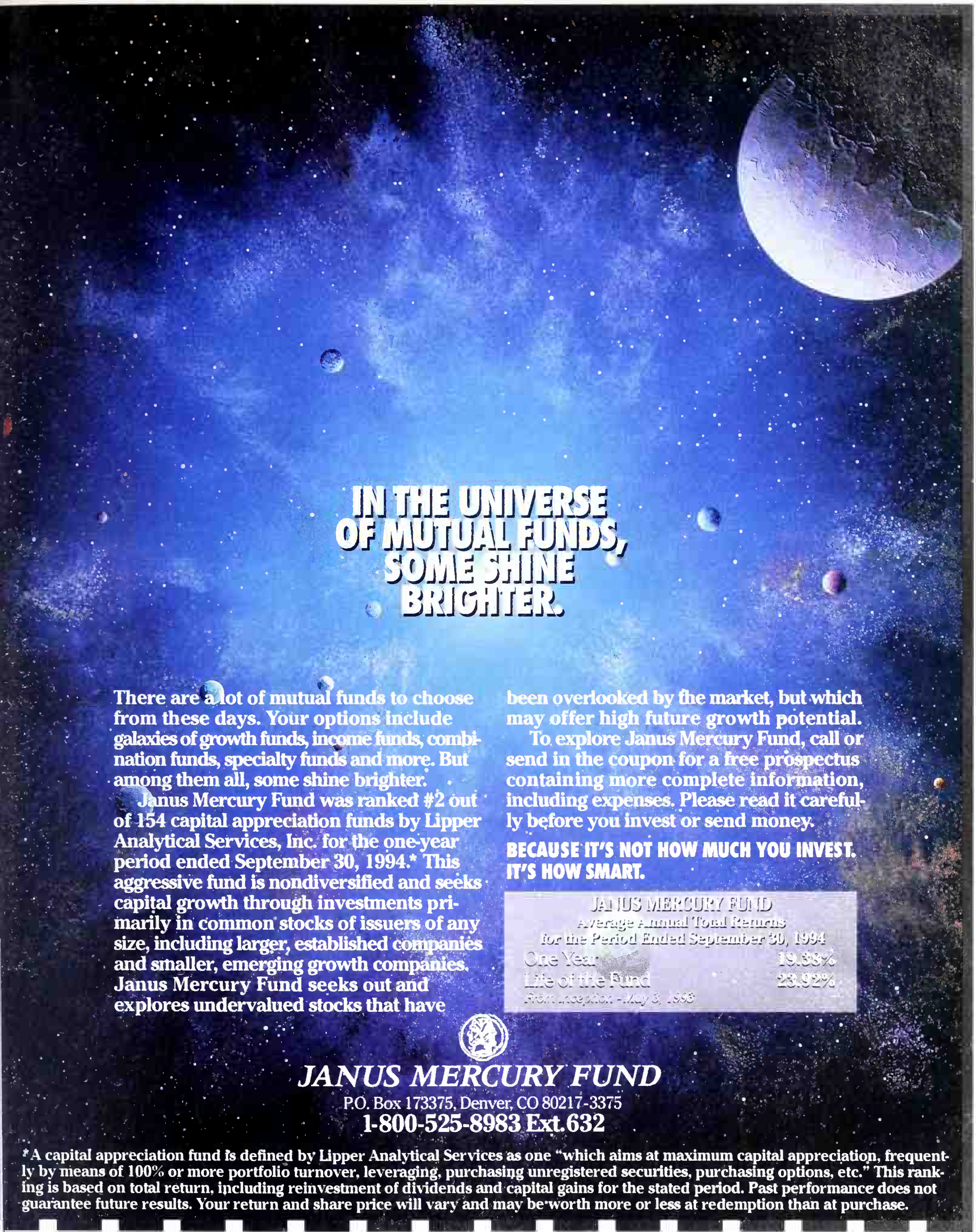
The rout started when the Japanese yen and interest rates took off amid a flare-up of trade tensions between Tokyo and Washington. Then the Federal Reserve Board raised U. S. interest rates. Around the world, investors were caught flatfooted. Many had borrowed heavily in yen to buy massive quantities of U. S., European, and Latin American bonds. Squeezed on both sides of the Pacific, investors began "a panic liquidation of securities around the world," says William Sterling, manager of international economics at Merrill Lynch & Co.

Making the selling easier than ever, of course, were some of the same financial innovations that allowed the traders to invest globally with such ease in the first place. Indeed, the borderless capital market "is a very nice, self-generating development," comments Soros, whose own funds lost $600 million in the Japanese markets. But, he adds, this new world market nevertheless "is in danger of collapsing unless it is properly regulated, supervised, and directed."

SCARY BUT POTENT. How to regulate markets is another question. It's clear that the sheer multiplicity of financial sources in an era of borderless capital will complicate crisis management. Just as the 19th century boom in global capital flows exposed investors and issuers to scary new risks, so will the technology-driven 21st century money market give birth to problems that are only beginning to become apparent.

But consider the upside. An efficient global money market that can as easily channel capital from a saver in Shenzhen to the clothing factory down the street or to a Boeing aircraft plant in Seattle carries with it tremendous potential. It can allow millions of inventive individuals to invest and grow. That can't be a bad thing.

By Bill Javetski in Paris and William Glasgall in New York, with bureau reports


IN THE UNIVERSE OF MUTUAL FUNDS, SOME SHINE BRIGHTER.

There are a lot of mutual funds to choose from these days. Your options include galaxies of growth funds, income funds, combination funds, specialty funds and more. But among them all, some shine brighter.

Janus Mercury Fund was ranked #2 out of 154 capital appreciation funds by Lipper Analytical Services, Inc. for the one-year period ended September 30, 1994.* This aggressive fund is nondiversified and seeks capital growth through investments primarily in common stocks of issuers of any size, including larger, established companies and smaller, emerging growth companies. Janus Mercury Fund seeks out and explores undervalued stocks that have been overlooked by the market, but which may offer high future growth potential.

To explore Janus Mercury Fund, call or send in the coupon for a free prospectus containing more complete information, including expenses. Please read it carefully before you invest or send money.

BECAUSE IT'S NOT HOW MUCH YOU INVEST. IT'S HOW SMART.

JANUS MERCURY FUND
Average Annual Total Returns
for the Period Ended September 30, 1994

One Year	19.38%
Life of the Fund *From Inception - May 3, 1993*	23.92%

JANUS MERCURY FUND
P.O. Box 173375, Denver, CO 80217-3375
1-800-525-8983 Ext.632

*A capital appreciation fund is defined by Lipper Analytical Services as one "which aims at maximum capital appreciation, frequently by means of 100% or more portfolio turnover, leveraging, purchasing unregistered securities, purchasing options, etc." This ranking is based on total return, including reinvestment of dividends and capital gains for the stated period. Past performance does not guarantee future results. Your return and share price will vary and may be worth more or less at redemption than at purchase.

YES - I would like to know more about Janus Mercury Fund!

Name ____________________

Address ____________________

City/State/Zip ____________________

Janus Funds are no-load mutual funds.

Funds distributed by Janus Distributors, Inc. Member NASD.

Send to:
Janus Funds
P.O. Box 173375
Denver, CO
80217-3375
1-800-525-8983
Ext. 632

BW 632

VIRTUAL BANKING

TECHNOBANKING TAKES OFF

The digital revolution is linking people and companies around the world with ever more sophisticated services

It was 1993, yet customers of Britain's Barclays Bank PLC would get 19th-century treatment every time they moved to a new address. Because Barclays had no electronic network connecting its branches, the bank would freeze its clients' accounts for a week while it moved files from building to building. No longer. Over the past year, Barclays has suddenly shaped up.

Joining the technological revolution sweeping banking worldwide, Barclays has networked its branches, allowing some customers to do business by phone. Says Joseph De Feo, director of group operations and technology: "The Barclays brand will disappear if we don't offer a variety of services electronically."

It's virtual banking. Instead of waiting in line at branches and offices, bank customers around the world are finding telephones with computer screens, automated teller machines where they can trade stocks, and even videoconferencing kiosks staffed by experts on everything from mortgage loans to mutual funds. Corporations are getting pitches on new electronic techniques for international money transfer and transaction processing. The global banking system, founded on brick-and-mortar branches and local franchises, is being transformed into a vast electronic web that transcends national borders.

LOGGING IN. This rush to digital money is democratizing banking by bringing the latest in electronic financial services to customers far beyond the ranks of the world's largest companies and cities. Millions of consumers—particularly those with sizable bank accounts and sophisticated financial needs—will find it much easier to manage all of their finances. It's conceivable that within the decade, the two-way Infobahn in money will reach even into the living room. Consumers may be able to log into, say, the Citibank Channel and pay bills electronically or even buy stocks through their television sets. Small corporations will be able to operate as virtual multinationals using new technologies for international transactions to tap markets around the globe.

BANKING GETS TECHNICAL

High-technology banking is revolutionizing relationships between customers and financial institutions. Here's how:

CONSUMERS Consumers want to be able to bank in more places and at any hour. So lenders are offering electronic services that extend their reach far beyond their branches. Now, consumers can conduct business from videoconferencing kiosks and automated teller machines that even let customers trade stocks. In the future: interactive videobanking via cable or satellite.

CORPORATIONS As companies target customers around the globe, banks are stretching to help. Banco Santander and Royal Bank of Scotland already are building an international funds-transfer network that will let small companies do business with customers across Europe and the U.S. Soon: Banks, for a fee, take over currency and interest-rate hedging for customers.

BANKS To cut costs, some are spending hundreds of millions of dollars a year on technology. Chase Manhattan now handles paperwork from around the world at a 323,000-square-foot facility in Bournemouth, England, boasting satellite links that can transmit the equivalent of an entire London phone book in just 90 seconds.

DATA: BUSINESS WEEK

The big move to electronic banking delivery is a defensive one for many banks. Many U.S. lenders offered technobanking to consumers in the 1980s, only to find that consumers didn't really want it. But now, with business travel rising, two-career couples increasingly common, and average workdays lengthening, consumers are placing a growing premium on convenience and flexibility in handling their finances. What's more, consumers and corporations have ever expanding alternatives to banks when they look for places to store their money. That means banks have to offer 24-hour global service, and unlike during the 1980s, they must offer it in different flavors—over telephones and televisions in addition to home computers—if they want to hold on to their best customers.

Thanks largely to more competitive banking in the U.S., Americans are the architects of many of the advances in technobanking. Even regional banks are making big strides. Huntington Bancshares of Ohio is rolling

UNITED OVERSEAS BANKS' CUSTOMERS IN SINGAPORE CAN BUY STOCK AT ANY ATM

out videoconferencing kiosks that allow customers to contact a banker at any hour of the day or night to discuss everything from mortgage-loan qualifications to mutual funds. The bank plans to place 100 such kiosks in office buildings and bank branches over the next two years.

MOBILE BANKING. For some banks, the future is already here. Customers of Singapore's United Overseas Bank Ltd. can buy new issues of stock directly from any ATM. Or walk into one of Citibank's model branches, and you may well see more ATMs than tellers, be it in Manhattan or Santiago, Chile. Citi ATMs can now handle more than 150 kinds of transactions, ranging from simple cash-dispensing to mutual-fund investing, and some U.S. customers can even trade stocks. Citi's Hong Kong branches may be the world's most futuristic, offering customers accounts in 10 different currencies. It's common now for Hong Kong consumers to call a Citi hotline from their mobile phones several times a day to check exchange rates and switch money among accounts.

The technology revolution is much more than glitzy ATMs or supercharged phone banking, however. Citi is also developing a sophisticated electronic system in Singapore that will allow a banker in any Asian branch to see all of a customer's account information. Also on file will be notes on all conversations with the customer, so that if a Citi customer goes to a branch in Hong Kong, a representative there can pick up where one in Jakarta left off. That way, Citi customers get a common set of services.

The technological changes are also revolutionizing the ways banks handle their own business. Consider Chase Manhattan Corp., which has built a $130 million center in Bournemouth, England, to process transactions from around the world. The 323,000-square-foot facility, set in a town where Chase has room to expand, uses a satellite network to connect offices in New York, Hong Kong, Luxembourg, and Tokyo. Its telecommunications lines to London can deliver the equivalent of the city's telephone directory in 90 seconds. Between currency transactions, global securities services, and dividend payments, Bournemouth processes transactions worth trillions of dollars a year.

As banks devote more of their efforts to technology, new links are growing between banks and nonfinancial companies. Spain's Banco Santander, the Royal Bank of Scotland, Goldman Sachs, and Electronic Data Systems, for example, have together formed the Inter-Bank On-Line System, or IBOS—an electronic-banking network that can digitally zap funds among banks around the globe in only seven seconds. Although embryonic today, the network heralds a revolution in banking services.

LOST IN CYBERSPACE. This network is vying to help small corporations speed transactions. Keith Patterson, cofounder and managing director for a London-based advertising company, used to tear his hair out when cash transfers to his Lisbon subsidiary disappeared into cyberspace for weeks. Now, IBOS moves the money from London to Lisbon the same day and saves Patterson about $7,500 a year.

For the banks in the system, the profit potential is clear. They can use each others' branch networks to do business in markets they were never able to get near before. "Companies are beating up on banks to give them better services," says IBOS Managing Director John Bertrand. "People who want $1,500 the same day can get it from an ATM, and people who need $50 million can get it from Salomon Brothers. But everyone in between must wait, including companies who want to shift $10 million." Bertrand is gunning to link 500 banks and tens of thousands of branches around the globe with one fiber-optic system within five years.

Despite all the high-tech hoopla, critical issues need to be resolved before electronic banking becomes the order of the day. There is a huge social cost to the changes: As lenders go digital, Europe alone may see 500,000 bank employees laid off over the next five years. And the more consumers and companies transfer money electronically, the greater will be the potential for thieves to intercept or tap into those flows. But these concerns are unlikely to derail the banks' mad dash to new technology. Around the world, virtual banking is becoming a virtual certainty.

By Kelley Holland in New York, Paula Dwyer in London, and Gail Edmondson in Madrid, with bureau reports

→ People may soon pay bills through their TVs, and even small corporations will be virtual multinationals

SCOUTS OF CAPITALISM

IN WARSAW, IT'S THE ROARING '90s

Alicja Malecka has steered the bumpy but successful debut of Poland's first—and only—mutual fund

THE OLD AND THE NEW: MALECKA HAS STARTED PIONEER BOND AND VENTURE-CAPITAL FUNDS, TOO

Over the past five years, dozens of nations have abandoned communism or state-led economic systems in favor of market capitalism. This has given rise to a corps of financiers who rush to the scene as governments begin changing the rules. These new scouts of capitalism advise governments on currency reforms, on how to set up banking systems and stock markets—and they often round up foreign institutions to invest in capitalist seedlings.

In Poland, one of these scouts is Alicja Malecka. Her quest: to bring the best of the West's investment techniques to her homeland. First, she helped Poland build a government-bond market. Now, she's doing the same for equities. The head of Pioneer First Polish Trust Fund, Malecka, 47, oversees the country's first—and only—mutual fund, with more than $900 million in assets and 550,000 investors. Says Aleksander Kwasniewski, head of the Democratic Left Alliance: "She's introducing a new way of economic thinking."

BUMPY RIDE. Such new thinking is increasingly vital to emerging markets, many of which are trying to amass pools of domestic savings to ease their dependence on foreign capital. But in few countries has a mutual-fund debut had as bumpy—or successful—a maiden run as Pioneer's.

Before the fund opened in 1992, the newspaper *Polityka* depicted the fund's sponsor, Boston's Pioneer Group Inc., as a foreign exploiter out to waste the hard-earned money of Polish citizens. Recalls Malecka: "Every move was an ordeal."

But when Warsaw's bull market took off, her fund was besieged with applications, jumping from 2,000 a day last December to 12,000 by January. So massive was the order backlog that her company wanted to stop taking applications for the open-ended fund for four weeks, until workers caught up. But Malecka, fearing panic among novice investors, instead tripled her staff and worked three shifts around the clock—only to see the fund's number of shareholders fall 20% when the overheated stock market hit the skids earlier this year.

→ Mutual funds are vital to emerging markets that need to amass domestic savings

Those shareholders may have sold out too soon, though. Because Pioneer First Polish invests in safer Treasury obligations as well as stocks, it was still up 15% in the first nine months of 1994, vs. a 24% drop for equities.

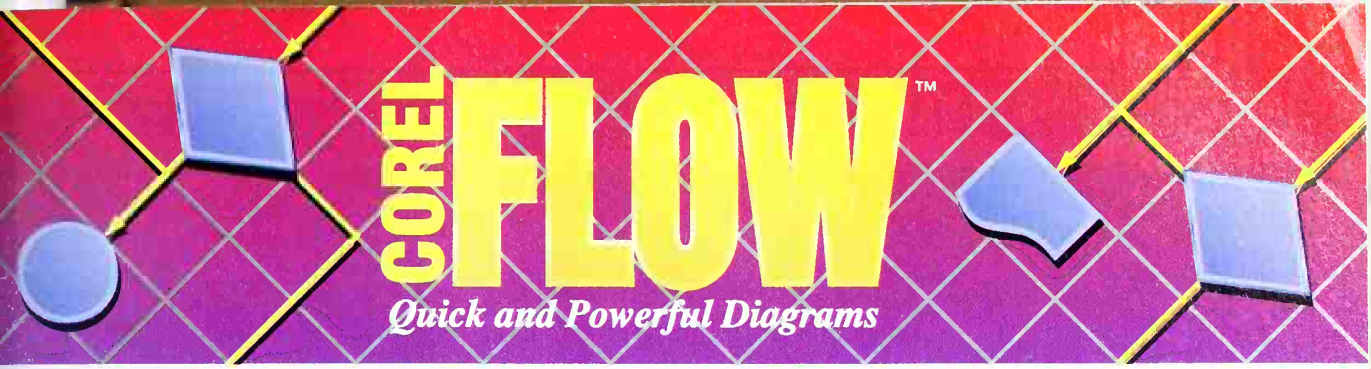
Malecka's career has taken the long way around back to Poland. Raised in Czestochowa, an industrial town 150 miles south of Warsaw, she studied international trade and economics at Warsaw's Main School of Commerce & Planning.

In 1969, at age 22, and with only $50 scrunched in her shoe, Malecka boarded a Polish liner to seek her fortune. For three years, she networked the Polish community in New York, holding jobs as a nanny, insurance clerk, garment-district gofer, and barmaid on her way to an MA in economics from State University of New York at Stony Brook and an MBA from Chicago's De Paul University. With her U.S. degrees, she won a job at Chemical Banking Corp., which sent her to Tokyo and Hong Kong to set up interest-rate and currency swaps. After a stint at Deutsche Bank, she moved in 1991 to the U.S. Treasury, where she became an adviser to Poland's Finance Ministry on issuing government debt.

"MILE A MINUTE." Malecka so impressed veteran Pioneer marketer Robert Sass, who moved the fund group into Warsaw, and Chief Investment Officer David Tripple, that Tripple offered her a job with the firm's new Polish equity fund. Now, Tripple marvels at the pace Malecka keeps. Clocking 16-hour days, she splits her time between a Warsaw flat and her Long Island (N.Y.) home, husband, and two cats. Says Tripple: "She moves a mile a minute."

Their admiration is easy to understand. Under Malecka's leadership, Pioneer has set up venture-capital funds and bond funds in Warsaw, and it's launching a mutual fund in Prague. It's also establishing Poland's first corporate retirement plan. Malecka wants to spread the wealth of the new capitalism as widely as possible. So far, she is getting her way.

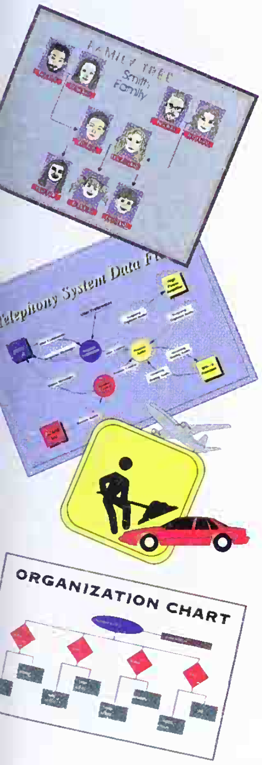
By Karen Lowry Miller in Warsaw



COREL FLOW™

Quick and Powerful Diagrams

Best Value! Best Features!


FAMILY TREE
Smith Family
Telephony System Data Fl
ORGANIZATION CHART

Network Diagram

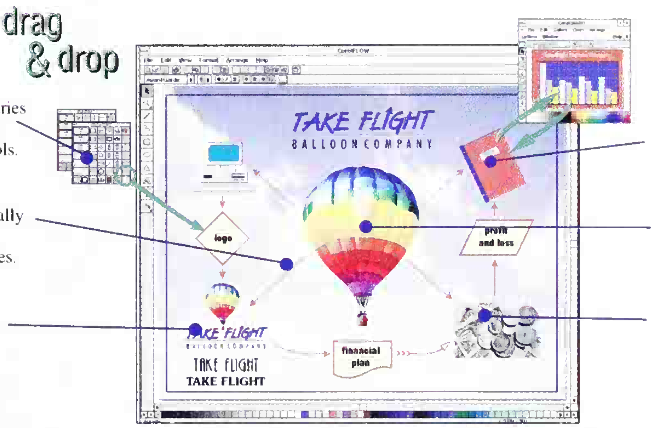
Compare the Features

VALUE	CorelFLOW	VISIO 2.0	ABC Flowcharter 3.0
List price (U.S. dollars)	$99	$199	$495
Number of pre-defined symbols	2,000	600	400
Number of clipart images	1,000	0	0
Number of photos on CD-ROM	1,000	0	0
Number of fonts	100	0	24
Number of colors	256	24	16.8 million
Number of pre-defined arrow types	39	11	15
Number of import/export filters	8/7	9/10	1/1
Number of symbol libraries	90	20	25
EASE OF USE			
"Drag and drop" symbols	●	●	●
Symbol auto-connect	●		●
Auto-resize symbols to fit text	●		
On-screen text and line editing	●	●	●
On-line interactive tutorial	●		
Spellchecker	●		
Symbols substitution	●	●	●
DIAGRAMMING FEATURES			
OLE 2.0 server	●	●	●
Create customized symbols	●	●	●
Draw symbols	●	●	
Save customized symbols to library	●	●	●
Open multiple symbol libraries	●	●	
Diagram linking	●	●	●
Create custom line arrows	●		
Works in layers	●	●	
Rotate objects	●	●	
Mirror objects	●	●	

FLOW
Quick and Powerful Diagrams
Version 2.0

CorelFLOW is the fast, easy way to build flowcharts, diagrams, schematics, organization charts, hierarchical diagrams and more!

NETWORK READY!


drag
& drop
TAKE FLIGHT
BALLOON COMPANY
logo
profit and loss
financial plan
TAKE FLIGHT
TAKE FLIGHT
TAKE FLIGHT

Floating Smart Symbol Libraries provide quick access to over 2,000 "drag and drop" symbols.

Connect symbols automatically as you draw with over 30 customizable connector styles.

Edit text directly on screen and add impact using any of the 100 TrueType fonts.

Link symbols to other CorelFLOW diagrams or other applications.

"Drag and drop" files directly from any OLE 2.0 compatible application.

Add flair to your diagrams with any of the thousands of photos and clipart images included.

Enter the Corel $2,000,000 World Design Contest and win! (September to March) To receive a faxed copy of the contest rules and an entry form please call 1-613-728-0826 ext. 3080, Document #1004
To leave a message please dial: 1-613-728-0826 ext. 81609.

CDW CIRCLE OF SERVICE

COMPUTER DISCOUNT WAREHOUSE™
800-279-4CDW

$65.54*

1-613-728-3733

KUR-0065

Solicite Asesor al 348-1100
CONSOLIDAR
ADMINISTRADORA DE FONDOS DE JUBILACIONES Y PENSIONES

AD BLITZ: THE PLAN ISN'T MANDATORY, AS IT IS IN CHILE

PHOTOGRAPH BY JUAN CARLOS PRIVANO/AF IMAGES; [illegible] ALBERTO MENA

PRIVATIZING PENSIONS

'MAKE EACH WORKER AN OWNER'

Countries such as Argentina need private pension plans to fuel domestic markets and growth

Thirteen years after shepherding a pioneering, privately run pension fund through its growing years in Chile, Gustavo Covacevich is going through the same motions on the other side of the Andes. The CEO of Previnter, 1 of 25 privatized Argentine funds that opened in July, Covacevich, 45, faces a daunting task.

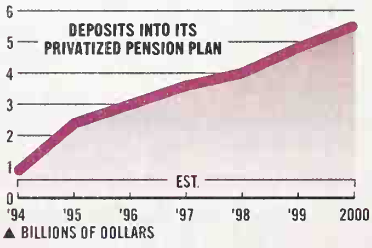
He must persuade Argentine workers, disillusioned by worthless state pensions, to shift their retirement savings to a crop of upstarts. He and his colleagues also have to bring about a profound social transformation. Pension funds, argues José Piñera, the creator of Chile's $20 billion pension industry, must "make each worker an owner, a capitalist."

ROOM TO GROW. Argentina desperately needs such a sea change. President Carlos Menem has won plaudits for introducing a sound currency, quenching inflation, and privatizing state industries. But Argentina still needs to develop more sophisticated capital markets to fuel sustained economic growth and reduce its dependence on the whims of foreign investors, who poured $11.7 billion into the country last year. Argentina also must build up its long-term domestic savings to support workers retiring in the 21st century.

So the Argentines—along with several other Latin countries—have followed Chile's example. Private pension funds have become a mainstay of the Chilean economy. With 4.8 million members and $19 billion in assets, pension plans have helped double the savings rate, to 21% of the gross domestic product.

Argentina's hopes are every bit as lofty, even if its fledgling pension industry has gotten off to a rough start. Unlike Chile, where worker participation is mandatory, Argentina's plans are still voluntary. And the industry's initial advertising blitz proved confusing to consumers. Many Argentines have been further put off by the resignations of the country's three top pension-industry regulators, who charged that their agency was inefficient and too bureaucratic. "There has been a lot of mismanagement," complains Covacevich. "It has been frustrating."

ARGENTINA'S PENSION WINDFALL



DATA: *U.S./LATIN TRADE*, BARING SECURITIES LTD., BUSINESS WEEK ESTIMATES

Nonetheless, nearly a third of Argentina's 6 million workers have agreed to put 11% of their earnings aside, up to a maximum of $3,800 monthly. That is pumping some $150 million a month into the country's private plans. "The fact that people are putting their money into the system after only a few months shows that they do have confidence," says Maxima Fund President Gonzalo Aguilar. Indeed, Senior Economist Raúl Buonuome of Baring Securities Argentina expects today's trickle of pension-fund contributions to grow to a $5.5 billion-a-year flood by 2000.

CULTURAL CHANGE. Buonuome figures that pension funds will pump their equity capital into big corporations, lessening their reliance on bank loans and allowing smaller companies, which pay as much as 40% for credit, to soak up some of the money the larger borrowers no longer need. Economists say the increased lines of bank credit should also loosen up the home-mortgage market, allowing loan rates to fall from their current level of around 20% and boosting homebuilding.

More important, however, will be the cultural change that workers will go through as Argentina becomes a nation of investors. "Before, it was hyperinflation and volatility," says Steven Darch, managing director of Buenos Aires-based Banco Mariva. "Who was worried about the future of Argentina when all your energies were directed at surviving day by day?" Now, for the first time in decades, Argentines have a pressing reason to make sure their future is as bright as possible.

By Paula L. Green in Buenos Aires, with Susan Jackson in Santiago

A M E R I C A ' S   U M B R E L L A®

Anyone in a long-term relationship knows what it takes to help it flourish and grow. Trust. Patience. Understanding. The Travelers' commitment to these values is how we protect our customers and help them prosper.

Through our investment and pension services, we can help you plan for the financial security of your company and your employees. We offer a broad range of corporate investment options including Guaranteed Separate Accounts and Guaranteed Interest Contracts. And, as always, your investment is tailored to meet your company's specific requirements.

In addition, we'll help you prepare for your own retirement with the same Tax Sheltered Annuity plans we provide for millions of workers, retirees and their families. And we protect these important investments with over $10 billion in annuity reserves.

With 130 years in the insurance business, we know about lasting relationships.

Over the years, millions of people have invested their future under America's umbrella. And in doing so, gained the security to reflect on the past.

© 1994 The Travelers Insurance Company and its Affiliates, Hartford, CT 06183.

TravelersInsurance
A Member of *TravelersGroup*

How many Int
to change

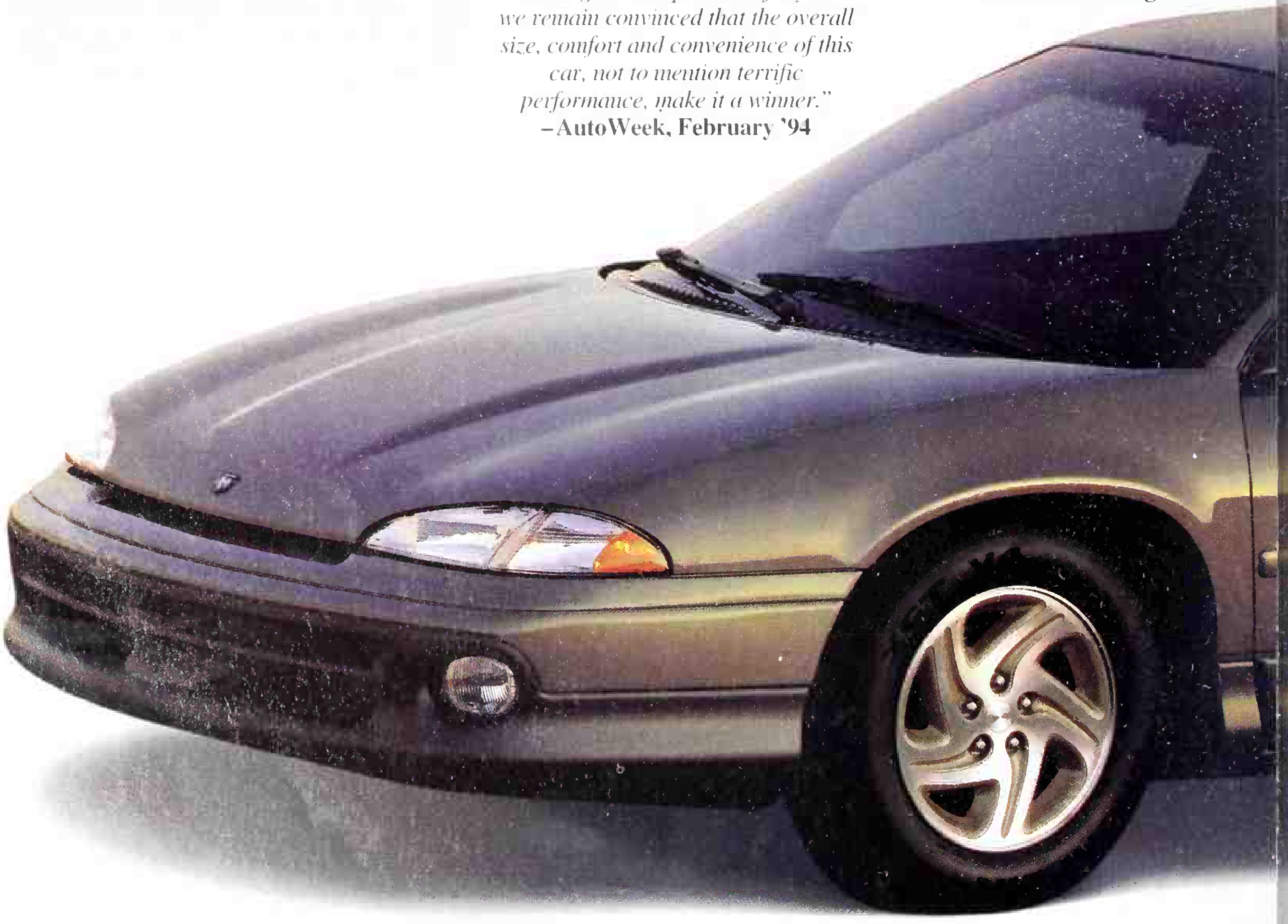
Just one. The one that revolutionized the architecture of the automobile. The one that gives you more room, more power, and more safety features, like the available integrated child safety seat, that cars like Honda Accord and Toyota Camry

"The suspension is a common blend of what the segment wants and needs in roadworthiness and car control without presenting a bill for payment from the comfort account, with a balance of ride and handling that previously was available only in the best of imports."
–Motor Trend, January '93

"Through three-quarters of a year, we remain convinced that the overall size, comfort and convenience of this car, not to mention terrific performance, make it a winner."
–AutoWeek, February '94

"The rock-solid reliability and overall value of the imports have made U.S. companies like Chrysler proverbial lambs amid a pack of wolves. Those days are over, thanks to cars like the Dodge Intrepid ES."
–Road & Track, June '94

"Automobile of the Year, 1993, All Star, 1994"
–Automobile Magazine



epids does it take everything?

can't match. The one with a new Customer One Care™ 3-year or 36,000-mile bumper-to-bumper warranty and 3/36 Roadside Assistance. The one that's changed a lot of minds about what a car can be. For more information, call 1-800-4-A-DODGE.*

"It's an American car that can hold its own in any company, on any kind of road."
–Automobile Magazine, January '93

"Best Bets, 1993, 1994"
–The Car Book

"Ten Best Cars, 1993, 1994"
–Car and Driver

"We emerged with a sense that this car represents an important milestone, not only for Dodge, but for the art of the American sedan in general."
–Popular Mechanics, April '93

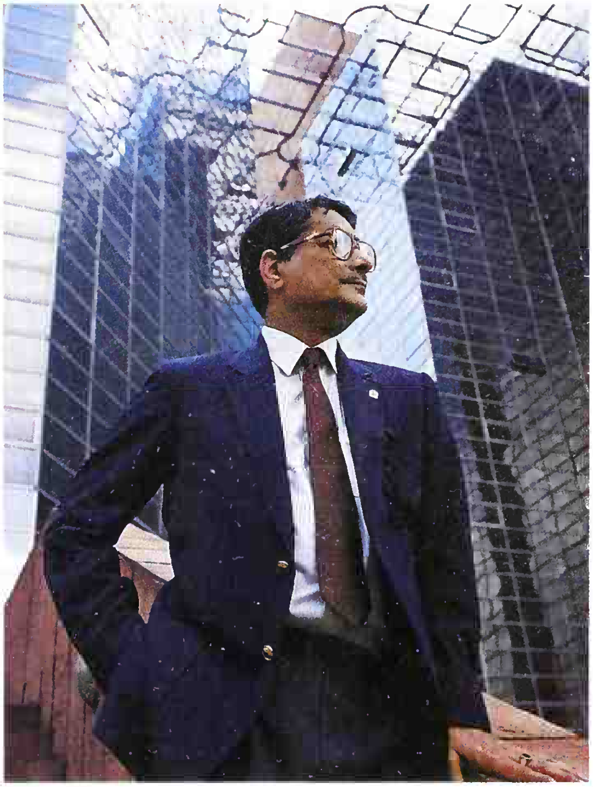
"In many ways, Intrepid exceeds standards set by the best imports in their class."
–Worth Magazine, October/November '92

Intrepid The New Dodge
A Division of The Chrysler Corporation

TAPPING GLOBAL MARKETS

SELLING SHARES IN INDIA INC.

Amid economic reform, the country's businesses are ravenous for cash—and foreign investment is pouring in



MANAGING DIRECTOR MITRA HAS POLISHED UP INDIAN ALUMINIUM TO LURE INTERNATIONAL MONEY

When he was a Communist Party activist in Calcutta in the 1960s, Tapan Mitra made his mark as a militant union leader at Indian Aluminium Co., a troubled metal producer partly owned by Alcan Aluminum Ltd. of Canada. Then, in 1973, Indal's chief financial officer persuaded Mitra to switch sides. It was a move that neither Mitra nor Indal has ever regretted.

Now Indal's managing director, Mitra, 56, has been the architect of a dramatic turnaround, making the company India's largest exporter of aluminum products, with sales of $250 million and pretax profits of $24 million in fiscal 1994. As economic reforms sweep his country, Mitra has been in the forefront of a new breed of Indian managers who are reaching out to foreign investors eager to gain a stake in the country's bustling economy.

EQUITY BONANZA. Entrepreneurs around the world are seeking out international equity capital, but few with the alacrity of Indians. The Indian government permitted its businesses to raise capital abroad for the first time in 1993, and Indal ventured into the international stock market earlier this year, selling $60 million worth of equity in London. Indeed, Indian companies are expected to raise some $4 billion in equity from other countries in 1994 (table) for industries as diverse as telecommunications, textiles, automobiles, and metals.

INDIA GOES PUBLIC

MAJOR GLOBAL EQUITY ISSUES IN 1994

	MILLIONS
VSNL Telecommunications	$650*
RELIANCE Textiles	300
CESC Utility	125
CENTURY TEXTILES	100
SANGHI POLYESTER	100
TELCO Autos	100
RANBAXY Pharmaceuticals	100
HINDALCO Aluminum	100
INDIAN ALUMINIUM	60

*Proposed

DATA: BARING SECURITIES LTD.

Even obscure manufacturers have been able to obtain cash. Core Parenterals, a six-year-old hospital-products maker based in Ahmedabad, for example, sold $70 million in equity overseas last summer, giving it the wherewithal to double its production capacity. "If you had a second-hand bus ticket, you could package it [as stock] and sell it," says N. P. Gidwani, chief Indian representative for British investment bank James Capel & Co.

Core, Indal, and other Indian companies have been driven to the international money market by sheer necessity. "Unless we merge with the global economy, none of our [economic] liberalization will work," says Anil Singhvi, treasurer of Gujarat Ambuja, a Bombay cementmaker that sold $80 million worth of convertible bonds overseas in 1993. "We need access to global money." The entrepreneurs' quest for international capital points out the shortcomings of India's domestic market. Bombay's stock exchange has been suffering from a liquidity crisis for most of the year, because of stiff trading regulations aimed at discouraging speculative buying. So foreign investors have preferred to purchase Indian stocks in London, where they can buy and sell with greater ease. On top of that, Mitra and other Indians want to raise their visibility abroad to help them woo overseas partners for joint ventures at home.

NO BRIBERY? Setting his sights on the international economy, Mitra has been shaping up Indal since taking over in 1991. He has tried to exploit its reputation as an honest company. For decades, he says, it refused to take part in the bribes that constitute an everyday part of Indian business.

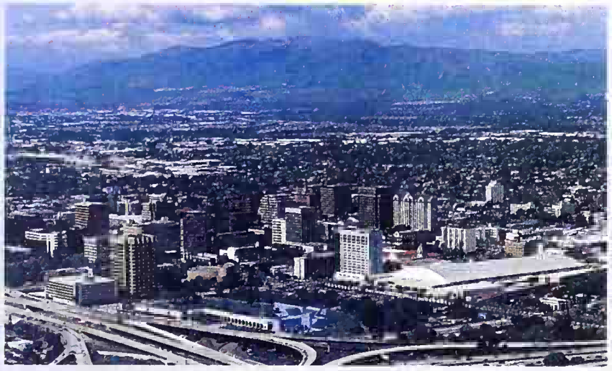
He has also spent $13 million on pollution controls, begun intensive quality training for Indal's 8,000 employees, and refocused the company's product line away from raw aluminum and toward such higher-value products as foil and sheets. "It was extraordinarily important for us to access international money," explains Mitra. "Now we are in a position to spring forward."

Some Indian bankers worry that their country's huge appetite for offshore capital will overwhelm the ability of investors to absorb emerging-market issues. But that's not stopping Mitra, who hopes to raise funds in the U. S. someday.

Many Indian investment houses are currently lobbying their government to let them tap the immense U. S. market by issuing American depositary receipts in New York. Executives such as Mitra will be extremely pleased if they succeed. Having had one taste of overseas capital, they show every sign of coming back for more.

By Sharon Moshavi in Calcutta

SAN JOSE & SILICON VALLEY



THE NEXT GENERATION

A generation later, one still wonders: how Santa Clara Valley, a place once hitched together by fruit orchards and oak trees, evolved into the world's high-tech Mecca? The reasons behind Silicon Valley's rise into one of the nation's most critical economic engines have endured, continuing to position San Jose and Silicon Valley as the nation's pre-eminent location for economic success.

The talent has always been there. From the early pioneers – Hewlett-Packard, IBM, National Semiconductor, and others – to the graduating classes that emerge annually from Stanford, UC Berkeley, and San Jose State University, the Valley has always produced some of the brightest professionals in the world. And like a promising racehorse worth high stakes, that talent draws capital – venture capital, and lots of it. More of it here, in fact, than anyplace else in the United States.

But the key ingredient that helped "grow" the Silicon Valley economy and spark the information revolution has been the Valley's brazen, entrepreneurial spirit.

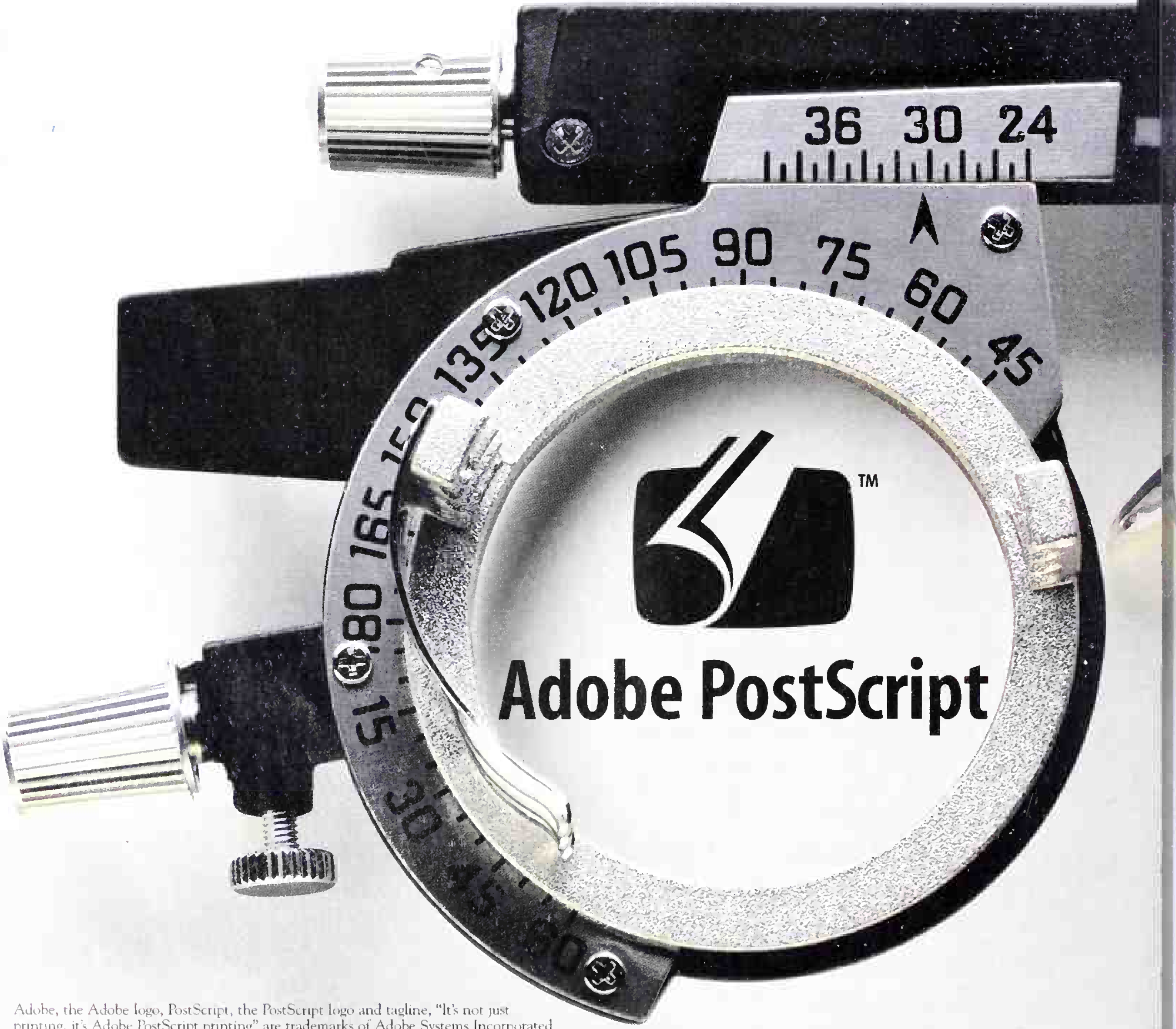
Now more than ever, Silicon Valley's magic ingredients – brainpower, capital, and a fearless business attitude – are leading Silicon Valley to greater heights. The technology industries that Silicon Valley has introduced now envelop our lives. Silicon Valley's influence can be found in everything from new "wallet PCs" to cars and cameras. From media and communications to entertainment and home electronics, the lion's share of these dynamic innovations will continue to emerge from Silicon Valley.

The numbers tell something of the Valley's industry stature. Over 250,000 people are employed in the Valley's 3,650-plus high-tech firms and 1,500 of the 2,500 largest electronics firms in the United States are located within 30 miles of downtown San Jose. The birthplace of the transistor, vacuum tube, integrated circuit, microprocessor, PC, hard disk, laptop, mouse, VCR, and virtual reality – the list is endless – has achieved a kind of economic dominance rarely seen in our

WHICH *printers* SEE THING

Insist on printers that use genuine Adobe™ PostScript™ software. It's your assurance that whatever you create will print out exactly the way you expect it to, now and in the future. In a world where technology changes by the minute, Adobe PostScript software is the one constant technology that over 50 major printer manufacturers swear by. That's why Adobe PostScript software is available in hundreds of devices, assuring the highest quality possible

SET YOUR SIGHTS ON GENUINE ADOBE POSTSCRIPT DEVICES:

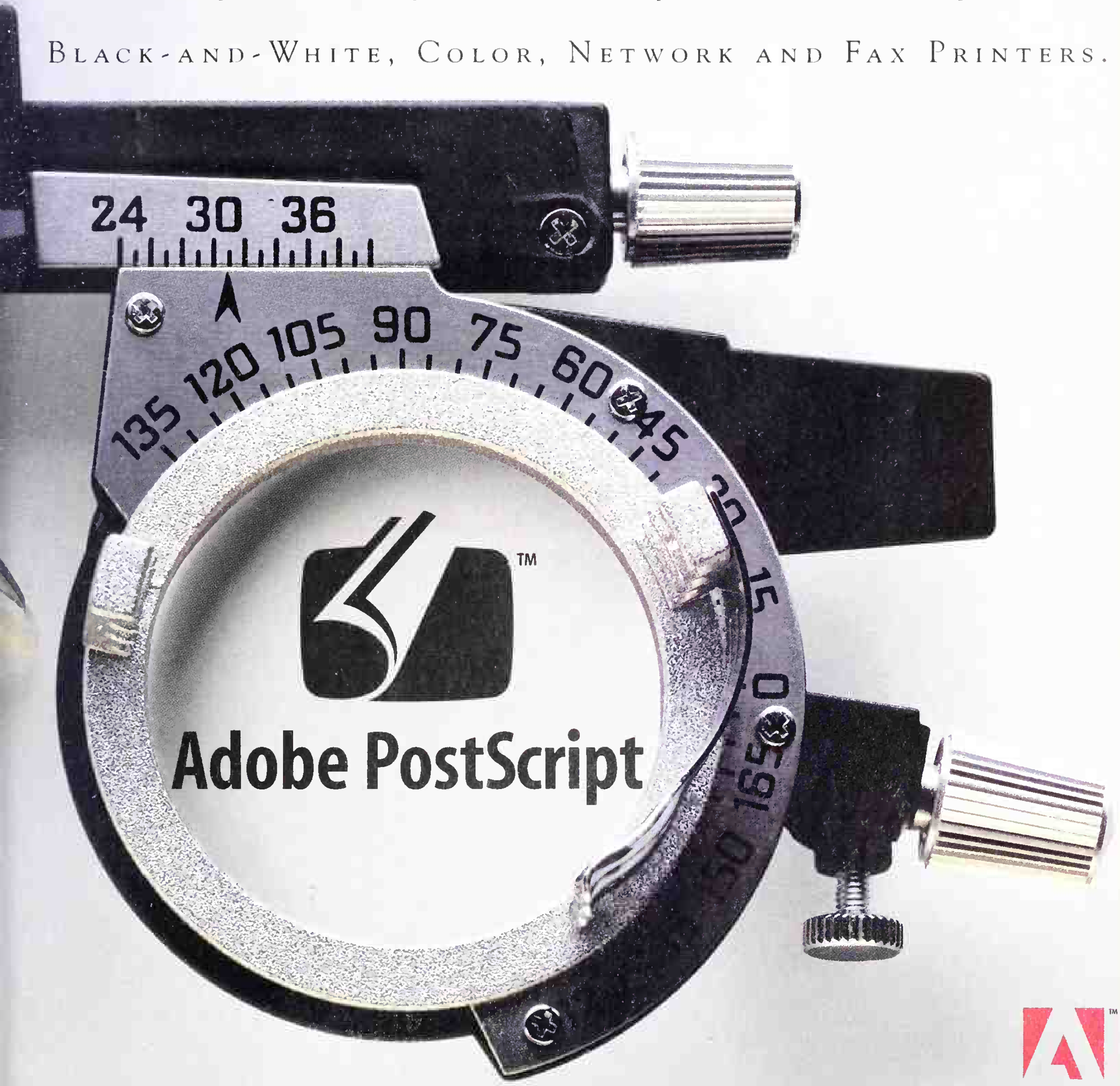


Adobe, the Adobe logo, PostScript, the PostScript logo and tagline, "It's not just printing, it's Adobe PostScript printing" are trademarks of Adobe Systems Incorporated which may be registered in certain jurisdictions. All other brand and product names are trademarks or registered trademarks of their respective holders. ©1994 Adobe Systems Incorporated. All rights reserved.

S PRECISELY AS YOU DO?

whether you're printing from DOS, Windows™, OS/2®, Macintosh® or UNIX®. Adobe PostScript software is also the industry standard for the highest quality fax and color output. And since all Adobe PostScript output devices are compatible, they can be seamlessly mixed in any environment. Keep your focus sharp. Make sure your next printer is an Adobe PostScript Printer. For a free guide on how to choose a printer, call 1-800-521-1976, Dept. L, Ext 4306.

BLACK-AND-WHITE, COLOR, NETWORK AND FAX PRINTERS.



IT'S NOT JUST PRINTING, IT'S ADOBE POSTSCRIPT PRINTING.

Adobe™

ACER INC.

The man behind the breathtaking rise of Acer to its current place among America's top 10 PC brands made his mark early when he developed the world's irst pen watch in his 20s. Then he dominated Taiwan's PC industry with state-of-the art IBM compatibles. Then he started going after his piece of the world PC market.

Now at 49, Stan Shih is chairman and CEO of The Acer Group - a consortium of high-tech companies that is set up to top $3 billion in revenues this year. Acer was launched in 1976 as Multitech International Corp., with a registered capital of $25,000 and 11 employees - the capital coming from Shih and his friends. Eighteen years later, Acer has grown into a leading provider of high-end multiuser, PC, multimedia, notebook, and peripherals products. Already the leading brand in Latin America and Southeast Asia, Acer's new goal is to become one of the world's top five PC manufacturers.

Having successfully distinguished itself with such technological breakthroughs as ChipUp, the world's first single-chip CPU upgrade, and a line of 64-bit RISC-based PCs in recent years, Acer is now concentrating on global image-building. Shih and his senior staff are now taking the first steps in creating a global brand with a "local touch" by assembling PCs close to high-growth markets. In addition, Acer is cutting its subsidiaries free in an effort to form 21 publicly owned companies within the Group by the 21st century.

The concept? Think globally, act locally. "Technology markets change too fast and Acer has too broad a product line to maintain central control," Shih says. "To remain competitive, Acer must combine our traditional manufacturing and engineering strengths with fast marketing decisions made at the local level. To do that, we need to base our technology operations in Taiwan and carry out sales, marketing, product integration, and service independently around the world."

SAN JOSE & SILICON VALLEY

culture. One major finance journal recently summed it up: "The Silicon Valley region is to computing what Detroit is to autos, what Hollywood is to entertainment, and what Wall Street is to finance."

"The reason the Valley is doing so well now is that it has reached a critical mass," says Judith Hamilton, chief executive of San Jose-based Dataquest Inc., the world's leading high-technology research firm. "In earlier years the Valley seemed to be much more semiconductor and manufacturing oriented. But it has evolved into much more than that. Silicon Valley is the *technology* capital, not just the 'silicon' capital. And it's never been afraid of failure or change."

It is with its "no fear of failure" value system in mind that Silicon Valley is poised once again for dynamic progress in the years to come. Sales of the top 150 Valley companies grew more than 19 percent last year and profits jumped 50 percent. In the midst of nationwide industrial restructuring the Valley finds itself not resting on its laurels, but leading yet another technological revolution into the next century.

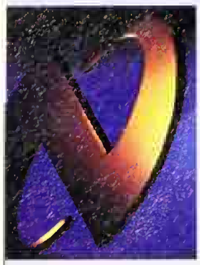
Sales for the Silicon Valley's top 150 companies grew more than 19 percent last year, while profits incresed 50 percent.

FUSION TECHNOLOGIES

The Valley's livelihood, many believe, lies in its ability to capitalize on the dynamic intersections of competing information industries.

"One of the most exciting new industries emerging out of this Valley is in multimedia," says Edward R. McCracken, chairman of Silicon Graphics Inc., the company that produces the computer workstations that generated the special effects for movies like "Jurassic Park" and Disney's "Aladdin." "Here we're seeing computer technology, telecommunications, television, and media all converge into a set of technologies that will essentially drive the information highway." Hollywood studios, in fact, have been teaming up with Silicon

THE PROMISE OF WINDOWS NT HAS FINALLY BEEN DELIVERED.



National Semiconductor's new Worldmark™: The shape of things to come.

NATIONAL SEMICONDUCTOR: IN THE CHIPS AGAIN

In 1967, when much of California's Santa Clara Valley was still covered with fruit orchards, an eight-year-old semiconductor company moved its headquarters west from Danbury, Connecticut. National Semiconductor helped give birth to Silicon Valley – both as a place and as an idea.

Today, National Semiconductor is not only one of the driving forces of the Valley, but also one of the leaders in bringing new ideas and innovations to our customers and the industry. National's high growth business strategy is built around the company's core strengths: Creating Technologies for Moving and Shaping Information – a critical area as computer users shift emphasis from processing and storing information to sharing and communicating with others.

That strategy is paying big dividends. Last year sales and profits both hit record numbers. Already a major supplier to the automotive, computer, telecommunications, and military-aerospace industries, National is now targeting other booming opportunities, such as devices that will protect data as it travels the information superhighway.

To support this growth, the company recently announced several major expansions in key wafer fabrication facilities around the world.

CEO Gil Amelio says that National is poised for the future. "Our company is positioned at the crossroads of analog and digital technologies," he says. "And we bring those technologies together better than anyone else in the world."

> ***1,500 of the 2,500 largest electronics firms in the United States are located within 30 miles of downtown San Jose.***

SAN JOSE & SILICON VALLEY

Valley engineers to create hundreds of new CD-ROM productions for music, film, and education. This odd pairing has even led some to call the Valley of the future the new "Siliwood."

To keep pace with the demand of fusion technologies, new corporate models are springing up where these dynamic intersections of resources exist. Earlier this year, six global technology giants – Apple, Sony, Motorola, Matsushita, Phillips, and AT&T – announced a partnership in a Silicon Valley start-up company that is developing technology for a "personal communicator." Paramount Pictures has formed a high-tech research firm in Silicon Valley to integrate multimedia technologies with its entertainment and publishing operations. And Apple and IBM have created yet another Valley company, Kaleida Labs, to develop a multi-platform, multimedia software standard.

Room to grow: San Jose has over 50 percent of Silicon Valley's remaining industrial land.

"The semiconductor industry here overlaps with the software industry, which overlaps the new multimedia industry, which overlaps the consumer electronics and entertainment technology world," McCracken says. "All these overlap the computer industry. Because of the intricate way in which these cultures and corporations are linked, we've created a very unique, interlinked regional economy."

As new corporate models spring up, the older ones adapt. At Acer America Corp. in San Jose, the nation's 10th largest manufacturer of PCs, 50,000 computers each month roll off the assembly line, while Acer R&D engineers are busy developing tomorrow's generation of video teleconferencing devices and multimedia applications.

"When Acer began the development of its first multimedia system," says Acer Chairman Ronald Chwang, "we selected Silicon Valley as our R&D location because of the wealth of engineers here who are knowledgeable about all the critical aspects of the technology, including video, telecommunications, graphics, and sound."

IT JUST COMES IN A SLIGHTLY DIFFERENT PACKAGE.

Solaris™
Solaris™
SunSoft
SunSoft

We'd like to tell you about a 32-bit software environment that delivers performance, not promises. It's called Solaris.™ With over 1.8 million users, Solaris is the number one software environment for global enterprise networks.† It's also the highest volume database engine running Oracle, Sybase and Informix, the most widely used multiprocessing software environment and even the dominant gateway for the information superhighway. Solaris runs over 9300 32-bit solutions,* as well as Macintosh, DOS, and Windows applications like Microsoft Office and Lotus SmartSuite. It's not picky when it comes to hardware, either. It's the only 32-bit software environment that runs on x86 PCs, SPARC systems, and soon, even Power PC. And it's scalable from 486 laptops to Cray superservers. Solaris is enterprise ready, too. Unlike PC desktop based environments, it offers the most popular system and network management tools in the industry, so you can finally get your enterprise under control. From PCs to mainframes, nothing moves, monitors and manages information better. All of this capability means that with Solaris, you don't have to compromise your existing hardware and software investments. And Solaris is, of course, backed by the most experienced client/server support organization in the world. Now, you're probably wondering why you should wait for the promise of NT when you can get Solaris now. Exactly. So call us at 1-800-SUN-SOFT, or contact us on the Internet at http://www.sun.com/

SOLARIS NOW ON x86

SunSoft

---

*SPARC applications. †Among UNIX operating environments. ©1994 Sun Microsystems, Inc. Sun, Sun Microsystems, SunSoft, the SunSoft logo and Solaris are trademarks or registered trademarks of Sun Microsystems, Inc. SPARC is a registered trademark of SPARC International, Inc. All other products or services mentioned herein are trademarks of their respective owners.

***The Tech Museum of Innovation* showcases Silicon Valley's technologies inspiring the young to become the innovators of the future.**

For each of these publicly announced ventures into the high-tech markets of the future, countless others are underway behind the scenes in Silicon Valley.

INTERNATIONAL TRADE LEADER

Silicon Valley is one of the most internationally-minded business regions in the world. Not only do firms here produce one-fourth of the nation's high-tech exports, they attract foreign investment as well – San Jose ranks as one of North America's 10 top locations, according to *World Trade Magazine*, to conduct international business. In addition, *International Business Magazine's* annual ranking of the nation's 100 fastest growing mid-sized international corporations finds one-fifth of them in Silicon Valley – more than that of Texas and New York combined. Not surprisingly, North America's largest concentration of Pacific Rim technology companies are also based in San Jose.

"The real secret to the Valley's success is that it has changed its innovation dynamics over time like no place else," explains Richard Gordon, director of the Silicon Valley Research Group, a high-tech industry think tank based at UC Santa Cruz. "Unlike Boston and Los Angeles, which remain fixed to a particular technology, Silicon Valley clearly isn't. It's gone from dependence to dominance to total international integration and globalization. It's now such an international hub, in some ways it's economically autonomous."

Dataquest's Hamilton adds: "When I'm in Asia, people see Silicon Valley as the gateway to the western world."

Silicon Valley's importance in international trade issues has also been recognized by President Clinton. This year, he appointed San Jose Mayor Susan Hammer as the chairperson of the President's Advisory Committee on Trade Policy and Negotiations, a 40-member panel of top-level executives which advises the President on issues such as trade relationships and trade barriers.

SAN JOSE – CAPITAL OF SILICON VALLEY

As much as Silicon Valley remains a hotbed of entrepreneurial vitality, it has assumed regional, national, and international leadership roles through its capital city, San Jose. San Jose's emergence as the capital of Silicon Valley is just another demonstration of the region's maturation as an economic and cultural powerhouse.

URBAN RENAISSANCE

After 15 years and over $750 million in investments by one of the most successful redevelopment agencies in the country, downtown San Jose is flourishing. It is now home to gleaming office towers, five-star hotels, town homes and condominiums, light-rail transit, and the brand new, 20,000-seat San Jose Arena – home to perhaps the National Hockey League's most popular new team, the Sharks.

Highlighting the downtown renaissance has been the 1.2-million-square-foot San Jose McEnery Convention Center; the Children's Discovery Museum; the San Jose Museum of Art; the Technology Museum (the high-tech "Smithsonia of the West"); the Center for the Performing Arts, home to the San Jose

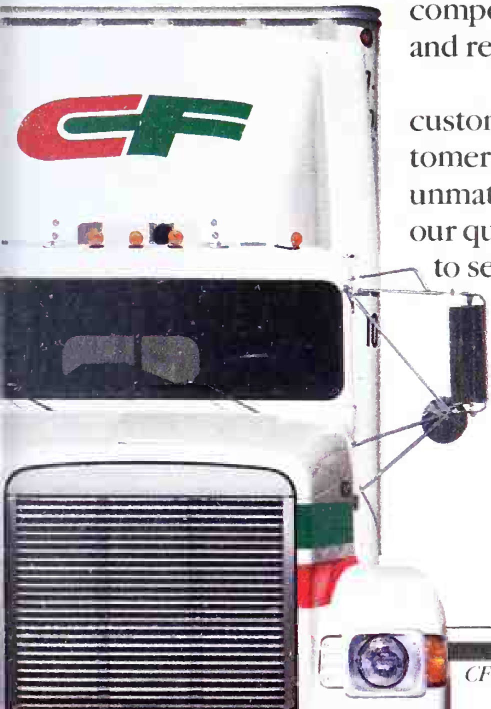
How to start a car.

To start building a car, or anything else today, you need more than designs and determination. You need a freight transportation partner you can rely on. One with proven ability to deliver the right product at the right time. A partner like CF MotorFreight.

We pride ourselves on being an integral part of your business, in industries ranging from automobiles to aerospace, computers to retailing. That means playing a vital role in Just-In-Time manufacturing, inventory management and distribution. It means dedicating ourselves to increasingly sophisticated levels of communication, and providing the flexibility to make your business more competitive. But above all, it means truly understanding and responding to your needs.

As a Consolidated Freightways Company, we satisfy customers by offering the most complete range of customer focused services in the industry. All supported by unmatched shipping management systems, by CF EXCEL, our quality process, and by a team of professionals devoted to serving both your business and that of your customers.

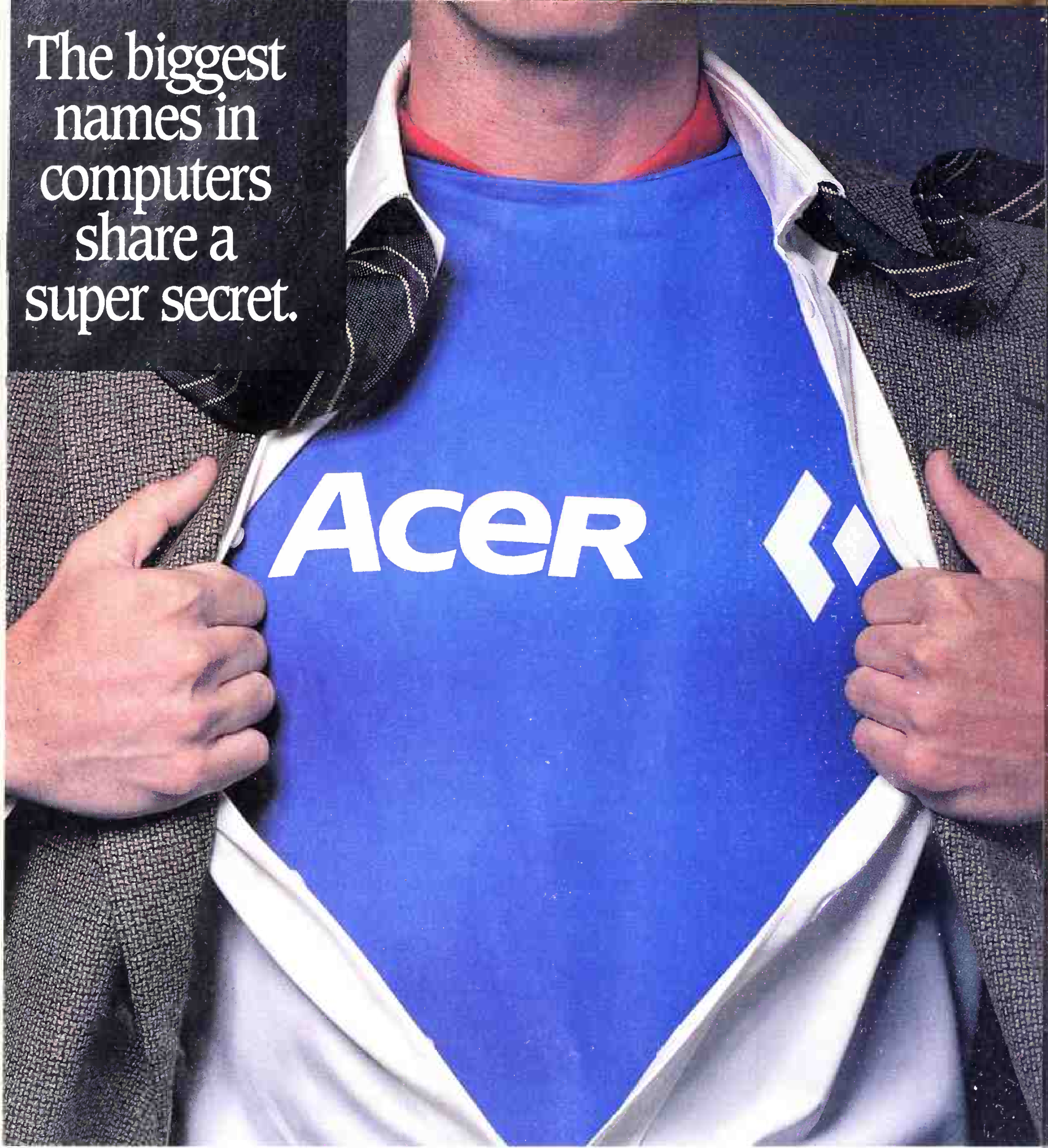
Let us give your company a head start. Because at CF MotorFreight, we don't just help build products. We help build businesses and keep them growing.



CONSOLIDATED FREIGHTWAYS, INC.
WE PUT YOU MILES AHEAD

The CF Company

CF MotorFreight, a CF Company. Our intermediate and long-haul LTL motor carrier.


The biggest names in computers share a super secret.
Acer

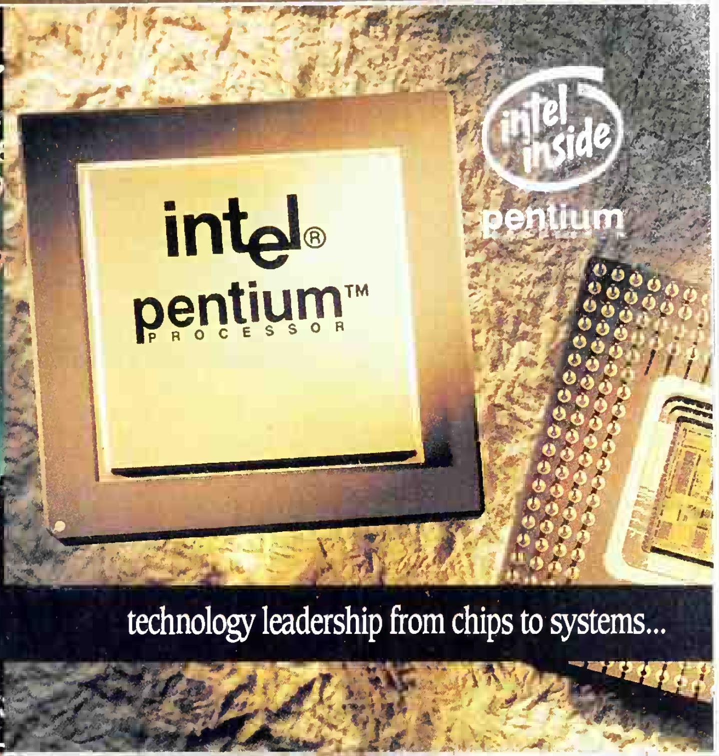
There are many reasons one name is behind so many nameplate

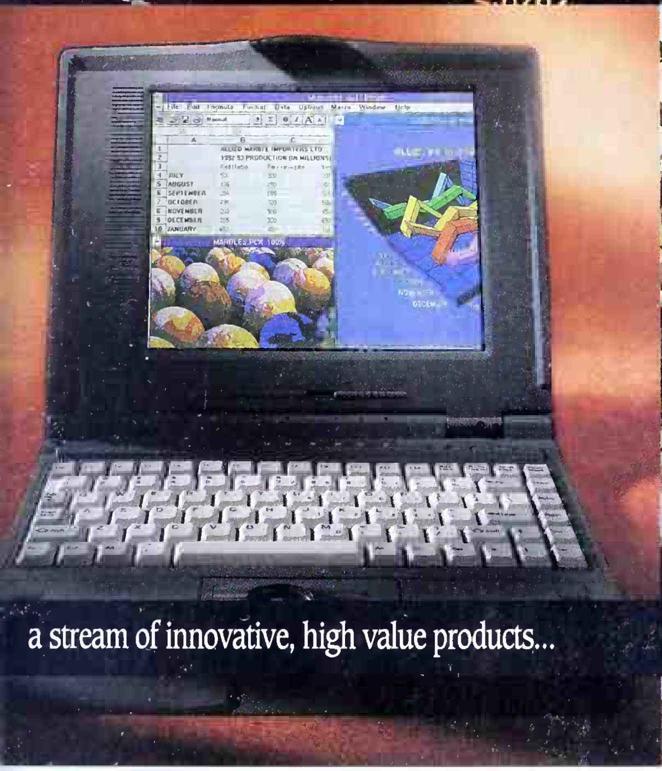
Why do so many leading computer manufacturers base their products on Acer technology? It's no secret: Acer provides the most innovation and value. We deliver leading-edge technology and components to the entire industry. Quality products endorsed by industry leaders, such as the Pentium™ processor AcerPower, the AcerNote Notebook, AcerView monitors and the Acer multimedia PC. Acer's more than US

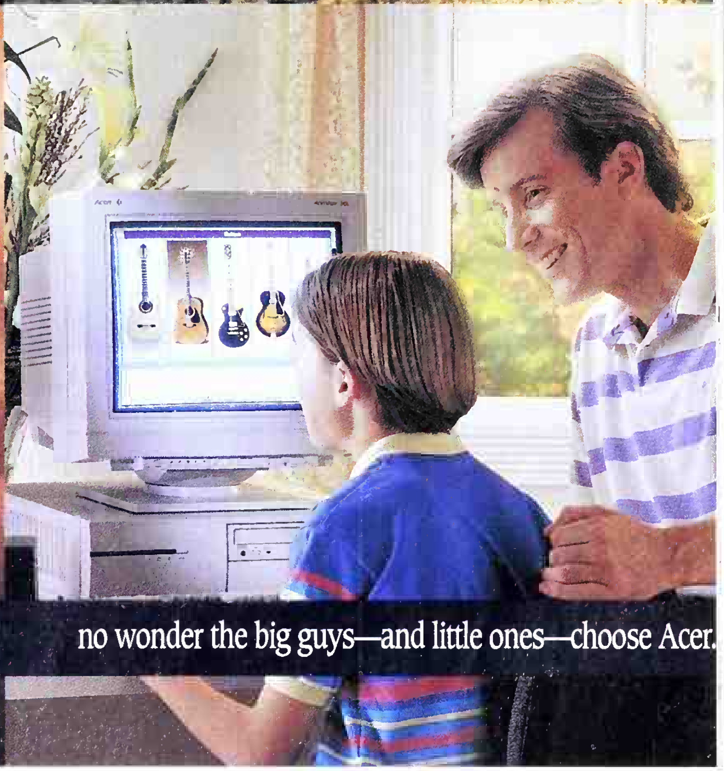
ACER COMPUTERS THE INDUSTRY SOURCE

$3 billion in revenues is fueled by a worldwide dem for quality products in 90 countries. We are t market leader in 30 countries and lead the pa in the world's fastest growing markets. Why Acer delivers new technology more quickly by manufacturing around the globe in a uniq process called Uniload. It's tough to keep a comp a secret, especially with a growth rate of 70%.

cer. With growth three times the industry average...


intel inside pentium
intel® pentium™ PROCESSOR
technology leadership from chips to systems...


a stream of innovative, high value products...


no wonder the big guys—and little ones—choose Acer.

ACER®

The Industry Source Means Value.

To order an Acer system or for a retailer near you, call 1-800-391-ACER

Acer and the Acer logo are registered trademarks of Acer, Inc. Intel is a registered trademark and Pentium is a trademark of Intel Corporation.
All other brands or product names are trademarks or registered trademarks of their respective companies. ©1994 Acer, Incorporated. All rights reserved.

LAWRENCE ELLISON, PRESIDENT AND CEO

CALLING ON ORACLE

On June 28, BellSouth joined the growing list of telecommunications giants that have selected Oracle solutions to help create the first lanes down the information highway. This agreement solidifies Oracle's position as the leading provider of software, systems integration, project management, and consulting services for the builders of the I-way.

BellSouth, the largest of the Regional Bell Operating Companies, joined Bell Atlantic and US WEST in choosing Oracle's software and services to deploy in-home, interactive services such as video-on-demand, PC access to on-line subscription services, home shopping, and on-line education in the U.S. Internationally, BT (formerly British Telecom), and Italy's phone company SIP have also chosen Oracle to help them create in-home, interactive services. In fact, after turning to Oracle, BT became the first company to bring interactive services to consumers' living rooms.

At the heart of these announcements is the Oracle Media Server, a digital "multimedia library" that stores, retrieves, and manages all forms of information – documents, numeric data, audio, and full-motion video. Building on Oracle's leading database and transaction processing software, the Oracle Media Server provides the key technology to enable electronic commerce, education, and entertainment.

Oracle's President and Chief Executive Officer Lawrence Ellison offers that "the reason Oracle's technology has been chosen by all of these companies is that it's real and it works today. "By combining the customer bases of these five leading companies, Oracle could connect upwards of 75 million access lines worldwide to the information highway.

Oracle Corporation, a $2 billion company with headquarters in Redwood Shores, Calif., is the world's leading supplier of information management software and services.

> *"We evaluated over 50 sites, but in the final analysis, downtown San Jose turned out to be the best choice."*

Symphony and San Jose Cleveland Ballet; and the new three-mile-long, 150-acre Guadalupe River Park.

As the downtown core has been revitalized, the business community has followed. Downtown San Jose has some of the highest occupancy rates in the nation for Class-A office space. Two major office towers now under construction in San Jose will soon become the new home to a sales and marketing division of IBM and the national headquarters of Adobe Systems, one of the nation's leading software developers.

"Eye popping" special effects are another example of how Silicon Valley technologies can create whole new industries.

"We evaluated over 50 sites in and out of the Bay Area," says Adobe Chairman John Warnock, "but in the final analysis, downtown San Jose turned out to be the best choice. The city has done an incredible job over the last five years of revitalizing downtown and there isn't another region that can compete if you're a high-tech company."

INDUSTRIAL EXPANSION

Surrounding the downtown core is a wide-open frontier for industrial development. San Jose's 22,000 businesses, include some of the most well-known in the world: IBM, Conner Peripherals, Hitachi Instruments, Cisco Systems Inc., Sony America Corp., and dozens of others. The highest concentration of Silicon Valley's 150 industrial parks are in North San Jose's "Golden Triangle." Adjacent to San Jose International Airport, the Golden Triangle hosts over 1,700 companies and 70,000 employees.

Even with this rich, high-tech industrial center, San Jose is positioned like no other city in Silicon Valley for additional growth. In addition to some 11,400 acres of land and 300 million square feet of R&D, office, light manufacturing, and warehouse facilities in San Jose, the city's 172 square miles of land still include over half of the undeveloped industrial land in Silicon Valley. And the built-in infrastructure makes this prime land ready for development.

A comprehensive transportation network links these industrial areas. In addition to new and widened highways, a light rail system connects the northern industrial area with downtown and extends to southern industrial and residential areas.

San Jose International Airport, the nation's 26th busiest, is also one of the most convenient, located just five minutes from downtown San Jose.

TSMC

introduces a foundry for the information age.

The fire of yesterday's foundries burns today in our hearts. In our commitment to productivity and technology. • TSMC is the world's leading semiconductor foundry, presently producing one million six-inch wafers annually, representing a major share of the global market. • TSMC is a dedicated foundry, where customers are our number one priority and intellectual property is prized. And protected. We don't manufacture any products under our own brand name, so there are no licensing issues, no conflict of interest fears, no requests for equity. • Instead, there is seamless transfer of data and execution of design specs. With methods and materials that complement customer designs. • In 1995 our new billion-dollar fab will begin production. This fab will be capable of producing 30,000 eight-inch wafers per month at state-of-the-art 0.5 micron technology, migrating to 0.35 micron. More than $400 million in annual investments will enable us to produce two million six-inch equivalent wafers per year by 1997. • Find out what it means to be a partner with the world's leading semiconductor foundry. • TSMC. Forging a future in the information age.

tsmc

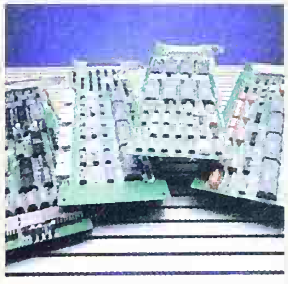
TSMC, No. 121, Park Avenue III, Science Based Industrial Park, Hsin-Chu 300, Taiwan, R.O.C
TSMC-USA, 1740 Technology Drive, Suite 660, San Jose, CA 95110 (408) 437-8762

FIRST RADIO BROADCAST

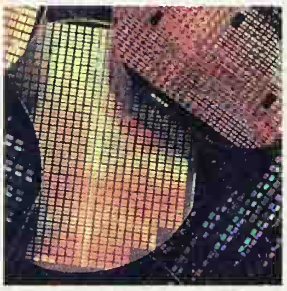
HARD DISK DRIVE

MUSIC SYNTHESIZER

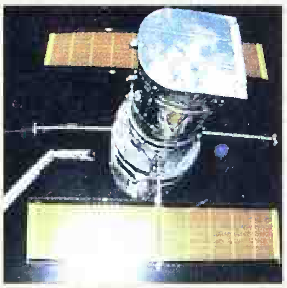
PEN-BASED COMPUTER


PC BOARD

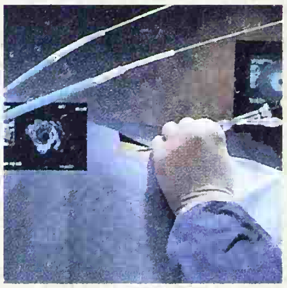
COMPUTER WORKSTATION


SILICON WAFER

CONTACT LENS


HUBBLE TELESCOPE

VIDEO GAME


CARDIOVASCULAR IMAGING

YOUR IDEA HERE?

SOME OF THE GREATEST INNOVATIONS OF OUR TIME HAVE ONE THING IN COMMON.

SILICON VALLEY AND ITS CAPITAL, SAN JOSE.

The one location where resources and technology form an infrastructure so powerful, it can transform a single bright idea into the next page of history.

Today, more than ever, San Jose has the ideal climate for growing great ideas. A vigorous economy. An astounding diversity of industries. Prime sites for corporate headquarters and industrial campuses. An abundant and highly educated workforce. And a unique international presence at the crossroads of the Asian, European and Latin American markets.

Who will make the next major breakthrough?

It could be you.

In fact, the pioneers of the 21st century are already hard at work in San Jose, nurturing the ideas that will shape tomorrow.

If you're content to dream about the future, any city will do.

If you want to create it, come to San Jose.

SAN JOSE

CAPITAL OF SILICON VALLEY

City of San Jose
Office of Economic Development
408/277-5880
Redevelopment Agency
408/277-4744
Call today for your free informational package.

WORK FORCE AND EDUCATION

The San Jose area maintains some of the highest labor-force participation and productivity rates in the nation. “Nowhere but in Silicon Valley can you find as diverse and as strong a work force as we have here,” says Tony Chavez, manager of administration for Hitachi Instruments, which recently consolidated all of its Bay Area operations to San Jose. “We could have gone to any number of locations but we chose San Jose because the quality of life and the quality of the work force is just outstanding.”

Of the 1.5 million adults residing in the San Jose metro area, nearly two-thirds are college educated. Silicon Valley’s robust high-tech economy draws from a wealth of world-class educational resources, including: San Jose State University, Stanford University in Palo Alto, and University of California campuses in nearby Berkeley and Santa Cruz.

Add to this list Silicon Valley’s top-ranked system of community colleges and it’s easy to understand why San Jose is one of the top 10 U.S. cities in educated work force, according to a recent national poll.

VENTURE CAPITAL

More than half of the venture capital firms *in the world* are located in Silicon Valley. And, according to the National Venture Capital Association, venture funds in California “dominated by firms based in Silicon Valley” received over a third of the total venture capital commitments in the nation last year. That’s more than double the amount in Massachusetts, who placed second.

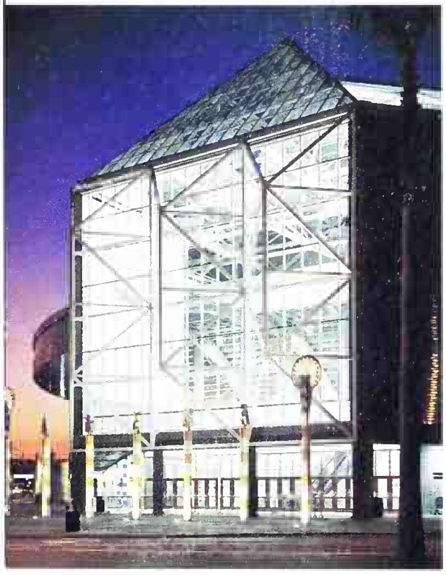
A COMMITMENT TO BUSINESS

That the Valley’s businesses are so well equipped to compete internationally is aided by the renewed commitment of partnership between private industry and local governments.

The City of San Jose has been at the forefront of these efforts. Through its Office of Economic Development (OED), San Jose keeps open lines of communication with existing firms, while assisting entrepreneurs wishing to start up businesses, and firms seeking locations in San Jose.

A new nonprofit coalition called Joint Venture: Silicon Valley, is made

Home to the San Jose Sharks and events such as Streisand and Pavarotti, the San Jose Arena hosted millions of people in its inaugural year.



SUNSOFT

ED ZANDER
PRESIDENT OF SUNSOF

In 1991, Sun Microsystems decided to put special emphasis on the software that ran on its popular workstations and servers. The challenge for Ed Zander was clear...establish the new subsidiary company, SunSoft, as a dominant supplier of advanced operating system software against such rivals as Microsoft, Hewlett-Packard, and IBM.

Under Zander, SunSoft has emerged as the dominant player in providing a mission-critical software foundation that companies such as Federal Express, Saloman Brothers, and Kodak build many portions of their computing architectures upon. These applications range from databases to on-line catalogs to credit card fraud detection systems.

“Businesses worldwide are looking for ways to gain a competitive advantage,” said Ed Zander.” SunSoft is focused on delivering the software tools for organizations to re-architect, or re-invent, how their computer systems support their businesses. To remain competitive,they need access to information at their headquarters and throughout the world.”

SunSoft’s flagship product, Solaris, boasts nearly two million users. It is the only software environment that runs on both x86 and Pentium PCs as well as the industry’s highest volume RISC microprocessor from Sun, known as SPARC. It will soon support PowerPC. It allows companies to lower cost by only having to support a single software platform across everything from 486 PCs to a 20 processor back office server with hundreds of gigabites of storage. Solaris connects, integrates, and manages everything from local area networks, to global enterprises.

As companies move to ‘rightsize’ their computing environments they are looking for robust solutions to get a leg up on the competition. That can come in many forms: faster response time, the ability to change quickly, increased productivity, reduced costs. “That is our sweet spot,” adds Zander. “Our products and technologies are tailored to improve the flow of information throughout the enterprise.”

> *igh-tech companies need to be round Silicon Valley to strike eals and to react quickly to changes t the leading edge of the market.”*

up of nearly 1,000 leaders from local businesses, government, labor, and communities. Led by San Jose Mayor Susan Hammer and Silicon Graphics' Ed McCracken, Joint Venture is spearheading a variety of initiatives that combine public and private resources to keep Silicon Valley competitive in the world marketplace.

Local businesses also have a leg up on the competition in global trade. OED's Export Resource Center helps companies export by matching them with thousands of trade leads for specific products around the world.

Perhaps the best example of the Valley's commitment to business can be found in downtown San Jose at the Center for Software Development – a walk-in high-tech lab created by the City of San Jose and Novell, Inc. There, Silicon Valley's top software developers can run, test, and de-bug their latest products on the Center's $500,000 in hardware, its 1,000-plus multi-platform programs, and six miles of networking cable. “This is the only facility of its kind in the country,” says Bill McCarty, the Center's technical director. “Companies here, especially start-ups, can test new products for a fraction of what it would cost to do it on their own.”

The San Jose Metropolitan Chamber of Commerce, American Electronics Association, Semiconductor Equipment Materials Institute, Semiconductor Industry Association, and a number of ethnic chambers of commerce add to the regional network of business organizations and private-public coalitions all devoted to securing the Valley's economic future.

THE NEXT GENERATION

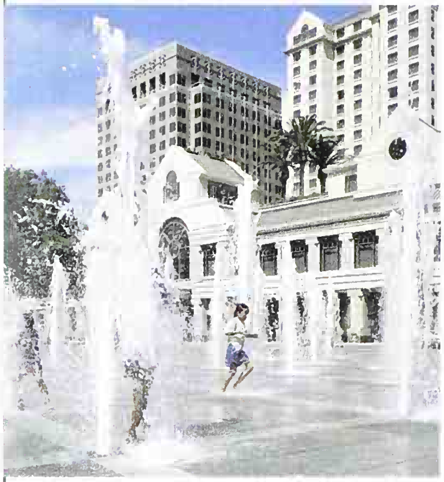
It is to Silicon Valley's credit, perhaps, that a handful of new high-tech manufacturing regions have cropped up in recent years around the United States. Each has tried to replicate the Silicon Valley model. None, however, can match its economic depth or breadth.

“There are hidden costs in trying to compete without this immense concentration of high-tech business around you,” Mark Macgillivray, managing director of H&M Consulting in Sunnyvale, points out. “High-tech companies need to be around Silicon Valley to strike quick deals and to react quickly to changes at the leading edge of the market. You can't just relocate anywhere without losing many of Silicon Valley's intangibles.”

The high-tech businesses here now understand the importance of these intangible qualities: Highly developed economic infrastructure. Access to global markets. An unparalleled pool of professional talent. Dynamic partnership between private industry and local government. Small wonder, then, why the forecasts are so bright for Silicon Valley and its capital, San Jose.

“We do business with our gloves off 24 hours a day,” McCracken says. “Our competitors are the best and the brightest, and generally they are just around the corner. But we love it that way. If you don't have the toughest possible local competition, it's difficult to compete in the global marketplaces. Silicon Valley is the best example in the world of tough, local competition.”

As in Silicon Valley's early days of heady growth, the Valley of the future is just as accommodating to new business opportunities. Says Adobe's John Warnock, “The bottom line is this. If I'm looking to start or expand a high-tech business – and today that covers far more than chips and computers – San Jose and the Silicon Valley would have to be my first choice.”



San Jose is one of the five best cities to live in, and the second best big city, according to *Money Magazine.*

Jeffrey Davis is a Silicon Valley based journalist who writes frequently on business and politics.

Design by Parham Santana Inc., NYC

Who are the world's leading companies turning to when it comes to managing all their information?

"If you want a global information management partner, not just a string of vendor solutions, ask Oracle."

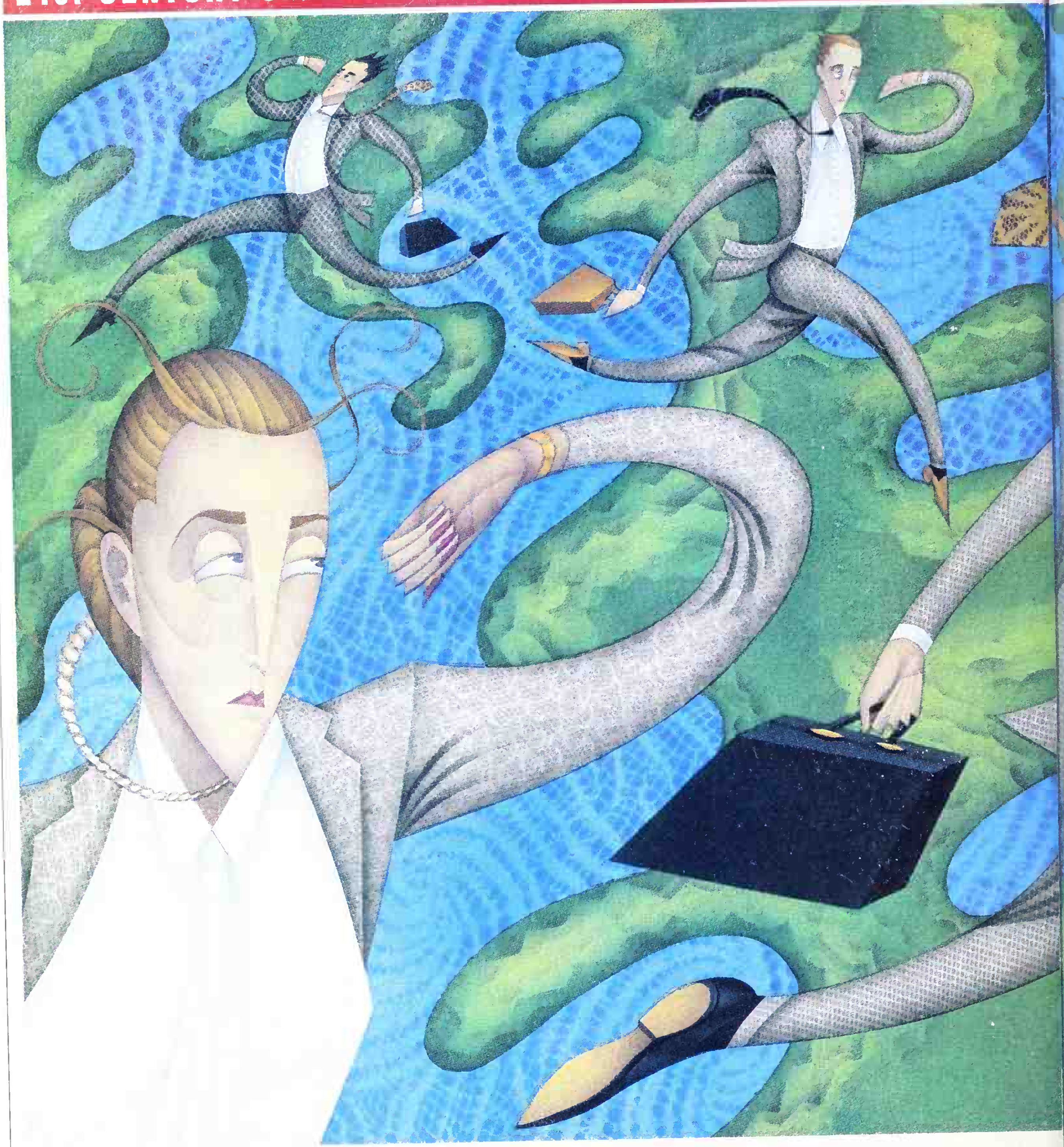
Eileen Gabriel
Vice President
Toys 'R' Us.

TOYS'R'US, with $8 billion in sales and 1,100 stores worldwide, has to continually leverage new computing technology to maintain leadership in its industry. Pre-Christmas sales represent 50% of its business, so new systems have to be ready on time, without fail. "We weren't sure any information management company would really understand us," says Ms. Gabriel. "But based on what Oracle has delivered - financial and database applications, development tools, and support services worldwide - they've become our global IT partner, making us more competitive now and in the future." So, if you're looking for a software and consulting partner who can help you manage all your information - numeric data, documents, video and audio, *remember*,

Toys 'R' Us asked Oracle.

Find out how Oracle can help you manage all your information, call 1-800-633-1061 Ext.8338.

Enabling the Information Age. ORACLE



MANAGEMENT

Corporate structures are facing their most radical overhaul since the birth of the divisional company

80 THE NEW MODEL

The 21st century company is still a wo
in progress, but its outlines are starti
to jell. It will rely on Western-style
accounting and financial models, stre
Japanese-style teamwork, and acquir
whatever local qualities are necessar

MERRITT BERLE

FORD
irman Alex Trotman is melding
rations to gain economies of scale

CITICORP
gapore-based Shaukat Aziz gives his
un managers broad authority

88 ERICSSON
CEO Lars Ramqvist is pulling out the stops to speed products to customers

90 SONY
Chief planner Tamotsu Iba is trying to make it less of a Japanese company

92 CONSULTANTS
These hired guns provide a treasure trove of global savvy for multinationals. But with so many big companies tapping the consultants' knowhow, the world economy is likely to get only more competitive

THE NEW MODEL

TEARING UP TODAY'S ORGANIZATION CHART

Tomorrow's winners will use Western-style accounting, Japanese-style teamwork, advanced communications—and give entrepreneurial local managers a long leash

It's 7 a.m. Friday in a specially rigged conference room at the head office of GE Appliances in Louisville. CEO J. Richard Stonesifer, a fresh pot of coffee by his side, is ready to roll. The speakerphone hums, and Stonesifer greets his management staff in Asia. Stonesifer and his colleagues chew over sales figures and production glitches and gossip about Whirlpool Corp., their biggest competitor. For the next five hours, Stonesifer follows the sun across the globe, holding phone meetings or videoconferences with aides in Europe and the Americas. These talks "allow us to make immediate adjustments," Stonesifer says. "Customer complaints are never more than seven days from my attention."

Across the ocean, in Richard J. Callahan's London office overlooking fashionable Berkeley Square, a similar scene takes place. The U S West

International chief picks up his phone and begins a turbocharged conference call with seven division presidents in five countries. They hash over cellular-phone sales in the Czech Republic, forecast long-distance hookups in Russia, and give a thumbs-up to opening an office in Japan.

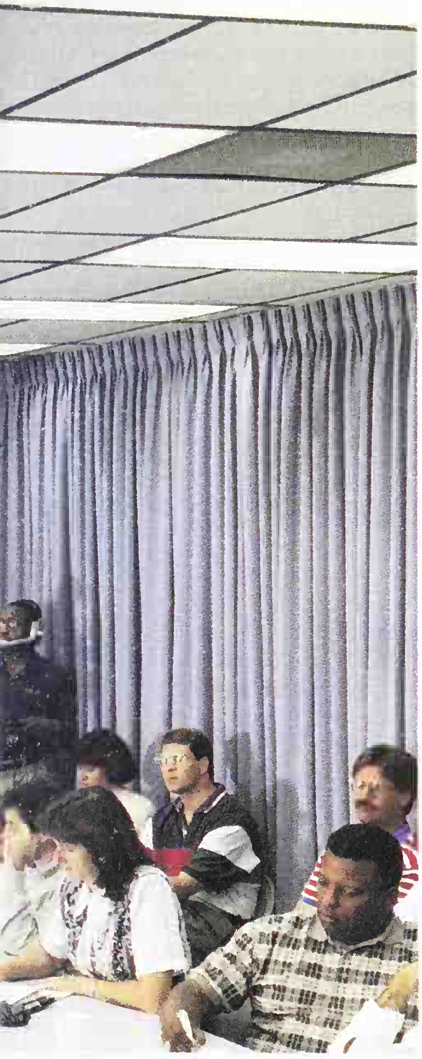
"SEA CHANGE." Stonesifer and Callahan have never met and are in very different businesses, but they have a lot in common. Both are trying to manage a revolution. They're racing to stay abreast of markets from Latin America to Russia and China that are accelerating in growth and leaping ahead in sophistication. New markets, rapid advances in communications, and new sources of brainpower and skilled labor are forcing businesses into their most fundamental reorganization since the multidivision corporation became standard in the 1950s. "We're talking about a new order, a sea change, that will go on for the rest of my career," says Callahan. "It's almost like Halley's Comet arriving unannounced."

Senior managers are struggling to adapt themselves and their organizations to the 21st century business world that's rapidly taking shape. Boundaries will be even less important than they are today. The rate of technological progress will accelerate, with breakthroughs in biotechnology or digital electronics coming from such unexpected places as Israel, Malaysia, or China. At the same time, the huge demands of the new middle classes and their governments will revive such supposedly mature businesses as household appliances and power-plant construction.

All this means that business opportunities will explode—but so will competition as technology and management knowhow spread beyond brand-name companies to new players in Asia and Latin America. With more countries viewing protectionism as economically incorrect, it will be cheaper and easier for expansion-minded CEOs to go on the offense to steal a rival's market. But they'll have to play defense as well—staying alert for upstarts such as Nokia, a Finnish electronics maker that has snatched 20% of the world's mobile-phone market almost overnight.

➛ To tap economies of scale, companies will sell similar products worldwide or offer the same services in dozens of countries, adapted to local needs

Thriving in this fast-paced environment requires a new kind of company and a new kind of CEO. Just as much of the world is embracing a liberalized economic model, so businesses of all stripes seem to be converging on a common management model to run their far-flung operations. Although that model is still a work in progress, the outlines of what is likely to be the early 21st century's world standard are beginning to take shape.



EVERYBODY HERE? AT GE APPLIANCES, VIDEO AND PHONE CONFERENCES WITH MANAGERS WORLDWIDE KEEP HEADQUARTERS TUNED IN

This model company will rely on Western-style accounting and financial controls, yet stress Japanese-style teamwork. It will value ethnic diversity, though less from high-mindedness than pragmatism. It will be centrally directed by multicultural, or at least cosmopolitan, executives who will set overall tone and strategy but give entrepreneurial local managers a long leash.

Successful chief executives for the next couple of decades will be those who take advantage of global economies of scale by selling similar products worldwide or offering the same services in dozens of countries. But they must also make sure that their operations blend in locally. That's not only to avoid ruffling feathers but also to find out what their customers want and to gain access to new ideas, tactics, and technologies. They must also encourage information-sharing and innovation throughout their companies and make sure they don't get bypassed—as IBM did by sticking to mainframes.

This model anticipates even more brutal competition than earlier ones. Yet the model values ethical behavior and fair play. It is irreverent about hierarchy, and it even tolerates some organizational unruliness. But its reward structure is crystal clear: Work smartly and produce high-quality goods and services and, in return, the company will give you personal recognition, continuous training, and a good living.

NO CLONES. Top management at such companies as Ford, IBM, Digital Equipment, and Texas Instruments all have something like this model in mind as they go through costly restructurings. These corporations saw their increasingly important international operations become slow-moving—and at times redundant—clones of corporate headquarters. Little communication or coordination took place among regions. Worse, country organizations sometimes spent more energy competing with each other than they did fighting with rival companies.

In the late 1980s, many multinationals thought the answer to such provincialism was the matrix system. In a typical matrix, a country manager or business-unit boss might report to both a regional boss and a product-group chief rather than straight up the line. The idea is to give the front-line manager a richer flow of information and guidance. By requiring two or more executives to reach a consensus, the matrix also supposedly breaks down geographic barriers and leads to smarter business decisions.

U S WEST CUSTOMER IN PRAGUE: THE CEO WANTS HIS PHONE AND CABLE STAFF TO TALK MORE

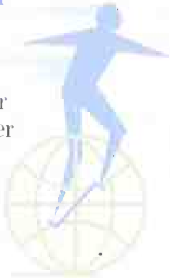
Lately, however, the matrix has taken a lot of heat because it can lead to endless dithering. Digital Equipment Corp. CEO Robert B. Palmer blames the matrix for delaying for years his company's needed shift from minicomputers to PCs. While manufacturing, engineering, marketing, and other groups debated the move, competitors moved way ahead. "The marketplace is too Darwinian to permit that much discussion," says Palmer.

Still, in a world of such complexity, many big companies don't see any alternative to multiple reporting lines. "You can't avoid a matrix, so you'd better learn how to manage in one," says management consultant Gary Hamel.

So companies are trying to fine-tune the matrix to suit their particular goals and corporate cultures. The once-powerful country managers are losing authority at IBM as Chairman Louis V. Gerstner Jr. reorganizes the behemoth's 235,000 employees into 14 customer-focused groups such as oil and gas, entertainment, and financial services. Gerstner wants a big customer to be able to cut one deal with a central sales office to have IBM computers installed worldwide. Under the old system, a corporate customer with operations in 20 countries faced the nightmare of contracting, in effect, with 20 little Big Blues, each

HOW TO GET YOUR COMPANY READY FOR THE GLOBAL CENTURY

Build For Speed And Flexibility



FLATTEN HIERARCHIES Fewer bureaucrats make for faster reaction times and freer flow of ideas. ABB has only one layer between the top ranks and the business units.

BE ON THE LOOKOUT FOR JOINT VENTURES AND PARTNERSHIPS They conserve capital, bring you information and technology, and get powerful local players on your side. AT&T is trying to use Unisource, a consortium of European phone companies, to break into the highly protected European telecom market.

USE TEAMS TO CHASE NEW OPPORTUNITIES AND ENSURE CROSS-FERTILIZATION Unilever, GE Appliances, and Texas Instruments all use SWAT teams to set up new operations. L.M. Ericsson used teams to beat rivals by developing digital mobile-phone systems for Europe, the U.S., and Japan.

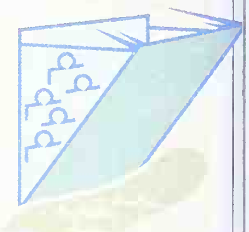
Be Global And Local

LOOK FOR GLOBAL PRODUCTS AND ECONOMIES OF SCALE If you are serving global customers, they shouldn't have to cut dozens of separate country deals in separate countries. If you can standardize components, do it. Texas Instruments has a team that combs its operations for ideas with global potential. Ford is centralizing its auto-design process to save money by standardizing parts.

BUT DON'T OVERCENTRALIZE No market has a monopoly on the best ideas anymore. ABB designs its tilting trains in Sweden and its locomotives in Switzerland. Intel is doing cutting-edge research in Israel. Motorola designed a new generation of pagers in Singapore.

Open Up The Company

STAY OPEN-MINDED It's up to the CEO to establish a corporate culture that nurtures innovation. Keep challenging assumptions. Don't get locked into dying businesses. Andy Grove has shifted Intel's focus from memories to microprocessors to systems.



OPEN INFORMATION CHANNELS Install E-mail and financial-reporting systems that bring everyone into the loop.

DIVERSIFY MANAGEMENT You are unlikely to succeed in places such as India and China without Indian and Chinese executives. But be sure these managers feel that they belong to the company and share its goals. AT&T is launching a program that will bring young managers around the world to the U.S. for three-month to two-year stints.

PHOTOGRAPH BY LE MALE [illegible] GRAPHIC BY RAY VELLA

with its own pricing structure and service standards.

At Ford Motor Co., CEO Alexander J. Trotman is also waging war on fiefdoms, but the matrix he has designed is more product-driven. In one of the most radical shakeups in corporate history, he's eliminating self-contained country units and the separate vehicles, engines, and components they produce. Now, Ford wants to make cars for the global market, shaving $2 billion in expenses in the process. "There's no point being a multinational unless you leverage economies of scale," says Harvard University professor of marketing John A. Quelch.

WORLD VIEW. Ford isn't alone in pursuing near-global products. Texas Instruments Inc. has worldwide product-development teams that weed out parochial ideas and back ones with global appeal. "We want every product possible to serve the entire world," says Semiconductor Group President Thomas Engibous.

While some companies are centralizing, many others, including AT&T and Owens-Corning Fiberglas Corp., are setting up stand-alone units—or nearly so—to go after business in Asia, especially China. Many companies feel they have to give their people in China a lot of autonomy to let them pursue the opportunities they discern. "Generally, you are dealing with the senior guy locally," says Owens-Cornings' Asia Pacific President Charles R. Bland. "If you have to check back with your boss, it compromises your credibility."

Even if these companies get their architectures right, they will still need to do more. The toughest task is creating the flexible, opportunistic organizations that CEOs say they are after. How a company manages and exploits information is crucial. "The game is shifting from capturing benefits of scale to developing and diffusing the benefits of information," says Christopher A. Bartlett, an international-management specialist at Harvard business school. "It was simple when it was all in the home market, but it is much tougher to use the world as a source of intelligence and expertise." One company trying hard to play the global game is Owens-Corning. It developed a technology for glass-reinforced plastic pipe in a Norwegian joint venture. Now, it is manufacturing the pipes in a global network of plants from Barcelona to Botswana.

But few companies have really mastered the skills of gathering and ex-

ALEXANDER J. TROTMAN / FORD

GETTING 'TWO BIG ELEPHANTS TO DANCE'

TROTMAN'S MOST CONTROVERSIAL MOVE: INTEGRATING DEVELOPMENT TEAMS WORLDWIDE

When he gets a break from a killer travel schedule, Alex Trotman spends his time on the sweeping remake of Ford Motor Co. he launched last April. Looking to the future, the chairman wants to transform Ford from an old-style multinational to a streamlined global company—a task made more difficult by the company's manufacturing complexity. The first step will be merging the once very separate North American and European car operations into one big organization that can capture world economies of scale. The trick, Trotman says, is getting "these two big elephants to dance." Latin America and Asia will be brought in later.

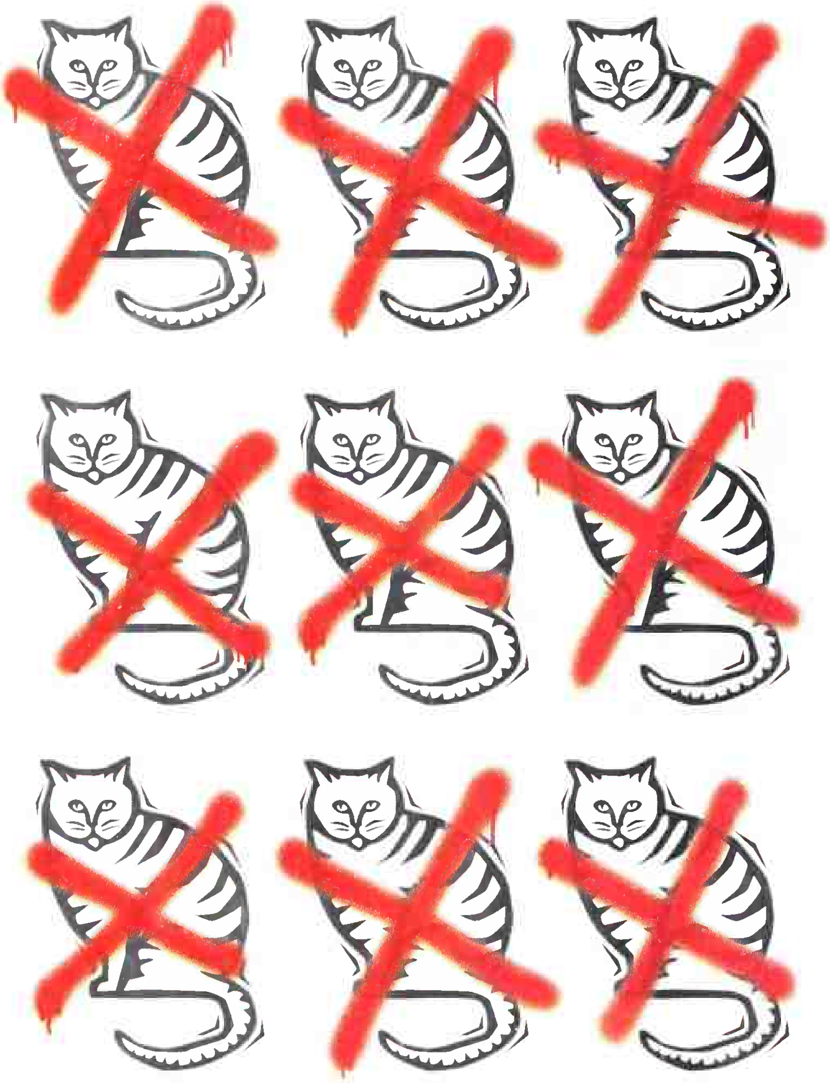
"Ford 2000" is a bold and risky plan. But the British-born Trotman, 61, who ran Ford operations in Europe, Asia and the Pacific, and North America before becoming chairman last fall, says region-bound companies won't be competitive.

Trotman's most controversial move is integrating Ford's car-development groups across boundaries. Until now, regional fiefdoms designed vehicles for their own markets. That pleased local tastes, but often resulted in costly duplication. Trotman's favorite example: two similar four-cylinder engines, developed for European and North American units, that don't share a single component. Never again, he vows: "We are in an all-out race to make the absolute best use of our worldwide resources."

Ford took a big step in this direction with the Mondeo—its latest try at a "world car." An elaborate system using teleconferencing and shared computer-aided design allowed staffers in Germany, Britain, and the U.S. to work on the project together. The Mondeo is selling briskly in Europe, while the U.S. versions, the Ford Contour and Mercury Mystique, are now being launched to critical acclaim. Trotman plans to build on that Mondeo infrastructure to create a whole new global lineup.

By Kathleen Kerwin
in Dearborn, Mich.

→ The chairman is merging Ford's North American and European operations



386-based PCs

486-based PCs

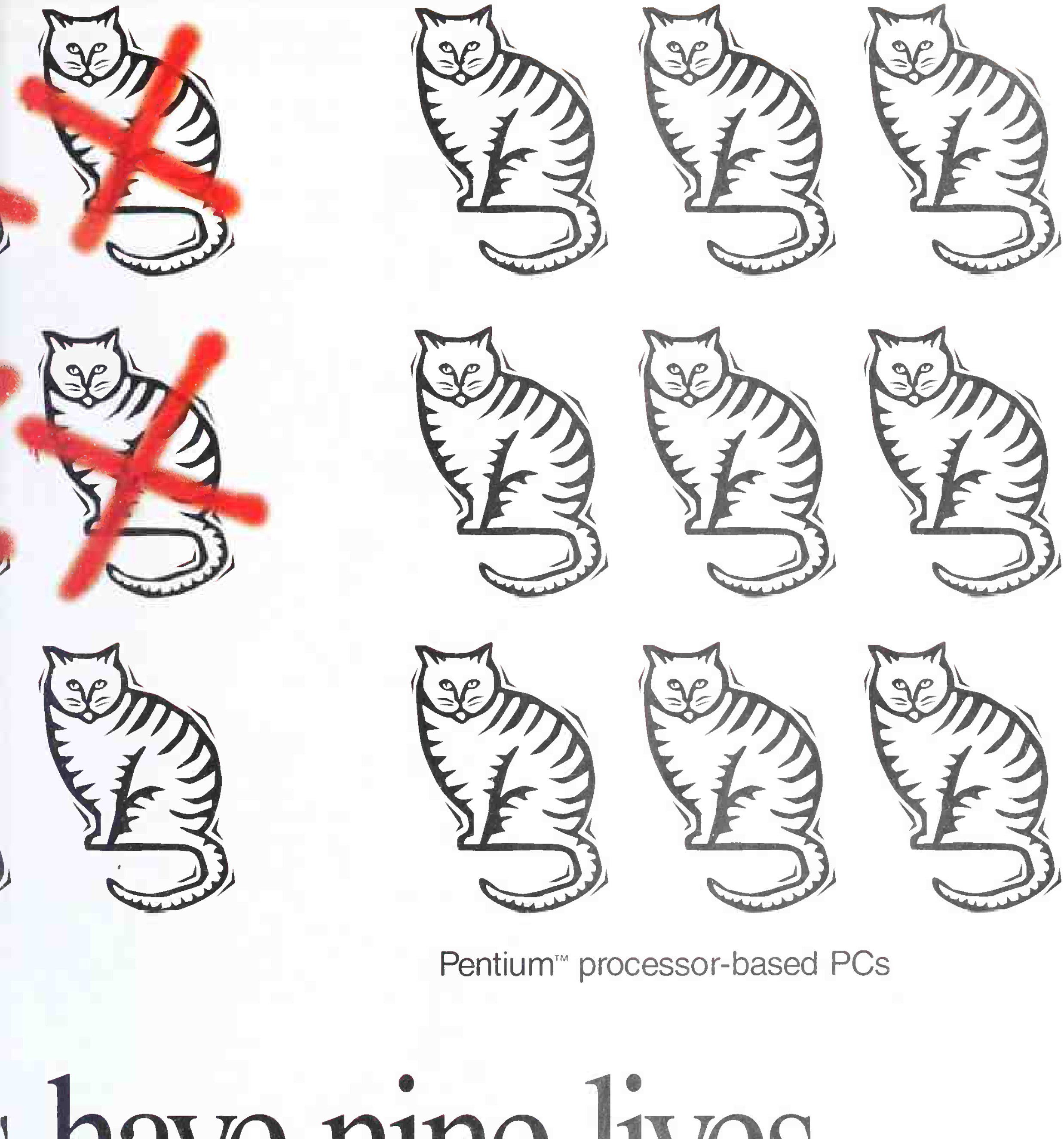
Let's say comput

intel inside
pentium
PROCESSOR

Some computers have nine lives left. Others don't. That's why if you're buying a PC today, you should only be considering Pentium™ processor-based PCs.

The reason is simple. A more powerfu PC lasts longer, since it will still have plenty of horsepower when tomorrow's applications come along. And most new Pentium processor-based systems also include the latest PC technology — like

© 1994 Intel Corporation



have nine lives.

I local bus for high-speed graphics and
g and Play technology for easy expansion
the years to come.
That, plus the fact that these PCs are now
affordable, makes this a great time to buy a
ntium processor-based PC. Especially when
you'll be getting a system that performs so well. Today. And several lives from now. For more information call 1-800-626-6788, Ext. 213.

intel®

ploiting information from around the globe. One of the difficulties is getting global teams to talk to each other. U S West's Callahan complains that his group running cellular-telephone projects in Eastern Europe doesn't interact enough with a team checking out possible investments in Spain and Latin America. He isn't even satisfied with the level of coordination between his cable-television and telephone staff in Britain, where a U S West joint venture offers a combined cable/telephone service over the same lines. He has hired consultants to help break down the cultural barriers. "We've spent years trying to unravel the old way, and we're still not up to snuff," he says.

HIGH-TECH TALK. Having the right sort of E-mail and other information systems is essential if companies are to maximize their talent and intelligence-gathering. GE Medical Systems does 1,000 hours of teleconferencing a year. Frustration with the local phone service has pushed the fast-expanding Mexican cement maker, Cementos Mexicanos, to install an information system that allows it to monitor every component of its multinational empire. "With a keystroke, we can discover how much energy an oven in our Spain operation is consuming," says Informatics Manager Gelacio Iñiguez.

Companies are spending a lot of time and money on these networks. For Unilever PLC, which has 31,000 employees using either E-mail or Lotus Notes, just getting its people trained is a major project. Unilever is experimenting with a program run by Hewlett-Packard Co. that broadcasts a live tutorial session from its studios in the U.S. and Europe to Unilever employees anywhere in the world. A companywide satellite-training network may come next.

UNILEVER'S LOCAL PARTNERS HELPED GET ITS BEIJING ICE-CREAM PLANT UP IN 11 MONTHS

BUDDY SYSTEM. Many corporations are finding overseas joint ventures, partnerships, and other alliances to be superb vehicles for gaining market intelligence. For companies with limited capital, such as $700 million Japanese telecommunications-hardware maker Uniden Co., combinations may be the only way to expand overseas. "You can't live in your own world anymore," says Uniden Chairman Yoshio Sakai. "Finding the right partner regardless of nationality is the key to future global success." The company is considering an offer to enter a wireless-commu-

---

SHAUKAT AZIZ / CITICORP

A FLEET-FOOTED TEAM IN ASIAN FINANCE

AZIZ IS ONE OF SEVEN NON-AMERICANS AMONG 15 EXECUTIVE VICE-PRESIDENTS

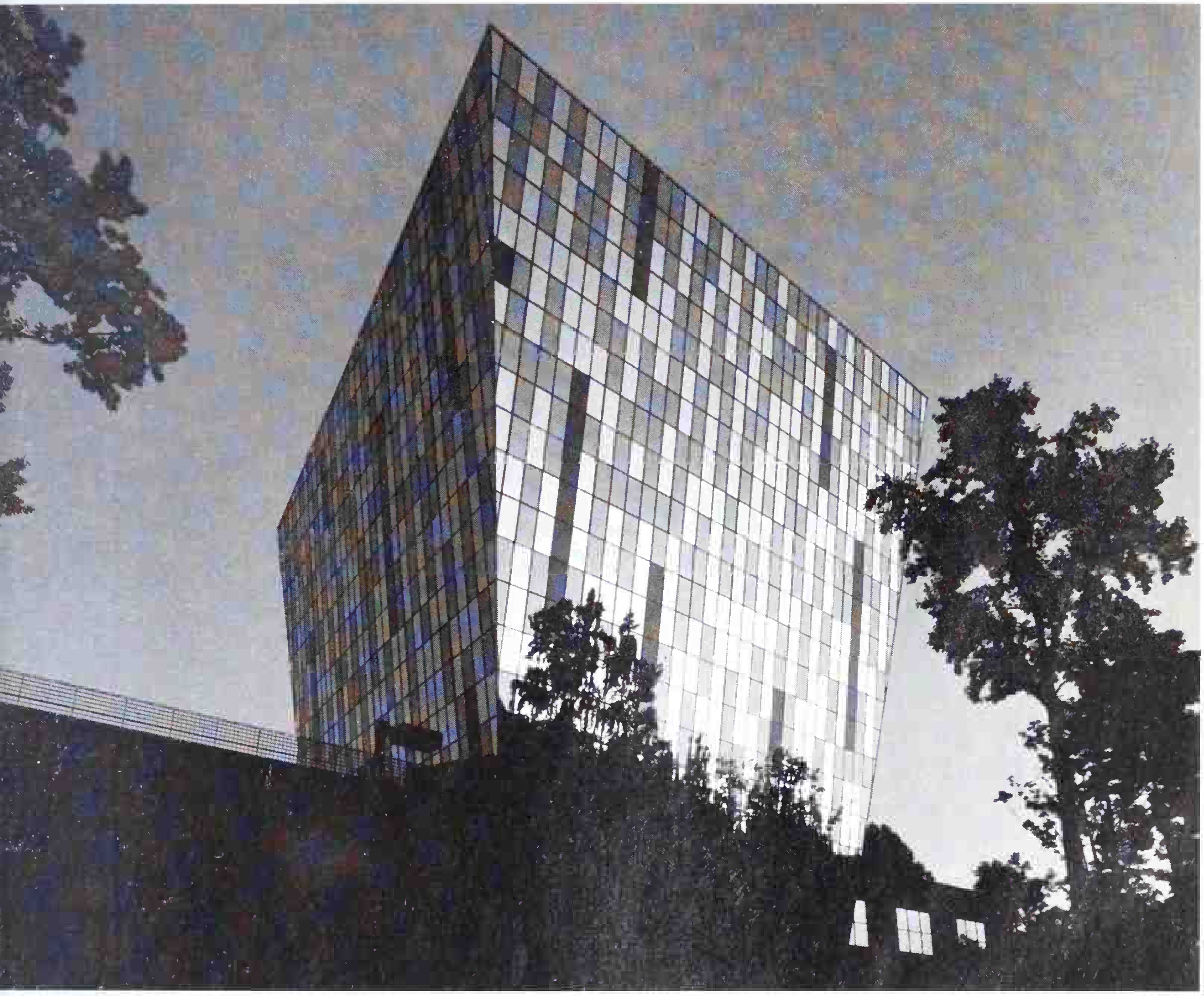
Citicorp has done as much as any major American multinational to diversify its management. Nowhere is this more true than in Asia. Shaukat Aziz, 45, a native of Pakistan, has been in charge of Citicorp's $800 million finance business for all of Asia but Japan since 1992. His colleague Rana G. S. Talwar, an Indian national, heads the consumer business. They are two of the eight non-Americans in the elite group of 15 executive vice-presidents, dubbed the "G-15," who rank directly behind Citicorp Chairman John S. Reed and the bank's five vice-chairmen.

Lately, Aziz' clout has increased. The country managers he supervises have wide latitude to cut financing and investment deals with local corporations and governments. "We can get very quick reactions," he says. Citi must be able to move fast to maintain its solid share of the fast-growing Asian capital markets, where megadeals are clinched in days. These executives have made Citi a major player in virtually every Asian market and often the leader among foreign banks.

Before taking his current job, Aziz held top regional posts in Riyadh, Athens, New York, and London. In Singapore, he sees to it that his country managers—who have worldwide responsibility for all clients based in their territories—work with product managers located around the world to offer currency trading, investment banking, and other services. The goal, Aziz says, is for Citi to be a "customer-driven organization supported by product people."

By Peter Engardio in Hong Kong

We don't know where innovative technology will end. But we do know where the center is.



Now that the Cold War is over, what do we do with our Star Wars technology? Does any of it have commercial application? Can we use it to create 21st century products that companies like yours can sell?

The answers are now being explored at George Mason University under the auspices of the Virginia Center for Innovative Technology. Both of which are located in Fairfax County.

The CIT has a remarkable record of using university research to develop new products and services. More than 550 Virginia businesses have benefited so far. Yours could be next.

For more information, simply call or clip the coupon.

For more innovation, move your business to Fairfax County.

Please send me more information on locating my business in Fairfax County.

*Name*____________________________
*Title*____________________________
*Company*________________________
*Address*________________________
*City*________________ *State*____
*Zip*__________ *Phone*____________

Fairfax County Economic Development Authority
8300 Boone Boulevard, Suite 450, Vienna, Virginia 22182
Telephone 703-790-0600, Fax 703-893-1269 BW6

Fairfax County, Virginia. The 21st Century Is Here.

nications venture with French conglomerate Matra-Hachette.

Even giants use joint ventures to ease their way into some of the tougher markets. When it wanted to crack China's ice-cream market, Unilever joined forces with Sumstar, a state-owned Chinese investment company. Bob Smith, general manager of the venture, called Wall's (Beijing) Co., says Sumstar's help with the formidable bureaucracy was crucial in getting a high-tech ice-cream plant up and running in the Chinese capital in just 11 months.

SWAT TEAMS. Along with signing up Chinese heavy hitters, Unilever dispatched a team of Chinese-speaking troubleshooters from the company's 100-country operation. They are helping to build detergent plants, market shampoo and other personal products, and even sell Lipton tea to the world's largest tea-drinking country. Many companies are developing these specialized SWAT units to push into markets rapidly. Texas Instruments has some 200 professionals—dubbed the Nomads—who have set up chip-fabrication plants in Italy, Taiwan, Japan, and Singapore in the past four years. U S West's Callahan boasts that he can "put a team into South Africa by Friday" to begin setting up a cellular-phone system. "We're faster than any telephone company in the world."

After the SWAT teams pack up and head home, someone has to run the business. When recruiting executives for overseas assignments, Korn/Ferry International President Richard M. Ferry says companies seek out experienced managers who have lived abroad and enjoyed it, speak several languages, are proficient with technology, and are able to motivate people by other means than issuing orders. "Having a well-stamped passport isn't enough to make an executive a global player," says Ferry.

The best practitioners of the new management model have had the humbling experience of learning that they can't run a China operation from New York. But it's local nationals, not expatriates, whom companies now prefer. Locally hired managers better understand cultural no-no's and can help companies shed their imperialist image. But more important, they often are more in tune with subtle changes in consumer buying habits, customer complaints, and government regulations, all of which can affect operating profits. "I may be head of international," says Levi Strauss Inter-

LARS RAMQVIST / ERICSSON

AN EVER-QUICKER TRIP FROM R&D TO CUSTOMER

RAMQVIST UNITED A TELECOM GIANT THAT "BEHAVED LIKE SEVEN DIFFERENT COMPANIES"

Lars Ramqvist's first move as CEO of L. M. Ericsson in 1990 was to shut himself in his office for six straight weeks. The new head of Sweden's $10 billion telecommunications equipment maker tried to figure out how to get Ericsson's often fractious business units to work as a team. "We behaved like seven different companies, each calling on the same accounts," explains the 55-year-old physicist. "Our customers were confused."

> ➛ The key: Design a product and ready it for market —simultaneously

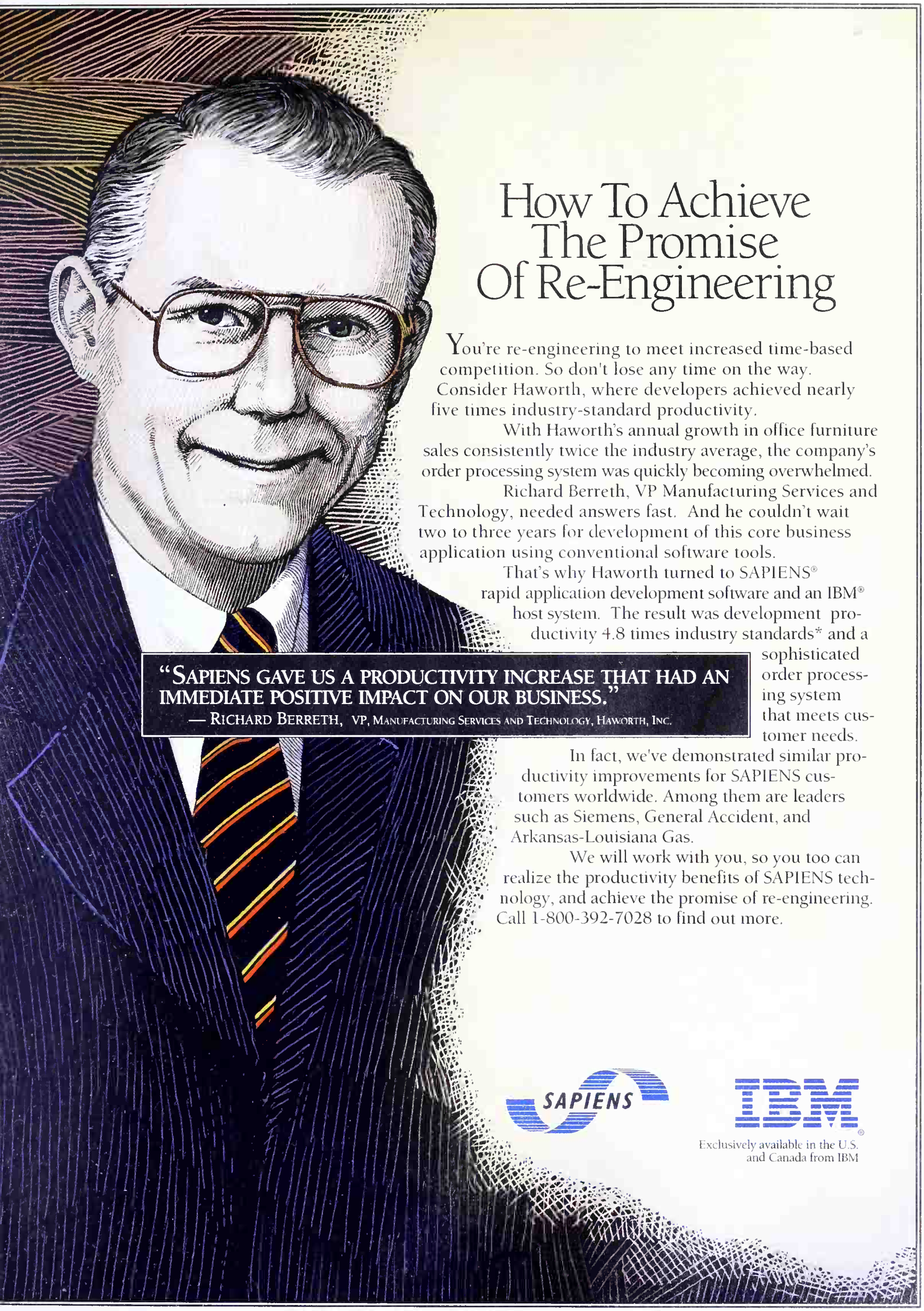
Ramqvist decided on a radical overhaul that would centralize sales of all products in each country unit. That way, Ericsson would present a single face to its customers. Ramqvist's restructuring has helped turn Ericsson from a company that was struggling badly a few years ago into one of the world's hottest telecom players. Some analysts see earnings growing at a 25% compound rate over the next five years.

To bind together a sprawling, research-intensive empire, Ramqvist introduced a matrix system with unit managers reporting to both product divisions and corporate headquarters. While executives have to put more time into consensus-building, the matrix has been very effective for sharing information among 40 R&D labs around the globe and getting products to market fast.

For example, when it was moving into digital mobile phones in the early 1990s, Ericsson designed the units and set up the manufacturing and service networks simultaneously. That put it way ahead of competitors. Ericsson is still the only company with digital mobile phones that meet European, American, and Japanese standards.

Ramqvist says such rapid-fire development campaigns will be essential to Ericsson's future success in crucial areas such as asynchronous switching and lighter mobile phones. "Time is important. It's that simple," he says.

By Julia Flynn in London



How To Achieve The Promise Of Re-Engineering

You're re-engineering to meet increased time-based competition. So don't lose any time on the way. Consider Haworth, where developers achieved nearly five times industry-standard productivity.

With Haworth's annual growth in office furniture sales consistently twice the industry average, the company's order processing system was quickly becoming overwhelmed.

Richard Berreth, VP Manufacturing Services and Technology, needed answers fast. And he couldn't wait two to three years for development of this core business application using conventional software tools.

That's why Haworth turned to SAPIENS® rapid application development software and an IBM® host system. The result was development productivity 4.8 times industry standards* and a sophisticated order processing system that meets customer needs.

"SAPIENS GAVE US A PRODUCTIVITY INCREASE THAT HAD AN IMMEDIATE POSITIVE IMPACT ON OUR BUSINESS."
— RICHARD BERRETH, VP, MANUFACTURING SERVICES AND TECHNOLOGY, HAWORTH, INC.

In fact, we've demonstrated similar productivity improvements for SAPIENS customers worldwide. Among them are leaders such as Siemens, General Accident, and Arkansas-Louisiana Gas.

We will work with you, so you too can realize the productivity benefits of SAPIENS technology, and achieve the promise of re-engineering. Call 1-800-392-7028 to find out more.

SAPIENS

IBM®

Exclusively available in the U.S.
and Canada from IBM

---

*For further information on how the study was conducted, contact Software Productivity Research, Inc. Burlington, Massachusetts national President Peter A. Jacobi, "but to think I can make decisions worth a damn in the Far East is ridiculous."

Many internationally expanding companies are hustling to add foreigners to their payrolls. At McDonald's Corp., often half of the 250 trainees attending a two-week Hamburger University management course in Oak Brook, Ill., are from outside the U.S. Simultaneous translation is provided in 22 languages. This fall, AT&T is launching a program that will bring foreign-based managers to the U.S. for up to two-year stints. Boston-based Gillette Co. scouts out likely talent in 28 countries where it has offices. Candidates are people such as Justyna Pisiewicz, a Polish recruit with a degree from a Beijing university. Along with Polish and Chinese, she also speaks English and Russian. These trainees are first put through a trial run at the local operation that recruited them. Then, they're packed off to Boston, London, or Singapore for an 18-month apprenticeship under an executive mentor before being sent home. They wind up "with a foot in both camps," says Human Resources Director James J. Noone. "We are far more successful when we rely on local people to run the businesses."

After hiring foreign talent, companies must take pains to integrate them. To encourage its Singaporean workers who make paging devices to collaborate with a sister plant in Boynton Beach, Fla., Motorola Inc. flew most of them to a Copper Mountain (Colo.) resort in August for bonding exercises. There, they played Outward Bound-style team-building games, such as helping each other move from one floating platform to another using a single wood plank.

FALLING BEHIND? Unwillingness to give foreigners much clout could put Japanese companies at a disadvantage. Even at Uniden, where only 277 out of 10,000 employees work in Japan, Japanese executives run all foreign subsidiaries, and most key decisions are made at headquarters. Overcentralized management compounds the problem. Taku Ogata, an adviser on China for Nomura Research Institute Ltd. and author of a Japanese best-seller, *The Secret to Success in China*, thinks the unwillingness of Japanese companies to give authority to foreign executives is causing them to fall behind their Western competitors in China. Western companies hire Chinese managers, turn them loose, and reward them lavishly if they do well. By contrast, Japanese companies hesitate to hire Chinese at high levels, and Chinese prefer to work for Western companies, because the pay is much better.

But most Japanese companies are likely to change slowly, if at all. They won't necessarily lose out in the free-wheeling 21st century, but the Japanese may well be at a disadvantage in a hypercompetitive world where rivals borrow the best from their playbook.

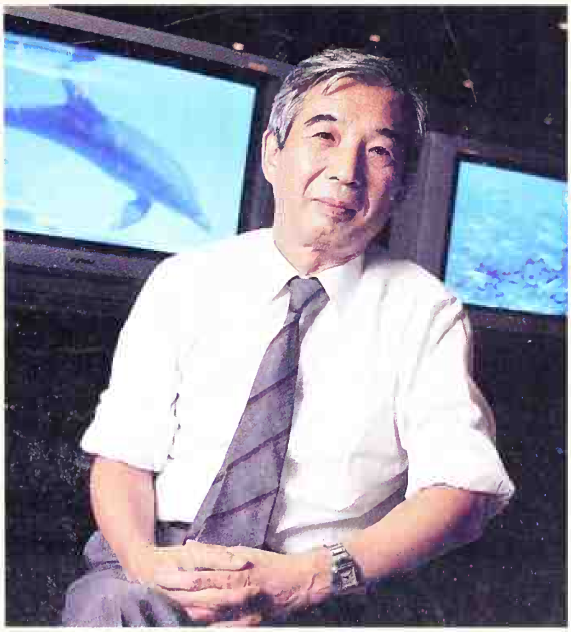
The 21st century will be full of uncertainty and risk. As he sits in his London office, U S West's Callahan says he still doesn't know if the organization he's trying to create will perform. "Am I afraid? Yes, I am," he acknowledges. But he also feels privileged, because it's exhilarating to be on the frontier. The next century is going to be a time when the successful manager is a thinker and a risk-taker, not a bureaucrat.

By Paula Dwyer in London, with Pete Engardio in Hong Kong, Zachary Schiller in Cleveland, Stanley Reed in New York, and bureau reports

---

TAMOTSU IBA / SONY

PUTTING FOREIGNERS IN THE EXECUTIVE SUITE



IBA: "RECRUIT THE BEST POSSIBLE LOCAL MANAGEMENT"

Must a Japanese company cease being Japanese to succeed in the business world of the future? Sony is probably the company that is most closely following such a strategy. With 80% of its sales coming from overseas, Sony has long been Japan's international trailblazer. And although few Japanese companies have admitted foreigners into senior management, an American and a European, Michael P. Schulhof and Jacob K. Schmukli, run Sony's U.S. and European operations and sit on the board of the parent company. "Recruit the best possible local management. From our experience, that's the best direction," says Tamotsu Iba, Sony's executive deputy president and chief planner.

In fact, some observers think Sony could soon become the first Japanese company to be run by a non-Japanese. Iba has his doubts about that, and he stresses that headquarters will still have a big role in decision-making. But he agrees that Sony will continue giving non-Japanese executives more responsibility. "Sony has become a very attractive place for foreigners to work," he says.

One reason that is true is that Sony's Japanese executives tend to speak better English than their counterparts at other Japanese companies. Iba, 58, says this is no accident. "We hire and promote people mainly for their ability to do business," he says. "But if you can't speak English here, you can't fully do your job."

By Robert Neff in Tokyo

the Corporate LIBRARY™ BOOK CLUB

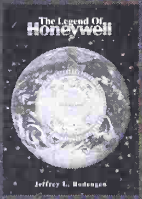
No Membership Fees, & No Charge to Join!

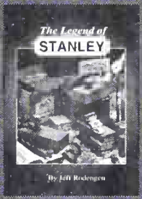
We'd like to introduce you to a unique program known as The Corporate Library Book Club™, a national publishing and distribution system designed exclusively for books on the evolution of American corporations and industries. There is much to be learned from the experiences of other companies, regardless of their ultimate product or service. For one thing, the most successful corporations share many universal traits and pathways to great achievement, from innovative programs of absolute quality assurance and strategic diversification, to new methods of employee empowerment and surgical-strike product marketing.

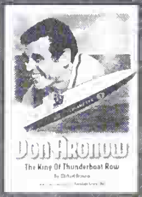
Further, the finest organizations have nurtured or acquired the most talented people in their industry. The history of how these over-achievers came to lead and dominate their fields are both instructive and inspirational.

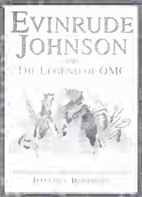
We know that successful executives within a wide range of industries are interested in learning how leading corporations have evolved and succeeded while others have failed. We carefully review an elite selection of current and forthcoming corporate titles each year for inclusion into The Corporate Library Book Club™. We can now offer you exquisitely detailed volumes on the evolution of the finest American corporations, shipped periodically to your office or home, to create your own resource library on America's most successful enterprises.

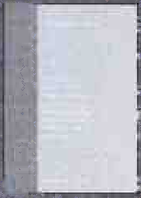
There are no membership fees and no charge to join.

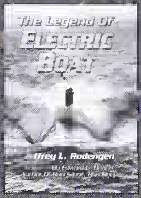

The Legend Of
Honeywell
Jeffrey L. Rodengen

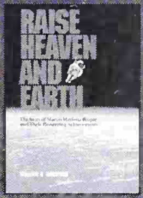

The Legend of
STANLEY
By Jeff Rodengen

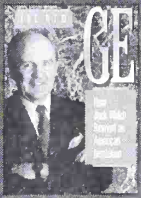

Don Aronow
The King Of Thunderboat Row


EVINRUDE
JOHNSON
THE LEGEND OF OMC
JEFFREY L. RODENGEN




The Legend of
ELECTRIC BOAT
Jeffrey L. Rodengen

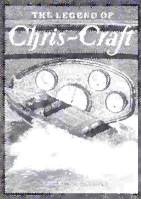

RAISE HEAVEN AND EARTH



The Legend Of
Dr Pepper
7up
Jeffrey L. Rodengen

IRON FIST
JEFFREY L. RODENGEN

The Legend Of
INGERSOLL-RAND
Jeffrey L. Rodengen


THE LEGEND OF
Chris-Craft

The Legend Of
BRIGGS & STRATTON
Jeffrey L. Rodengen

And as a member of The Corporate Library Book Club™, you will receive each fact filled volume at significant savings—up to 40% off the retail price. And if you're not pleased for any reason, send them back to us for a full, 100% refund. No questions asked. We're that confident that you will be pleased by being a member of The Corporate Library Book Club™. Join today, and at regular intervals, you will receive a new illustrated volume, detailing the remarkable evolution of another great name in American industry. Again, if you are not totally satisfied with the volume received, just return it for a full, 100% refund.

We're looking forward to having you, or your company, as a member of The Corporate Library Book Club™.

VISA
MasterCard
AMERICAN EXPRESS

Toll Free 1-800-900-Book

**Actual interim between book shipments will vary between 4-8 weeks, cover designs and titles offered are subject to availability.*

Write Stuff Syndicate, Inc. • 433 Seminole Avenue, Fort Lauderdale, FL 33312 • 1-800-900-2665

CONSULTANTS

HIRED GUNS PACKING HIGH-POWERED KNOWHOW

With McKinsey and other consulting powerhouses selling their smarts to so many big companies, the world economy is likely to get only more competitive

BURGER KING

BURGER KING'S COLABUONO AND COOPERS' DeWOSKIN: SELLING WHOPPERS TO CHINA

Booz, Allen & Hamilton Inc. and Ernst & Young have helped make Whirlpool Corp. the first truly global appliance maker. Coopers & Lybrand consultants are roaming China, checking out the market for Avon cosmetics and finding the right spots for Burger King restaurants. AT&T has paid McKinsey & Co. tens of millions of dollars to help it find strategic partners abroad.

In the next 10 to 15 years, the leading management consulting firms could well see their influence and power increase exponentially. That's because the top consulting groups, almost all of them American, probably control the deepest reserve of knowledge on how to manage globally and build worldwide networks of information technology. And the consultants' core clientele—the top multinationals of Europe and America—as well as a growing number of companies in Asia and Latin America hunger for that knowhow. As a result, competition could intensify as managers around the world are exposed to heavy doses of the latest thinking at McKinsey and the other consulting powerhouses.

LEGWORK. Serving these clients, says George T. Shaheen, managing partner of $2.9 billion Andersen Consulting, "means providing a consistent level of quality service regardless of where they are." In the old days, clients were content to sit back and watch consultants' slide shows at headquarters in the U.S. and Western Europe. Today, multinationals are in need of troops on the ground to help implement change—now.

So the big firms, in effect, create instant overseas subsidiaries until clients hire their own staff. They're not only supplying big-think strategies—they're also installing new information systems and headhunting local nationals for top

UNITED STATES
CANADA
GREENLAND
ICELAND
North Atlantic Ocean
RUSSIA
KAZAKHSTAN
MONGOLIA
CHINA
INDIA
TURKEY
IRAQ
IRAN
SAUDI ARABIA
ALGERIA
LIBYA
EGYPT
MAURITANIA
MALI
NIGER
CHAD
SUDAN
ETHIOPIA
VENEZUELA
COLOMBIA

*Mark Holowesko, Director of Global Equity Research**

Diversify–by company, by industry and by country.

Templeton Foreign Fund
Ranked #1

Cumulative Total Returns†	
409.2%	*10-year*
78.5%	*5-year*
Average Annual Total Returns†	
17.7%	*10-year*
12.3%	*5-year*
13.7%	*1-year*

The Templeton Foreign Fund was ranked the best-performing of 14 international funds for total return during the 10-year period ended 6/30/94 by Lipper Analytical Services, Inc.†† Of course, past performance does not guarantee future results.

Investments in international stocks have often been viewed as risky. But these days it may also be risky to limit your investments to a single country. Which is precisely the reason we offer the Templeton Foreign Fund.

Call today for more information.

Call 1-800 342-FUND Ext.T577

TEMPLETON WORLDWIDE
700 Central Avenue
St. Petersburg, FL 33701-3628

Yes! I would like a free prospectus containing more complete information on the Templeton Foreign Fund, including sales charges and expenses. I will read it carefully before I invest or send money.

☐ *I am currently a Templeton shareholder.*

Name ______________________

Address ______________________

City ______________________

State/Zip ______________________

Daytime Phone ______________________

BWK94
T577

Templeton
WORLDWIDE

**Mark Holowesko, Director of Global Equity Research, follows the investment principles of the company's founder, Sir John Templeton.*

†Cumulative total returns show the percent change in value of an investment over the 10- and 5-year periods. Average annual total returns represent the average annual increase in value of an investment over the indicated periods. All calculations, for the period ended 6/30/94, include the maximum 5.75% initial sales charge and assume reinvestment of dividends and capital gains at net asset value. Prior to July 1, 1992, fund shares were offered at a higher sales charge. Thus, actual total returns to purchasers of shares during that period would have been somewhat less than noted above.

††Lipper Analytical Services, Inc. ranked the fund #59 out of 139 funds for the 1-year period and #5 out of 44 funds for the 5-year period, ended 6/30/94. Lipper rankings do not include sales charges and may have been different if such charges had been considered.

Fund share prices and returns will fluctuate with market conditions, currencies, and the economic and political climates where investments are made. Your shares, when redeemed, may be worth more or less than their original cost.

Principal Underwriter: Franklin Templeton Distributors, Inc.

A Member of the $117 Billion Franklin Templeton Group

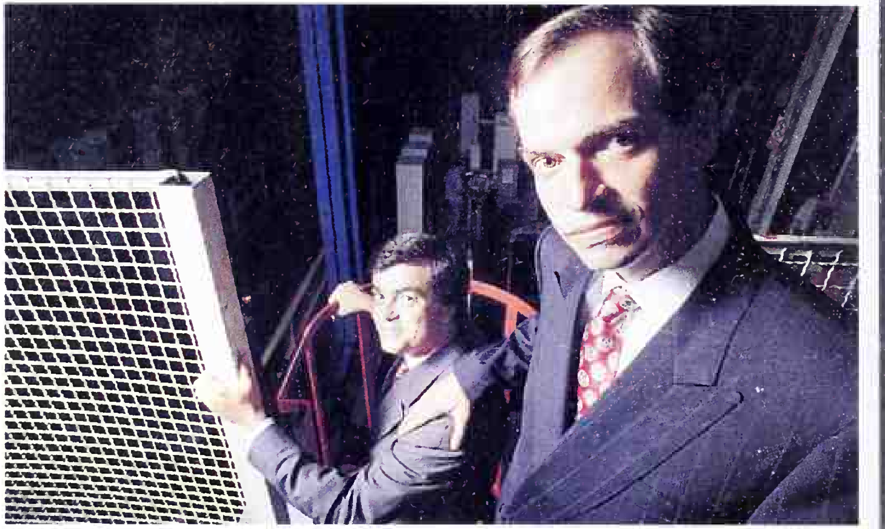
executive posts. "They understand the local markets and can help to interpret the local rules," says H. Glen Walker, chief financial officer of Whirlpool Europe. "We don't have to search for expertise because they can bring in their best people from around the world."

Of course, the boom could fizzle as consultants run out of companies to restructure and as multinational clients retain sufficient staff to manage their own operations. But for now, the consultants are seeing everything go their way.

Multinationals are having consultants do a lot of the legwork that used to be performed by staffers. Burger King Corp., a unit of Grand Metropolitan PLC, has signed up a team of Coopers & Lybrand consultants including Kenneth J. DeWoskin to assist it with these forays. Coopers goes into a country such as China and churns out foot-thick reports, forecasting the size of the fast-food market, identifying potential business partners and suppliers, and even recommending site locations. "It's more cost-effective to buy this information from the outside," says Scott L. Colabuono, Burger King's senior vice-president for worldwide brand strategy.

China is not the only new market awash in consulting talent. Price Waterhouse's consulting arm now has 800 professionals in India and more than 750 in Eastern Europe, up from virtually none in the late 1980s. "The clients want you to have a presence in each strategic market and critical mass across the world," says Roger Nelson, vice-chairman in charge of management for Ernst & Young. Many firms now get half or more of their revenues from outside the U. S. (table).

Not all of these consultants are as

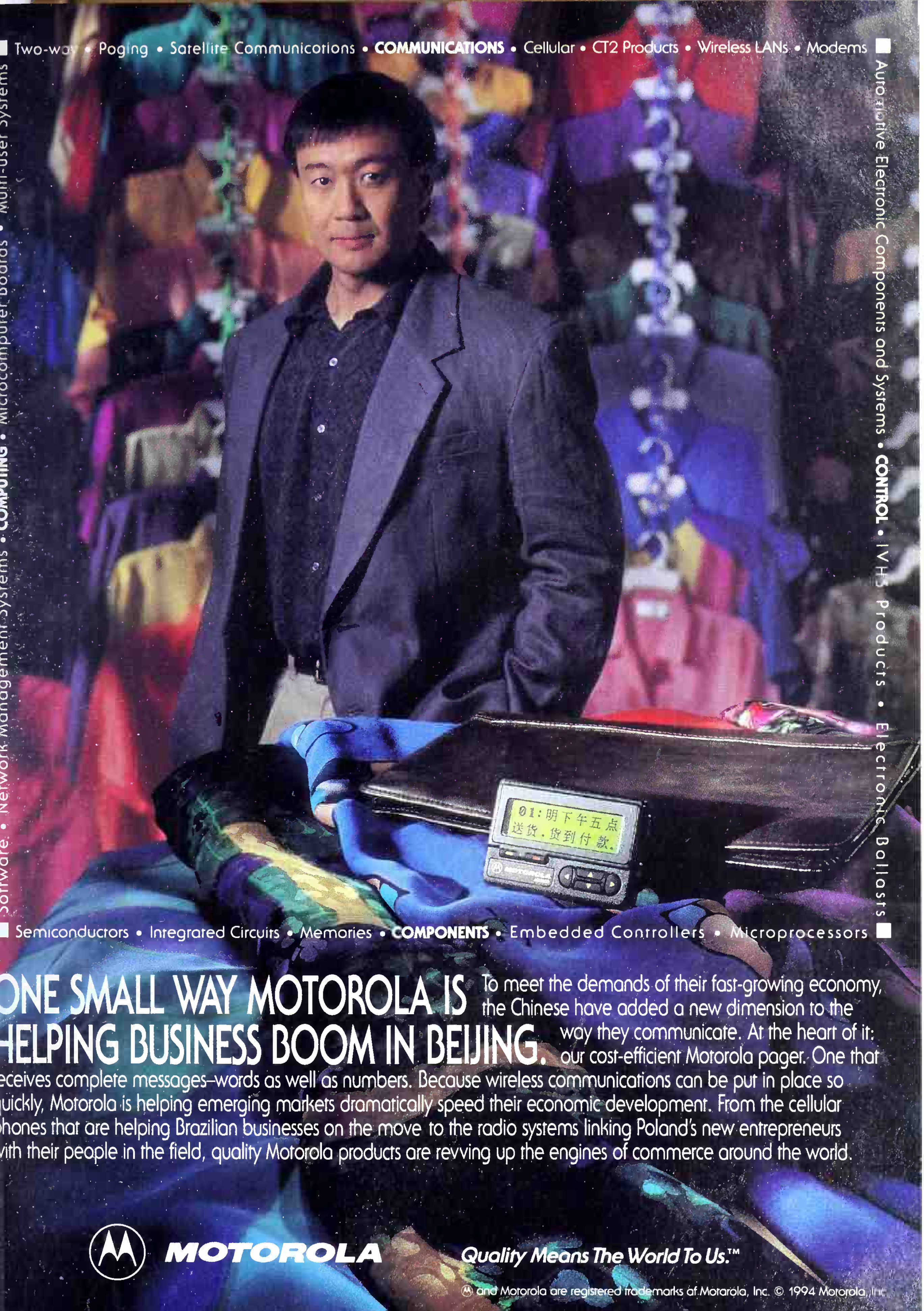

ERNST & YOUNG'S LOGOTHETIS AND WHIRLPOOL'S WALKER: A GLOBAL TESTING GROUND FOR IDEAS

GERALD BRUNEAU

Ten Leading Global Consulting Firms

FIRM	1993 REVENUES*	REVENUES OUTSIDE U.S.	NO. OF PROFESSIONALS	HIGHLIGHTS
ANDERSEN CONSULTING CHICAGO	$2,876	51%	24,598	Now boasts 150 offices in 46 countries; hottest region is Asia/Pacific, where revenues jumped 24% in 1993, to $259.4 million
ARTHUR D. LITTLE CAMBRIDGE, MASS.	385	50	1,579	Has 36 offices in 23 countries, with newest opening in Korea; in a typical year, firm undertakes assignments in some 60 nations
A.T. KEARNEY CHICAGO	278	53	950	One of fastest growing U.S. firms, recognized as an authority in both operations and logistics
BOOZ, ALLEN & HAMILTON NEW YORK	800	30	4,600	Staff boasts 73 nationalities serving clients in more than 75 countries, from helping east Germany privatize companies to reshaping Australia's Broken Hill Proprietary
BOSTON CONSULTING GROUP BOSTON	340	63	1,250	Half of staff is based in Europe where revenues nearly equal those in the U.S.; Asia and Far East now represent 12% of revenues
COOPERS & LYBRAND NEW YORK	1,050	52	7,650	Envisions major growth in Asian and Latin American markets; will triple 35-person Eastern European privatization practice
ERNST & YOUNG NEW YORK	922	42	7,200	Former CFO of a leading Australian company now heads consulting services; he alone directed projects in 20 nations
GEMINI CONSULTING MORRISTOWN, N.J.	516	49	1,700	Has landed major assignments with many multinationals, from British Telecom to DuPont; aggressively expanding in all markets
McKINSEY NEW YORK	1,274	60	3,100	Arguably the most global of all firms, with 29 nationalities represented among some 500 partners; 63 offices in 32 countries
PRICE WATERHOUSE NEW YORK	995	55	7,200	Boasts network of more than 400 offices in 118 nations and territories worldwide; high growth in Asia, India, and Latin America

*IN MILLIONS DATA: BUSINESS WEEK, *CONSULTANTS NEWS*


01:明下午五点
送货.货到付款.
MOTOROLA

Two-way • Paging • Satellite Communications • **COMMUNICATIONS** • Cellular • CT2 Products • Wireless LANs • Modems

Automotive Electronic Components and Systems • **CONTROL** • IVHS Products • Electronic Ballasts

Semiconductors • Integrated Circuits • Memories • **COMPONENTS** • Embedded Controllers • Microprocessors

Software • Network Management Systems • **COMPUTING** • Microcomputer Boards • Multi-user Systems

ONE SMALL WAY MOTOROLA IS HELPING BUSINESS BOOM IN BEIJING.

To meet the demands of their fast-growing economy, the Chinese have added a new dimension to the way they communicate. At the heart of it: our cost-efficient Motorola pager. One that eceives complete messages–words as well as numbers. Because wireless communications can be put in place so uickly, Motorola is helping emerging markets dramatically speed their economic development. From the cellular hones that are helping Brazilian businesses on the move to the radio systems linking Poland's new entrepreneurs vith their people in the field, quality Motorola products are revving up the engines of commerce around the world.

MOTOROLA

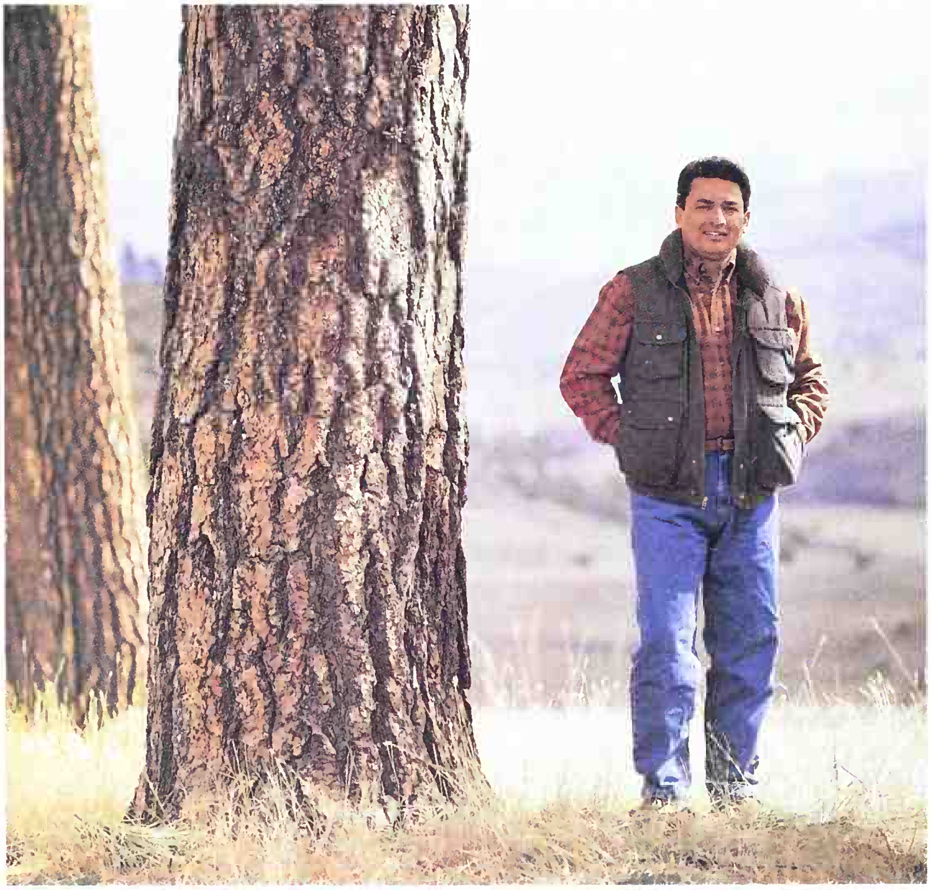
Quality Means The World To Us.™

Ⓜ and Motorola are registered trademarks of Motorola, Inc. © 1994 Motorola, Inc.

→ Big firms can create instant overseas subsidiaries, providing staff, strategies—even headhunting services

worldly as you might think. A McKinsey team that recently flew into Malaysia was surprised by the difficulties posed by the Muslim fasting month of Ramadan. But the firms are rapidly moving to recruit local nationals who thoroughly understand their home markets. Most of consulting's major players are aggressively recruiting MBAs of U. S. schools from such countries as the former Soviet Union, China, and Sri Lanka. McKinsey, the pricey doyen of the consulting profession and a truly global organization, now boasts 63 offices in 32 countries. Since 1990, the consultant has opened just one new office in the U. S. compared with 19 overseas.

This global trend is transforming the makeup of the management firms themselves. At McKinsey, some 29 nationalities are now represented among its 500 or so partners. This year, McKinsey elected its first non-Western leader when partner Rajat Gupta became managing director of the $1.3 billion firm. Born in India, educated in America, and with experience in Europe and the U. S., Gupta explains: "I'm not from the established business backgrounds. I look different. I'm from a different culture. And I think differently."



COSMOPOLITE: McKINSEY MANAGING DIRECTOR GUPTA IS THE FIRM'S FIRST NON-WESTERN LEADER

Despite having large staffs of local nationals, the consulting firms offer clients the added service of flying in industry heavy hitters and strategy experts to add heft. Andersen Consulting spends $40 million annually to transport its teams of consultants around the world. This rapid movement not only quickly disseminates the latest management wisdom to the corners of the earth but also expedites the transfer of technology. "Consultants are now bringing ideas from one part of the world to another," says James G. Logothetis, an Ernst & Young partner who is based in Frankfurt. "When an idea or project works in China, we can try to transfer and implement it in Australia."

Arthur D. Little Inc., for example, helped the Dutch telecommunications authority install new information systems and convert to a customer-focused organization. The knowledge it gained in that project was quickly moved to similar jobs in Switzerland and Portugal. Thus local companies can, with consultants' help, more quickly become world-class competitors.

SNACK ATTACK. Good ideas are at a premium because international assignments have become challenging and complex. In 1993, for example, Michael J. Dolan, the newly named president of Snack Ventures Europe, brought in Price Waterhouse consultants to get the PepsiCo Inc.-General Mills Inc. joint venture on track. The two corporations combined their European snack-food businesses in mid-1992. Dolan needed help because he had to merge not only two distinct company cultures but also six different countries' approaches to business. "We wanted to move on all fronts," says Dolan. "But we didn't have the resources to put against all the top issues."

Enter the consulting arm of Price Waterhouse. Within weeks, the consultant assembled a team of 14 partners and 2 senior managers from 12 countries. They found a business ripe for consolidating. Each country location boasted its own accounting, purchasing, and advertising groups. With the help of consultants, the venture centralized purchasing, cut costs by boosting the company's purchasing clout, and devised a strategy to pool marketing efforts. "We got half the savings we wanted in the first year," says Dolan.

With so many new companies trying to play the global game, there are doubtless many other international operations ready for such treatment. Consultants are likely to find plenty of work for at least the next few years.

By John A. Byrne in New York

WE'VE GOT 98 BILLION BRANCHES AND YOU'VE NEVER HEARD OF US?

As one of the largest producers of timber in the United ates, Cavenham Forest Industries is well known in the world forest products.

Less well known is the company that owns it: Hanson.

Frankly, as a diversified industrial management company, e're used to the fact that many of our businesses are better own than we are. Several of them, in fact, are quite familiar, ke Jacuzzi® Whirlpool Baths, Tommy Armour® golf equipent, Farberware® and Peabody Coal.

But we prefer to impress our investors with something far ore important than a list of household names–shareholder line. Something we've sought to deliver for 29 years.

Since being listed on the New York Stock Exchange in 1986, sales have soared to $15 billion, while total market capitalization is over $20 billion. At the end of 1993, our gross dividend yield was 5.3%, double the average of the S&P 500.

Obviously, there's a reason for our success: A management philosophy steeped in common sense. Namely, to own businesses that provide basic goods and essential services like timber, coal and building materials. And then to keep a firm eye on the bottom line.

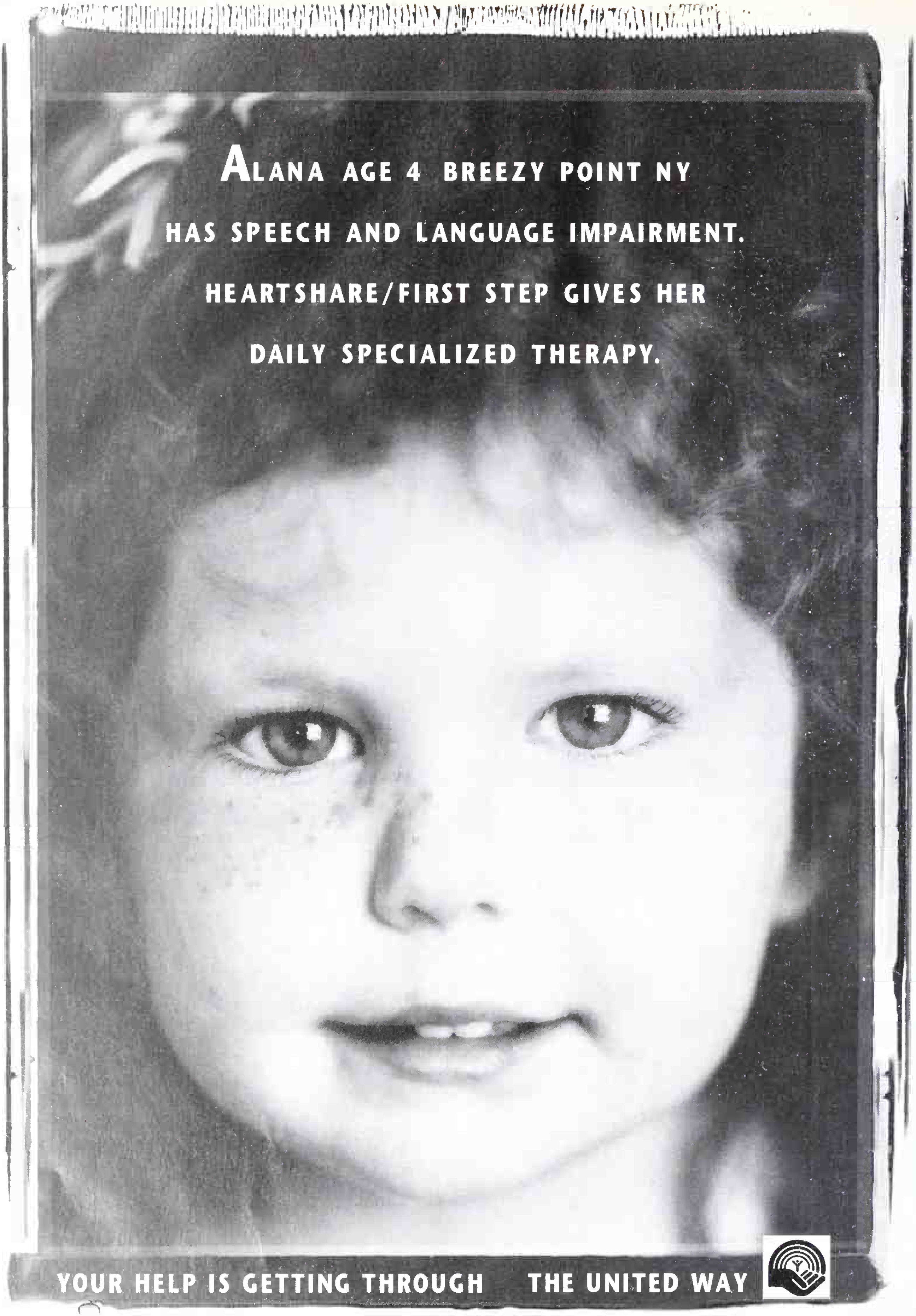
In short, we are a company run first and foremost for the benefit of our shareholders.

It's a view, we believe, that's as breathtaking as any you'll see in one of our forests.

For a copy of Hanson's Annual Report, call 1-800-8-HANSON.

HANSON

GGREGATES · CHEMICALS · COAL · CONSTRUCTION & BUILDING PRODUCTS · FOREST PRODUCTS · TOBACCO


ALANA AGE 4 BREEZY POINT NY
HAS SPEECH AND LANGUAGE IMPAIRMENT.
HEARTSHARE/FIRST STEP GIVES HER
DAILY SPECIALIZED THERAPY.
YOUR HELP IS GETTING THROUGH
THE UNITED WAY

Photographer Frank W Ockenfels 3

VOICES FOR THE MILLENNIUM

What will the future hold? BUSINESS WEEK presented that wide-open question to 10 notable people who are helping to lay the groundwork for the seminal events of the next 20 years. Our group of seers represents politicians, financiers, academics, technologists, and labor leaders from the U.S., Europe, Latin America, the Middle East, and Asia. In their answers, you'll hear notes of warning as well as optimism. Listen to them for some clues to how the new century will take shape.

PORTRAIT GALLERY ➤

Michel David-Weill

Senior Partner
Lazard Frères & Co.

GLOBAL FINANCE TOMORROW

Is Europe headed for a grand era of prosperity? Lazard Frères & Co. Senior Partner Michel David-Weill thinks so. Interviewed in his spare mid-Manhattan office, the charming, cautious, gravel-voiced 62-year-old seems a classic gentleman of the old school—but his predictions are daring. He says Europe will draw on its well-educated populace, a new entrepreneurial spirit, and fresh markets in Eastern Europe to break out of its slow-growth rut. But, he cautions, Europe must also privatize much of its health and pension system, and make its scandal-ridden democracies far more transparent. Weill sees much opportunity in the developing world, although great skill will be needed: "It is more difficult to deal cards to 53 players than it is to 7." He feels his industry's new role is to shift money from the deep pools of savings in Europe, Japan, and the U.S. to capital-hungry markets where "savings are not parallel to their needs." He foresees that by 2010, the share of U.S. pension dollars going overseas could quadruple, to 20%, with a big impact on smaller markets.

Shimon Peres

Foreign Minister
Israel

As a longstanding Defense Ministry official, Shimon Peres, 71, played a key role preparing Israel for wars with the Arabs. But it is as a peacemaker that he will likely be remembered. The Israeli Foreign Minister's crucial role in forging peace with the Palestinians won him this year's Nobel Peace Prize along with Prime Minister Yitzhak Rabin and PLO leader Yasser Arafat.

Peres believes the world is entering a new era in which military prowess and political ideologies are losing ground as sources of strength to science, information, and technology. Looking at his own country, the onetime Prime Minister argues that Israel will never be secure or reach its potential as long as it is surrounded by hostile and impoverished neighbors. "Unless we build a proper region, we shall not be able to build a proper state," he says.

REBUILDING THE MIDDLE EAST

So he's dedicating himself to laying the foundations of what he calls the New Middle East. In his recent book by the same title, he sketches a plan to bind the region together with a network of superhighways, shared electric grids and water projects, and a resurrected Hejaz Railway from Damascus to Medina. His goal is a regional community with institutions that can rein in today's virulent nationalist and religious passions. This vision won't happen tomorrow or next year, but Peres has helped make it a possibility.

PHOTOGRAPH BY CHRISS WADE

Jadwiga Staniszkis

Political Scientist
Polish Academy
of Sciences

A PATHFINDER FOR THE EAST BLOC

Jadwiga Staniszkis' critics try to tar her as a conspiracy theorist. But Staniszkis, 52, a onetime Solidarity adviser who is now a noted expert on transitional economies, continues to warn against Western naivete about the evolution of frontier capitalism: "There is still fighting over the center of gravity in Eastern Europe." Speaking from her handsome, art-filled apartment overlooking central Warsaw, the intense, wiry Staniszkis says a cadre of former communist apparatchiks has become skillful at using capitalist tools to run former state-owned enterprises for their own purposes. She believes they are now in firm control of banks, factories, and other key institutions in Poland, Ukraine, Slovakia, Russia, and Hungary. This quiet economic coup provides needed economic stability in the short run, Staniszkis says. But she cautions that this peculiar form of "peripheral capitalism" isn't without risks, since a debate still rages within the oligarchy over whether to lean West or East. She does predict these hybrid capitalists will eventually come around. While the West should keep pursuing steps toward integration in the European Union and NATO, it should understand that these leaders are not true free marketers.

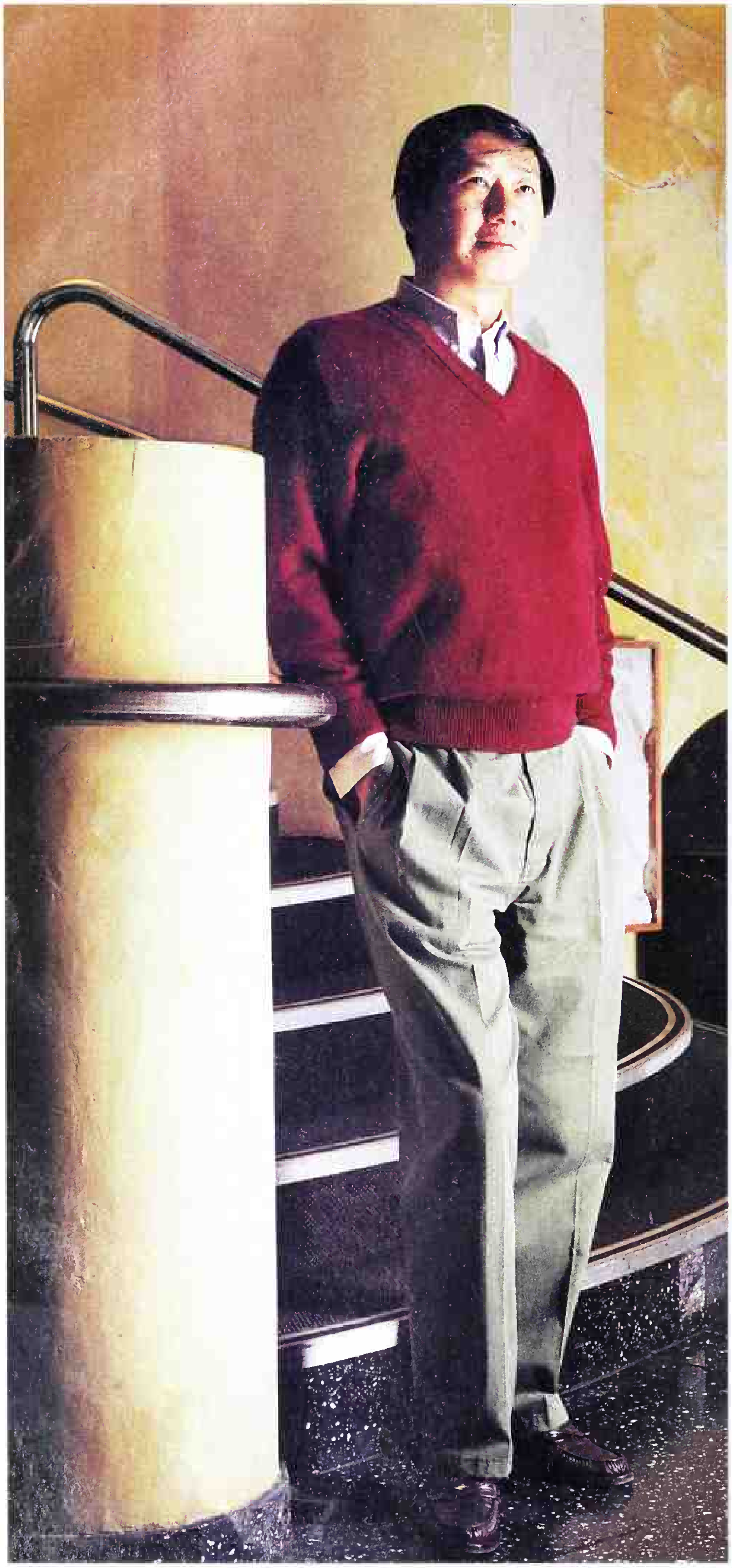
Shojiro Asai

General Manager
Advanced Research Lab
Hitachi

Shojiro Asai doesn't mince words: "I'm very afraid for the future of Japan." And why is that? Surprisingly, the 53-year-old engineer, whose gleaming Tokyo lab teases technology out of nature's mysteries, harks back to the 9th century. That was when Japan started dispatching *kentoshi*, or study missions, to China to adapt innovations in rice farming and writing. The spirit of the *kentoshi* explains Japan's post-World War II success. But Asai fears that Japan is now saddled with a tradition-bound university system, a conformist culture, and an attack of complacency. Asia's dynamism adds to his anxiety. He worries that Asian entrepreneurs will thrust China, Thailand, or even Indonesia into the front ranks of high-tech players. What Asai can do to help Japan is focus Hitachi on its most promising future technologies. Some of his favorites: light-emitting polymers that would form the basis of a home computer display that could be folded and carried as easily as a rubber mat and act as a PC, newspaper, and VCR. Asai would like to see Hitachi take all the work out of using computers by adding voice-recognition software and "intelligent agents" programmed to roam the Internet and retrieve information.

OUTRUNNING JAPAN'S RIVALS

PHOTOGRAPH BY CAROLINE PARSONS



Lance Wu

Deputy General Manager
Computer &
Communications Labs
Taiwan

AN R&D SPEED DEMON

"Speed is everything," says Taiwan high-tech policy ace Lance Wu. He adds with a mocking note: "We're not patient like the Japanese. We have a short attention span and are easily bored." Thanks to such faults, Taiwan will be at the epicenter of the high-tech explosion in Asia over the next 20 years, as dozens of companies strive to become technology powerhouses. The argumentative, globe-trotting, 44-year-old Wu has the kind of transpacific resumé that explains the success of Taiwan in personal computers and consumer electronics. With a Columbia University doctorate in statistics, he worked at AT&T Bell Laboratories and Bellcore, then returned to Taiwan to help direct the country's technology development. Today, he's a top official at the government's computer research laboratory.

Taiwan's next big move: Watch for a wave of sophisticated telephones and terminal adapters plugging into America's digital phone system. "We have a big role to play in the convergence of computers, consumer electronics, and communications," Wu says. Indeed, Taiwan is quickly expanding beyond PC assembly into digital TV and telecom. Unless Japan changes its outdated business modes, Asian companies could challenge its dominance in flat displays and other technologies. As the rules change in high tech, speed is ever more of the essence.

Andrew Marshall

Director
Office of Net Assessment
The Pentagon

Just when you think the world is safe for democracy, Andrew Marshall points out how many ways the U.S. might find itself at war in the next era. Pondering conflicts to come is the specialty of Marshall, a legendary Pentagon iconoclast. Marshall, 73, spoiled the party for the top brass after the gulf war by warning that the methods that defeated Iraq would be obsolete in the 21st century. The geopolitical/military scene hasn't been this uncertain since the 1930s, when fascism was rising and German strategists were figuring out how to revolutionize land warfare, he observes. While nations sort themselves out—and the U.S. watches for new superpowers such as China to flex their muscles—Marshall believes information and communications technology will transform the battlefield. The bad news is that even tiny countries can use this technology well. The other bad news is that the U.S. will have to rethink its arsenal of tanks and aircraft carriers as this new battlefield emerges. If America finds itself using flexible teams of soldiers armed with the latest digital electronic weaponry in its next war, it may well be because of Marshall.

THE PENTAGON'S FUTURIST

PHOTOGRAPH BY KATHERINE LAMBERT

Carlos Salinas

Leading candidate for first president of the World Trade Organization

FREE TRADE'S TRUEST BELIEVER

By any measure, Mexican President Carlos Salinas de Gortari has had a hellish year: two close friends assassinated, a revolt in Chiapas, and turmoil in his country's financial markets. But sitting behind his plain mahogany desk on the presidential plane, he seems as unshakably self-assured as ever—and even more a fervent believer in an open world. When communism collapsed, Salinas realized that capital would start flowing to the countries most open to trade, so over his six-year term, he turned Mexican's Byzantine and inefficient economy into a magnet for investment.

Now Salinas, 46, wants to be the custodian of global free trade. He's top contender to be the first president of the controversial World Trade Organization. Salinas sees plenty of trade-related tension ahead as more nations vie for customers. That tension could be politically destabilizing. The way out, he believes, is for countries to lower trade barriers and submit disputes to the WTO: "It's the only antidote to the resurgence of protectionism."

Li Cheuk-yan

Chief Executive Hongkong Confederation of Trade Unions

ORGANIZING ASIAN LABOR

My daughter Justina will be 6 in 1997," says Li Cheuk-yan, referring to the date China will take over Hong Kong. "If her parents wind up spending time in prison, that's just going to have to be her price for growing up." It's not a far-fetched possibility, since labor leader Li, 37, has had one run-in with Chinese authorities that resulted in a three-day jail stay. Four years ago, he founded the 115,000-member Hongkong Confederation of Trade Unions. The CTU has already taken on the Chinese government, which fiercely represses independent unions. Li has also mounted protests at the Hong Kong offices of companies whose shoddy factories in South China have burned down or collapsed, killing workers. So he does not expect the CTU to have an easy time of it after 1997. Yet he vows to keep organizing—and linking up with other Asian activists by fax, phone, and the Internet. "If China remains undemocratic into the 21st century," says Li, "most of the workers in Asia will remain unorganized and unprotected." But eventually, he is certain, democratic change will come.

PHOTOGRAPH BY GREG GIRARD/CONTACT

Nathan Myhrvold

Senior Vice-President
Advanced Technology
Microsoft

Nathan Myhrvold loves to talk recipes—for delectable dishes and for info revolutions. The garrulous 35-year-old is a first-rate chef who would eagerly attend cooking school in France if he could get away from his job as a top guru at Microsoft Corp. But he's also boiling with excitement over the new age of computing, which he thinks is just beginning. In the next decade, he foresees systems powerful enough to inaugurate the most dramatic change in worldwide education, culture, and commerce since the advent of mass communication. Predicts Myhrvold: "This is going to be at least as big as Gutenberg." Soon, he says, digital networks will let people buy anything, meet anyone, and conduct any business over a virtual marketplace. Digitized money will transform regional banking into a global exchange. Third World countries will enter markets they could never have dreamed of before. Myhrvold even believes the Infobahn will breed its own Sam Walton. "Today, 0% of cars are sold through the Info Highway. But people will figure out how to do it."

Paul Romer

Economist
University of California
at Berkeley

KNOWLEDGE AS A KEY TO GROWTH

Why do some economies grow and others stagnate? Until recently, conventional economics paid little attention to the sources of long-term growth. Now, a group of mostly young economists is eagerly pursuing this basic question in economics. Paul Romer, the most influential of these academics, believes technological change and innovation—in short, knowledge—are as important as capital and labor to economic success. "It might be that ideas are the heart of the developing process," he says. Romer, 38, feels the international flow of ideas can reduce Third World poverty. As developing nations open up to the outside world, they learn the best manufacturing practices, tap into the latest industrial research, and adopt creative financing techniques. Conversely, the industrial world can learn from economic experiments in emerging markets. For example, Chile has privatized its social-security system. Industrial nations, with their government-run retirement programs threatened by aging populations, could profitably apply Chile's knowledge to their own problems.

PHOTOGRAPH BY WILLIAM MERCER McLEOD

THE NEW GLOBAL WORKFORCE

The West will ha
less and less of
lock on the jobs
once thought o
it could do

2 SKILLS EXPLOSION

body who still thinks developing ntries' only competitive edge is ap, unskilled labor has a lot of ching up to do. While they may be a ess expensive, more and more of se workers are highly skilled

122 TEAMS AT WORK

Motorola is importing its Malaysian motivational techniques to the U.S.

126 SHANGHAI WHIZ KIDS

The city's universities are becoming a fertile source of inexpensive engineers

128 RUSSIA'S STRIVERS

A new generation is growing up to be hard-working, educated, and ambitious

130 THE UNIONS' FUTURE

Workers in what were once cheap-labor havens are starting to make demands

THE SKILLS EXPLOSION

HIGH-TECH JOBS ALL OVER THE MAP

As training and experience in less developed countries rapidly improve, the West's workers may be left behind

If any megatrend kindles hopes of producing megajobs for skilled Americans, it is the coming of age of the Information Revolution. U. S. companies are already setting industry standards and pioneering virtually all of the key technologies. Plus, America possesses the wealth of creative talents needed to lead the coming wave of newfangled software, multimedia gadgetry, and ingenious programming. There will be jobs enough, it would seem, for anyone with a decent education.

But trek out to the laboratory of Kenneth Chou in a new business park on the outskirts of Beijing, and you begin to wonder. There, 30 artists, software engineers, and computer programmers at Chou's Bilingual Educational Computing Inc. are busily designing interactive CD-ROM programs, complete with voice and animation, for teaching English. Since 1991, Bilingual has sold 50,000 sets of its First Aid English multimedia lessons, now $55 apiece, to institutes from Japan to Germany.

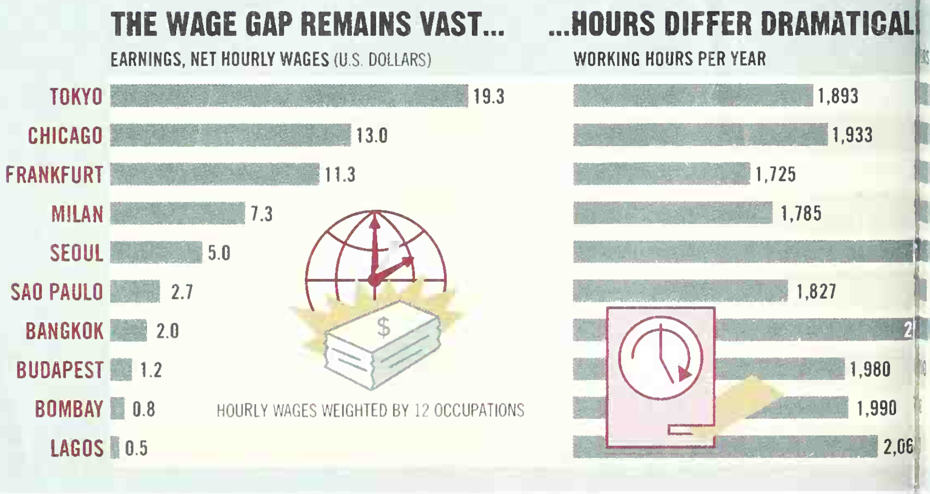
In fact, practically anywhere you go in Asia these days, local workers can be found doing the same highly skilled tasks you would expect to find in Palo Alto, Boston, or Tokyo. At a Silicon Graphics Inc. joint venture in Bangalore, India, software designers earning $300 a month are developing programs to produce three-dimensional images for diagnosing brain disorders. In a sleek industrial park in Singapore, engineers design future generations of personal digital assistants for Hewlett-Packard Co. In Taiwan, Hong Kong, and South China, research and development teams are at work on multimedia gizmos ranging from digital answering machines to interactive computers for children.

NEW WORLD ORDER. The message is that anybody who still thinks the only competitive edge of developing countries is cheap, unskilled labor has a lot of catching up to do. One of the less-heralded developments in the emergence of a global economy is that there is an increasingly better balance of skills in the world. The worldwide shift to market economies, steady improvements in education, and decades of overseas training by multinationals are all producing a global workforce in fields ranging from product development to finance and architecture that is capable of performing tasks once reserved for white-collar workers in the West.

What's more, dizzying advances in telecommunications are making these workers more accessible than ever. As a result, just as Westerners learned in the 1970s and 1980s that manufacturing could be moved virtually anywhere, today it is getting easier to

The World of Work

Workers in emerging nations are doing more sophisticated high-tech jobs—for a lot less than their First World counterparts



DATA: UNION BANK OF SWITZERLAND

[illegible] GIRARD/CONTACT; GRAPHICS BY ALBERTO MENA/BW

The computer inside
INTEL

INTEL'ERS AT PLAY IN PENANG: INTENSIVE TRAINING BY MULTINATIONALS IS TURNING MALAYSIA INTO A PRODUCT-DEVELOPMENT HUB

shift knowledge-based labor as well.

Conventional notions of comparative advantage are getting blurred in the process. In electronics, cities such as Taipei, Edinburgh, Singapore, and Penang (Malaysia), which are far away from the end-user and technological breakthroughs, already have emerged as global product-development hubs.

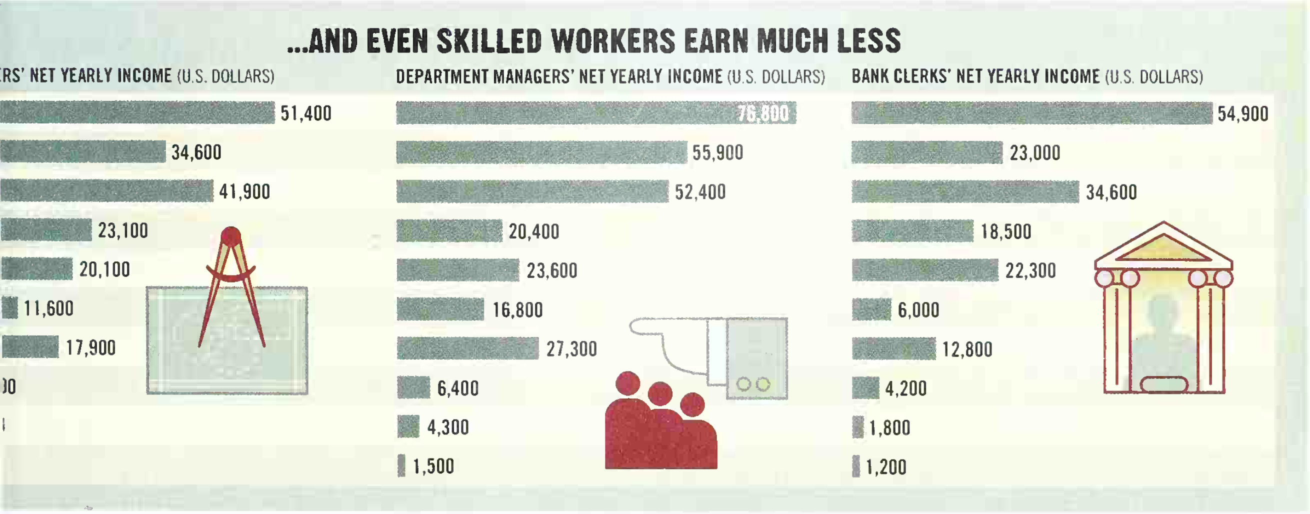
Service providers, too, can now spread across the globe. Citibank taps local skills in India, Hong Kong, Australia, and Singapore to manage data and develop products for its global financial services. Houston-based M. W. Kellogg Co. farms out detailed architectural-engineering work for power and chemical plants it builds around the world to a partner in Mexico. And everyone from law firms to U. S. nonprofit groups cuts costs in managing and analyzing documents by hiring "outsourcers" such as International Data Solutions Inc. in Herndon, Va., which employs thousands of workers in the Philippines.

What makes Third World brainpower so attractive is price (charts). A good computer circuit-board designer in California, for example, can pull down $60,000 to $100,000 a year. Taiwan is glutted with equally qualified engineers earning around $25,000. In India or China, you can get top-level talent, probably with a PhD, for less than $10,000.

TEDIOUS TASKS. Where the big savings can come is in the "back end" of product development—the painstaking work of turning a conceptual design into blueprints, computer code, or working models and in testing the final product. Take Bilingual's CD-ROMs. With wages ranging from $75 a month for a Chinese keypunch operator to $400 for a good artist, Bilingual can produce a CD-ROM product for anywhere from a quarter to one-tenth of the cost in the U. S. In a business as tough as CD-ROMs, where the few titles that succeed can have a shelf life of less than a year, keeping costs under control is critical.

It doesn't matter that few of the staff speak English. Bilingual writes the scripts, the most creative part, in Taiwan. The rest of the work, from animation to voice-over recording, is done on the mainland. "When you get down to it," says Chou, "about 80% of the labor in producing software is very tedious."

Since marketing and creativity will always be in hot demand, graduates of Stanford University business school or


...AND EVEN SKILLED WORKERS EARN MUCH LESS

ERS' NET YEARLY INCOME (U.S. DOLLARS)

DEPARTMENT MANAGERS' NET YEARLY INCOME (U.S. DOLLARS)

BANK CLERKS' NET YEARLY INCOME (U.S. DOLLARS)

WRITING SOFTWARE IN BANGALORE: INDIA HAS THE SECOND-LARGEST POOL OF ENGLISH-SPEAKING SCIENCE TALENT

Massachusetts Institute of Technology probably needn't worry. Trouble is, the back end happens to be where millions of Americans are employed. And they're well-paying jobs: software designers, bookkeepers, mechanical engineers, draftsmen, librarians. Most require a bachelor's degree or at least a few years in a polytechnic institute. Yet in theory, at least, none of these jobs can be regarded as secure from foreign competition. "Just as with the move of manufacturing overseas, you're going to see an increasing flux of technical jobs out of the U.S.," predicts Intel Corp. Chief Operating Officer Craig R. Barrett. "We don't have any protected domains anymore."

NEW VIEW. Policymakers have only begun to ponder what all this means for American, European, and even Japanese white-collar workers. Until recently, it seemed the impact would be minimal. Groups such as the National Science Foundation have been warning that as the Digital Age makes industries technology-intensive, there will be an acute shortage of technicians in the West. Skilled workers displaced by outsourcing would simply move on to higher value-added sectors.

But this view is being challenged. In a jarring keynote speech to the annual convention of the Institute of Electrical & Electronics Engineers (IEEE) in September, Edith Holleman, counsel to the House Science, Space & Technology Committee, warned that exciting new high-tech jobs "are not reserved for you in the First World." What's more, she said, high-tech breakthroughs in the U.S. "cannot be counted on to spin off into domestic manufacturing facilities providing employment for many engineers and skilled workers."

Consider what already has happened to the PC motherboard, the circuit card loaded with chips that runs every computer. Five years ago, most motherboards—regarded as the guts of a PC—were produced in-house by U.S. computer makers. Today, some 60% are subcontracted to Taiwanese companies and their army of 150,000 information-technology engineers. And now, the Taiwanese are becoming a major force in customized computer-chip design and local-area networks. Little wonder, it would seem, that unemployment among U.S. electrical engineers hit a record 5.9% this summer, according to the IEEE, and the situation is expected to get worse.

→ "Today, your location doesn't matter," says a Hong Kong micromotor maker, "it's turnaround time"

Still, a host of factors suggests that the outflow of skilled work to cheap Third World havens is only a temporary phenomenon. For one, the wage gap is bound to close eventually, as technicians and engineers in the developing world command more. Also, the Information Superhighway is a two-way street, allowing U.S. and European engineers to compete for work in Asia as well as the reverse. Moreover, experts fear that education systems in Thailand, Malaysia, Indonesia, and Mexico, among others, are not producing enough skilled workers for those nations to guarantee advancement up the industrial ladder.

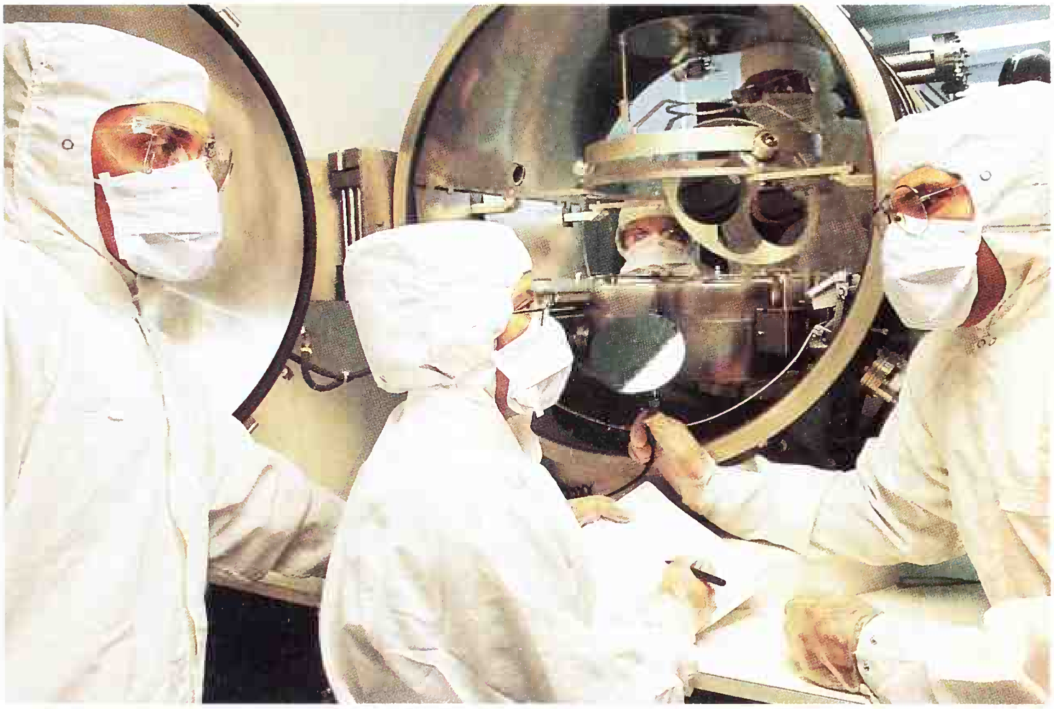
ROBO-TECH. What's more, as factories in the Third World turn to state-of-the-art automation to stay competitive with domestic rivals and meet international quality standards, that automation could threaten Third World job growth. Meanwhile, technological leaps in areas such as text and voice recognition and computer-aided design software that reduce the time-consuming code-writing process will wipe out jobs in service industries.

But for now, the ground is shaking under skilled workers as Western companies take advantage of big wage disparities. Anyone who has witnessed the exceptional performances of Chinese, Indian, and Vietnamese emigrés in U.S. schools and labs knows that developing countries are loaded with talent. The rapid growth of Asia's economies means they can now apply their skills at home.

A wild card in the global skills game is telecommunications. Consider Hong Kong's Johnson Electric Holdings Ltd., a $195 million producer of micromotors that power hair dryers, blenders, and auto features such as door locks, windshield wipers, and automatic windows. With factories in South China and an R&D base in a Hong Kong industrial park, Johnson is thousands of miles away from a leading auto maker.

This hasn't stopped the company from virtually cornering the market for the electric gizmos it makes for Detroit's Big Three. "My customer is right here," says Managing Director Patrick Wang Shui Chung, pointing to a videoconferencing unit in the midst of hundreds of engineers. For two hours each morning, design teams "meet" face-to-face with their customers in the U. S. and Europe. Concepts are transmitted from R&D centers in North America and Europe to Hong Kong, where 200 engineers on a network of workstations develop the motors using CAD/CAM software.

Their specifications are programmed directly into Hong Kong production lines. The process is so streamlined that Johnson can take a concept and deliver a prototype to the U. S. in six weeks. To cut that time even further, the company is investing in more advanced telecommunications to link its 9,000-worker operations in China. "Today, your location doesn't matter," says Wang. "It's turnaround time. I want to be the fastest gun in the world."



LEARNING TO MAKE CHIPS IN NEW JERSEY: EVEN THE BEST-TRAINED U.S. WORKERS FACE STIFF FOREIGN COMPETITION

JOHN S. ABBOTT

KNOWHOW. The pioneers in bringing foreign technicians into the global workforce are multinationals such as Motorola, Hewlett-Packard, and Philips Electronics. Originally, they set up plants in Asia chiefly for cheap labor. But many of these assembly shops have gathered so much knowhow that they now do critical design-and-engineering tasks.

A good example is Motorola Inc. Its paging-device plant in Singapore boasts 75 local engineers and a new $35 million building dubbed the Motorola Innovation Center. There, the Scriptor pager was developed almost entirely by Singaporean industrial designers using Singaporean software.

Hewlett-Packard has gone even further. It encourages each of its manufacturing sites around the world to become the global base for its product. Penang, Malaysia, has become a global center for many components used in HP's microwave products and is taking over responsibility for computer hard-disk drives from Palo Alto. And in Singapore, a plant HP opened in 1970 to assemble keyboards is now the global R&D and production center for its line of portable ink-jet printers. It is also the base for all handheld devices, such as personal digital assistants and calculators.

Intensive training by multinationals is another reason that skills are rising rapidly. A key training locale is the Penang Skills Development Center, a 360-student polytechnic institute funded by 57 foreign companies and the government for local high school and university graduates. Intel donated a $140,000 microprocessor lab. A 20,000-square-foot "team building park" for leadership training and a clean room for vacuum technology came courtesy of Seagate Technology Inc., which has a big hard-disk plant nearby. Motorola Inc. kicked in $320,000 for PC software training and a bachelor-of-science program.

India, China, and Russia are closely watching the successes of Malaysia and Singapore. The potential of all three is staggering given the heavy emphasis their schools place on math and basic science. In these countries, notes Intel's Barrett: "I see a ton of people who are as technically well-educated as people in the U. S."

India has the second-largest pool of English-speaking scientific talent in the world, after the U. S. This includes 100,000 software engineers and technicians and hundreds of companies, many locally owned, that supply software to Western customers. The number of engineers could double by the end of the decade. And a monthly salary of $800 for an engineer with five years' experience is enough to place a worker squarely in India's upper-middle class.

Central Europe also is peppered with brilliant scientists rapidly being discovered and unleashed. The most promising spots as production bases by 2020, according to a study of 404 European locations last year by Cologne-based market researcher Empirica, are Bratislava (in Slovakia), Western Bohemia (in the Czech Republic), Györ-Sopron (Hungary), and Poznan (Poland).

Germany's Robert Bosch has been making engine parts in the Czech Republic since last year. "Czech engineers have the technical competence we require," says Heinz G. Grewe, Bosch's head of management systems for gasoline engines. Despite added startup and training costs, industry analysts

FROM STAR

"The Center for Automotive Technology... gives TRW's automotive customers access to some of the world's most talented aerospace scientists and engineers.

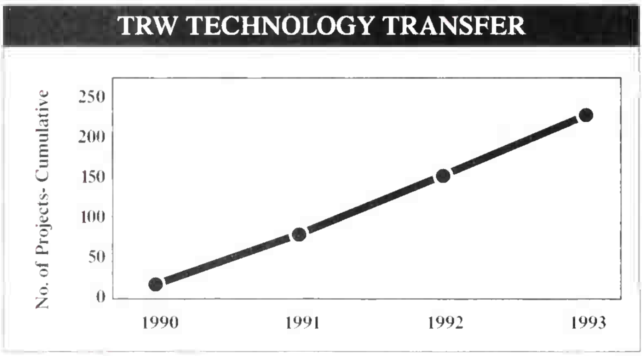
Peter Staudhammer
Vice President
TRW Science and Technology

S TO CARS

For decades companies have talked about
nsferring technology. But after all was said and
ne, more was said than done. Most com-
nies—TRW included—had trouble moving
nnical know-how from one business unit to
ther. Then in 1987, TRW started its Center
Automotive Technology.

The Center is made up of a team of about a
dred aerospace scientists and engineers. Their
sion is to understand the needs of our automo-
customers and meet those needs by advancing
nology in TRW's product lines. This new TRW
ource has resulted in dozens of automotive
ovations in a wide range of disciplines.

Electronics specialists are developing prod-
s as diverse as remote keyless entry systems
radar for side-impact air bags. Chemists are
lying rocket propulsion technology to air bag
ators. Fluid mechanics experts are creating new kinds of shock absorbers and suspension systems. Systems engineers are working out the complexities of building smarter, safer vehicles.



The Center for Automotive Technology matches TRW's aerospace skills and capabilities with the needs of its automotive customers.

The Center for Automotive Technology is opening new opportunities for TRW in a growing market. And it gives TRW's automotive customers access to some of the world's most talented aerospace scientists and engineers.

Automotive. Aerospace. Information. Innovation.

TRW

a TRW Annual Report, write TRW Inc., Dept. B, 1900 Richmond Rd., Cleveland, Ohio 44124-3760.

Inc., 1994 TRW is the name and mark of TRW Inc

say, auto-parts makers can still save 30% by outsourcing to Central Europe. Farther east, in Russia, most multinationals have been slow to exploit the huge pool of technologists who worked in the former Soviet Union's defense industries. But pioneers such as Sun Microsystems Inc. and ABB Asea Brown Boveri (Holdings) Ltd., which already employ thousands of Russians, are bullish, particularly about the hard-driving younger generation that is eager to get rich (page 128).

WELL-STOCKED WATERS. The deepest pool of untapped skills is in China. Dataquest Inc., the research firm, estimates that there are at least 350,000 information-technology engineers in Chinese research institutes, state companies, and universities. The average salary: about $105 a month. And with the Chinese government placing electronics, telecommunications, and software industries high on its list of priorities, colleges across the country are preparing to train hundreds of thousands more (page 126).

Multinationals are fishing in these well-stocked waters. Northern Telecom Ltd. just opened a lab at the 10,500-student Beijing University of Posts & Telecommunications that will soon employ 250 engineers. NT will work with faculty and students on cellular phones, multimedia-transmission devices, and software. In the northern city of Tianjin, Motorola will have 3,000 workers making semiconductors and telecom equipment by yearend. Meanwhile, AT&T, which is just getting started in China, plans to link up the telecom plants it has scattered across the country.

For now, these facilities will focus on the enormous telecom needs of China. But it's only a matter of time before Chinese engineers start playing key R&D roles in products sold globally. "All of our joint ventures can be technical centers in their businesses," says AT&T China Inc. Human Resources Director Albert Siu. "I've never found people more open to learning. They soak up everything."

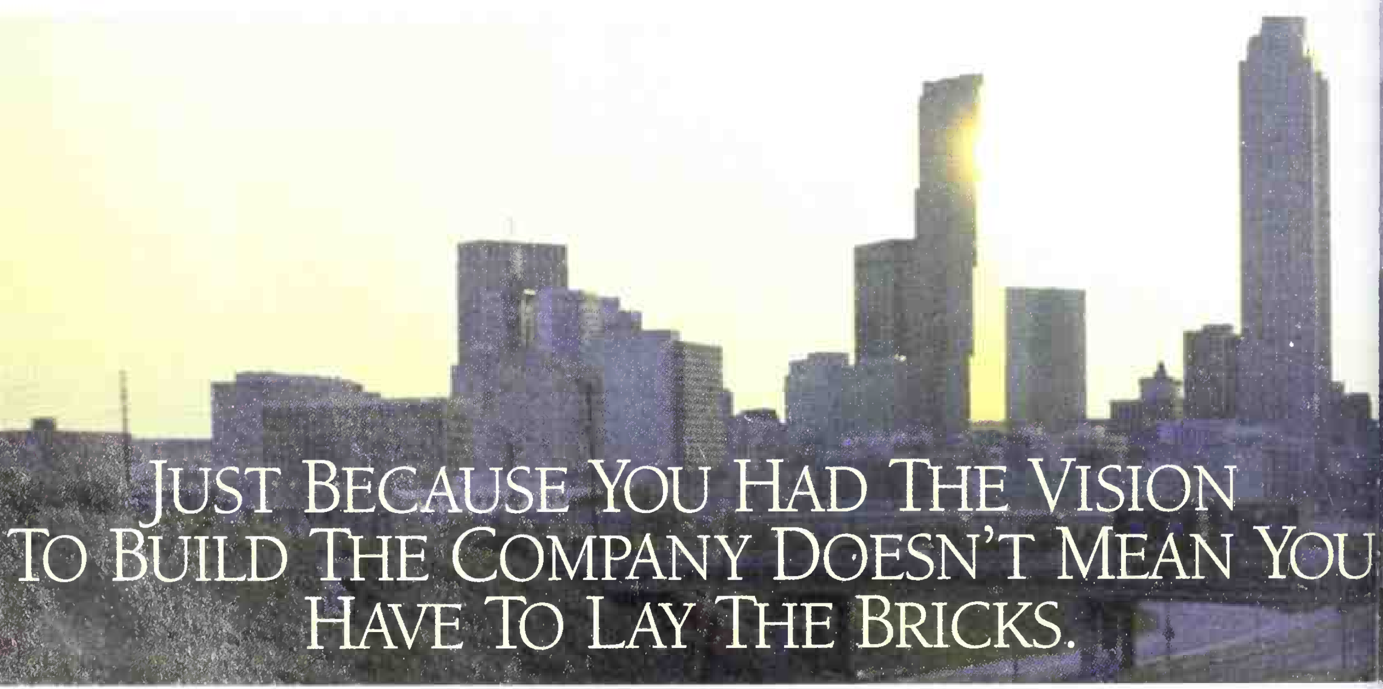
Many of the lessons companies are learning in high tech can also be applied to the West's other big job generator: services. There, the potential of offshore skilled labor is just beginning to be tapped. For more than a decade, companies such as American Airlines Inc. and Citicorp have been loading tons of ticket stubs, credit-card receipts, and insurance forms onto planes headed for places such as the Dominican Republic or the Philippines, home of low-paid keypunch operators.

Many experts think high-end services can also be farmed out to overseas workers. Why not let specially trained Filipino accountants do much of the grunt work in preparing tax returns for multinationals? Or how about outsourcing the legal research for expensive product-liability cases? Using CD-ROM libraries, paralegals in India could churn out the mountain of writs and affidavits for such cases at a deep discount. Anupam P. Puri, managing

Training of Third World Workers Is Improving

PERCENT OF AGE GROUP ENROLLED IN EDUCATION (Weighted Average) ▶	SECONDARY (12–17 YEARS)		TERTIARY (20–24 YEARS)	
	1970	1991	1970	1991
LOW- AND MIDDLE-INCOME ECONOMIES	24	45	6	8
HIGH INCOME	31	52	12	17

DATA: WORLD DEVELOPMENT REPORT, 1991, 1994


JUST BECAUSE YOU HAD THE VISION
TO BUILD THE COMPANY DOESN'T MEAN YOU
HAVE TO LAY THE BRICKS.

And just because you need network solutions doesn't mean you have to build the network. Advantis offers a full spectrum of Network Outsourcing solutions, structured to save you time, money and resources. Selecting the right outsourcing partner is critical, and since networking is our only business, Advantis has the experience to be that partner for you. We already provide a wide range of network solutions, including

bandwidth data and voice applications, and E-mail and EDI messaging services to m
than 13,000 companies and 1.5 million users. And as part of the IBM Global Netw
Advantis can link your company to customers and business partners in 700 locat
covering more than 90 countries. The expertise of 3,000 skilled networking pro
sionals can develop the right voice and data network solution for your company.

director of McKinsey & Co.'s Bombay office, says such task transfers are long overdue. "Most of our multinational clients are still very behind in seeing how they can redistribute service work around the world," he says.

Regulatory hurdles remain, of course. But the technological barriers are falling fast. International Data Solutions, for example, scans case and client files for U. S. law firms and transmits them in digital form via satellite to the Philippines. There, workers organize and index the documents so they can be readily retrieved by a computer network in the U. S. International Data employs two full-timers in Virginia—and up to 3,000 Filipinas. "With the Information Superhighway revolution, this trend is accelerating dramatically," says International Data President Kenneth R. Short. "It really doesn't matter where the work is done as long as quality, price, and service are right."

BROADER VIEW. In the construction industry, Houston's M. R. Kellogg has teamed up with Mexico's Bufete Industrial on contracts to build petrochemical-refining systems worldwide. After developing conceptual drawings on a computer, Kellogg transmits them to Bufete, of which Kellogg owns 21%. The Mexicans turn the drawings into detailed blueprints. The arrangement, says Kellogg Manager Robert Salazar, "makes us competitive all over the world."

While this flexibility sounds great for corporations, it could be traumatic for professionals who are not well-equipped for a global economy. As gaps between experience levels and wages narrow around the world, skilled workers will compete on a more equal footing. To profit from the emerging trends, workers will require broader training than is now provided by most education systems—in both the East and the West.

→ China has at least 350,000 information-technology engineers in schools, state companies, and institutes. Average salary: $105 a month

Rather than focus on one discipline, for example, professional workers will need to understand the economics and technologies that are revolutionizing their industries. In the banking world, "the pure technologist is already dead," says George P. DiNardo, Singapore-based chief technology officer for Citibank's Asian consumer business. "And so is the pure businessperson."

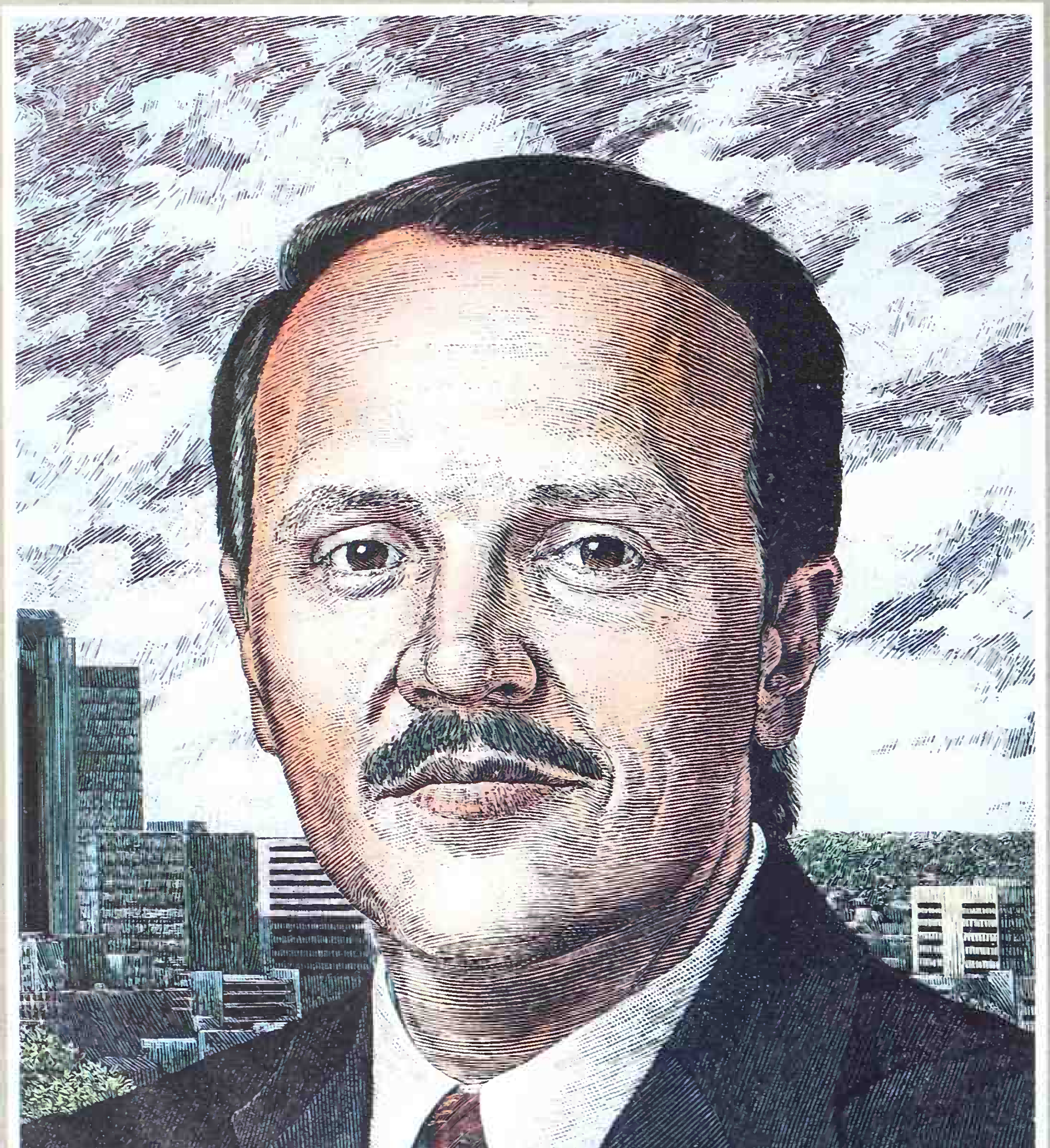
In electronics and telecommunications, engineers discarded by Corporate America are taking advantage of cheaper access to data and video networks by forming their own design houses for Asian manufacturers. In many other fields, professionals may have to similarly redefine their jobs in order to prosper from the globalization of work rather than be at its mercy.

By Pete Engardio in Hong Kong, with Rob Hof in San Francisco, Elisabeth Malkin in Mexico City, Neil Gross in New York, and Karen Lowry Miller in Bonn

advantis™
Atlanta 1996

rate on your own business. And you don't have to pick up a brick. Just pick up
he and ask for your executive brochure outlining how network outsourcing from
s can contribute to your successful business strategy.
s is a joint venture of IBM and Sears, Roebuck
Call us today at 1-800-775-5808 or contact
gh the Internet at INFO@ADVANTIS.COM

Advantis is a trademark of Advantis.



Perception Isn't Reality.

He was a man with a vision. To turn rehabilitation into a business, as well as an art. Richard Scrushy's dream would take sweat. It would require faith. Most of all, it would need venture capital. Fortunately, the venture capitalists he approached liked his idea. The only problem, they agreed, was his desire to base his company in Birmingham, Alabama. In fact, they flat out said No way.

Far from being crestfallen, Scrushy understood their feeling. "They were thinking of a city that had gone though a period of down and out. They didn't realize the Birmingham of the 1980's wasn't the Birmingham they'd grown up watching on the news. I thought, No big deal. I just had to sell them on the facts." The facts were these: Birmingham's 16 hospitals offered a source for thousands of referrals a year. Demand for physical rehabilitation services in Birmingham far exceeded supply. And employers, feeling the pain of rising workers' compensation claims and losses caused by downtime, were clamoring for a system that would return employees to their optimal level of functioning.

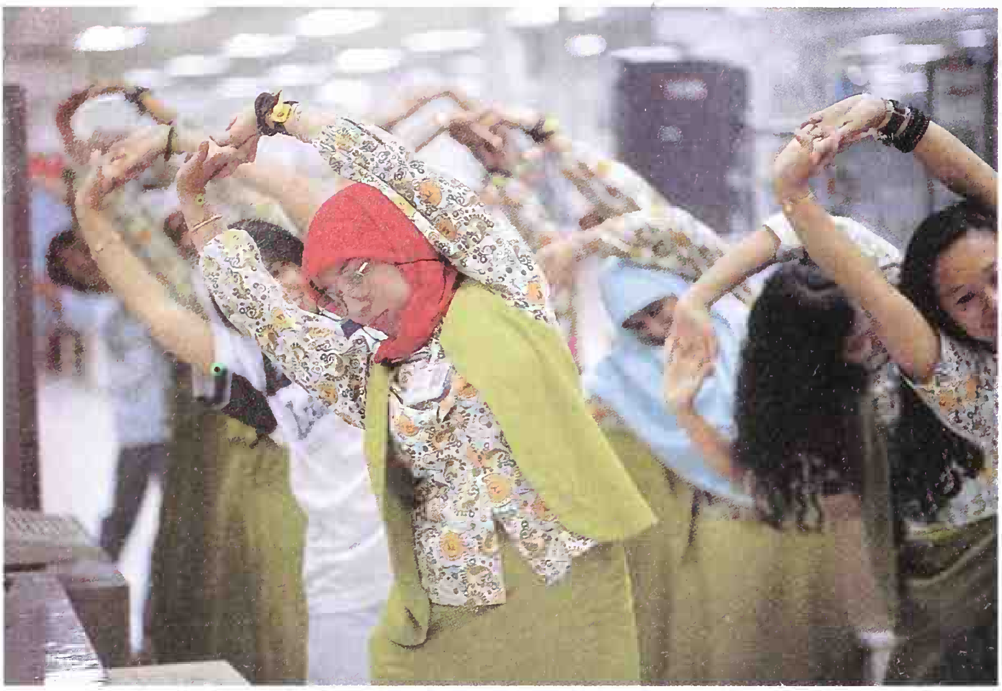
THE USE OF GENETICALLY ENGINEERED ANTIBODIES TO DESTROY CANCER CELLS WAS PIONEERED AT THE UNIVERSITY OF ALABAMA AT BIRMINGHAM.

Today Richard Scrushy is CEO of HealthSouth, which delivered its backers a 5000% return on their original investment. And if his company can help thousands of patients get back to living again and still be Smith Barney's 1994 Stock Pick of the Year - maybe it can help you see the untold opportunities in Alabama. Call us at 1-800-276-3372, and we'll tell you more.

ALABAMA

Where good people accomplish great things.

FOR MORE INFORMATION, CONTACT THE ECONOMIC DEVELOPMENT PARTNERSHIP OF ALABAMA:
2 NORTH JACKSON STREET, MONTGOMERY, ALABAMA 36104; 800-276-3372



GROUP STRETCH: MOTOROLA'S MALAYSIAN WORKERS HAVE "THIS CRAVING FOR LEARNING"

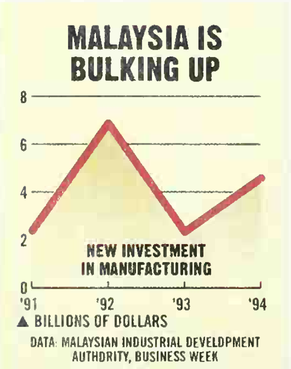
TEAMS AT WORK

IMPORTING ENTHUSIASM

Motorola is adapting motivational techniques that are successful with Malaysian workers to its U.S. plants

Inside Motorola Inc.'s glistening walkie-talkie plant in Penang, the atmosphere resembles a high school sports department. Group shots of exuberant Malaysian production workers, charts with performance statistics, and morale-boosting slogans line the walls. A trophy case is filled with awards hauled back from quality competitions across the U.S. and Asia by teams with names such as "Orient Express" and "Road Runners." The messages are hammered home: We are a family. This is your company.

This is a grand global experiment in plant management by one of the best-run American companies. The methods used to promote worker excellence at the Penang plant are a big part of Motorola's blueprint for developing a well-trained, motivated, and highly productive workforce, especially in emerging markets such as China and Vietnam.



DATA: MALAYSIAN INDUSTRIAL DEVELOPMENT AUTHORITY, BUSINESS WEEK

That is potentially frightening news for American and even Japanese workers, who think they still have a lock on more demanding jobs. But in Motorola's case, the company is trying to allay that fear by improving the productivity and motivation of workers in its U.S. plants as well. And Motorola is using lessons learned in Penang to boost the morale and involvement of workers back home.

In productivity, quality, and innovation, the Penang plant is regarded as one of the best within Motorola's Land Mobile Div. Opened 20 years ago as a cheap assembly shop for pagers, the facility now has an all-Malaysian research and development team of 200 engineers who help develop next-generation two-way radios and cordless phones. The plant's quality-control program, moreover, relies in part on the thousands of recommendations it receives from workers. Last year, employees submitted 41,000 suggestions for improving operations, which resulted in $2 million in savings. "Here," says Managing Director Ko Soek King, "everyone marches in the same direction."

THE USUAL PAP? The Motorola approach means a great deal in a developing country such as Malaysia, where workers are used to being treated by management as disposable robots. To the typical American worker, though, it may sound like more of the usual corporate motivational pap. But the "I Recommend" program, so successful in Malaysia, is also part of Motorola's approach to boost quality in the U.S.

That's especially so at the company's 2,300-worker factory in Plantation, Fla., which makes products similar to those in Penang. The goal, pursued by Motorola worldwide, is to get employees at all levels to forget narrow job titles and work together in teams to identify and act on problems that hinder quality and productivity. The Plantation plant now displays lists of star employees, and managers hand out everything from "golden attitude" pins to cash bonuses for good ideas. New applicants are screened on the basis of their attitude toward "teamwork."

But getting them to match the Malaysians' enthusiasm hasn't been easy. "The whole plant in Penang had this craving for learning," says Jerry Mysliwiec, director of manufacturing in Plantation, who spent three years in Penang in the late 1980s. "People in the U.S. are less trusting and believing." And at first, many of the recommendations that came in weren't very helpful. Recalls Craig Kenyon, another manager in Plantation: "They were things like 'Move the garbage can from point A to point B.'"

Contrast that with such Malaysian workers as Mariana Osman. She's among the 83 members of the "100 Club"—employees who this year have turned in at least 100 cost-saving ideas and had at least 60% of them implemented. Osman's daily job is to rework some 800 cordless-phone handsets that have failed quality checks. This year alone, she has made 150 recommendations for reducing defects or saving money. "I'm one of the family here," says Osman. "I want to do what is best for the company."

SLOW START: EMPLOYEES IN FLORIDA HAVE BEEN WARY OF COMPANY EMPOWERMENT PROGRAMS

MARK M. LAWRENCE

MATH TEST. For workers such as Osman, 21, whose father owns a small cake shop, the job was an opportunity to do something more than routine production work. A high school graduate, she joined Motorola after leaving another factory where she says there was no communication with managers.

"My ambition is to have a better career," says Osman. Her salary of just $185 a month is high by Malaysian standards, and she hopes to be a manager or quality engineer some day.

This mentality of excellence and striving is drummed into workers. New hires must pass mathematics, English, and basic-science exams. They then spend two days in classrooms going over the fundamentals of quality control, including how to apply statistical tools to zero in on problems and how to conduct brainstorming sessions in teams.

Whereas workers in Plantation get 40 hours of classroom training a year, Penang's workers get 48. There's also a program in which each skilled worker serves as an on-the-job mentor to a beginner. Engineers can get free education, leading to a master's degree, and a two-year program trains the best production workers to become full-fledged technicians.

After a slow start, "empowerment" is starting to take hold in Florida, too. When management assigned workers from three of the plant's departments to serve on a quality team 18 months ago, shipping worker Carol Jarvis, a 10-year Motorola veteran, was not impressed. "I viewed it all as a headache," she says. "I didn't even want to come to work."

➔ Malaysian and U.S. workers share a strong reason to stay alert: Fear of losing their jobs

Then, during one Saturday shift, a conveyor belt broke down. Without waiting for a manager, Jarvis asked the production line to bring radios on pallets so they could be packed. Afterward, she found a mechanic and persuaded him to repair the belt. Taking charge like that changed her attitude. "It made me proud of what I did," she explains. A month later, Jarvis' superiors promoted her to group leader.

Material rewards also are helping improve attitudes. When an employee last December shut down a production line because of defective radio parts, workers watched to see what would happen. To their surprise, she was handed a $50 reward and an "attitude" pin. That prize contrasts with kudos offered the Malaysians, who rarely get cash. Even for 100 Club members, the reward usually is simple recognition.

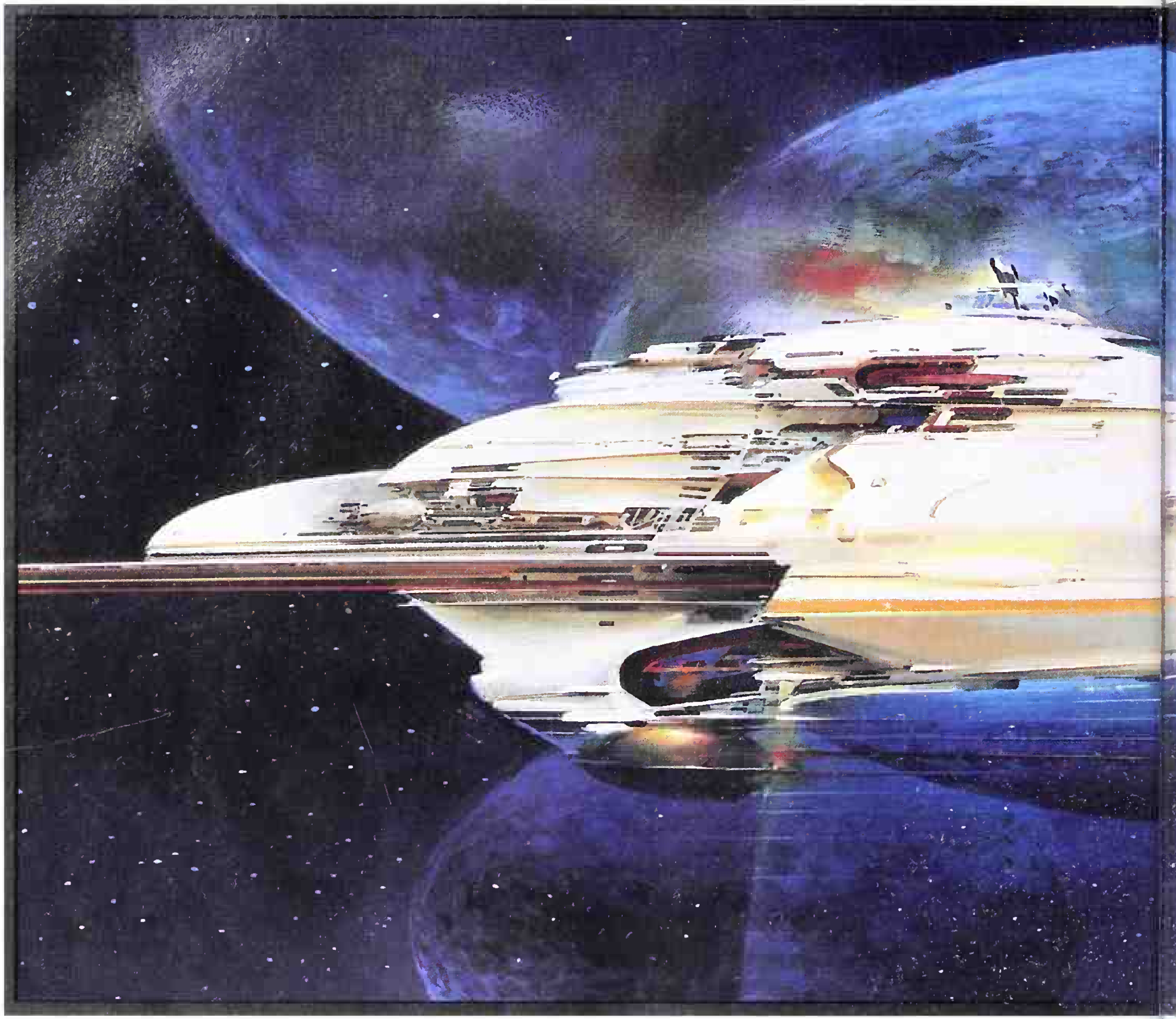
The U.S. and Malaysian workers share one reason to stay on their toes: fear of losing their jobs. Not long ago, a quality team was assembled in Florida to examine a component production line whose workers' morale was at rock bottom. Hourly output was one-third of the counterpart line's in Penang.

The Plantation team boosted output by nearly 150% by, among other things, reducing 18 workstations to 6. Now, a product change and a highly automated line are giving the team a new goal: to find new jobs for the workers no longer needed.

CHEAPER LOCALES. The Malaysians also must stay alert. Just as the Penang plant had its origins as a source of cheap labor, the workers' fear is that Motorola someday could shift work to an even cheaper locale. So managers are trying to increase the plant's share of R&D and looking for ways to boost efficiency even further. Says Managing Director Ko: "I constantly tell them that we will lose out to other places if we aren't cost-competitive."

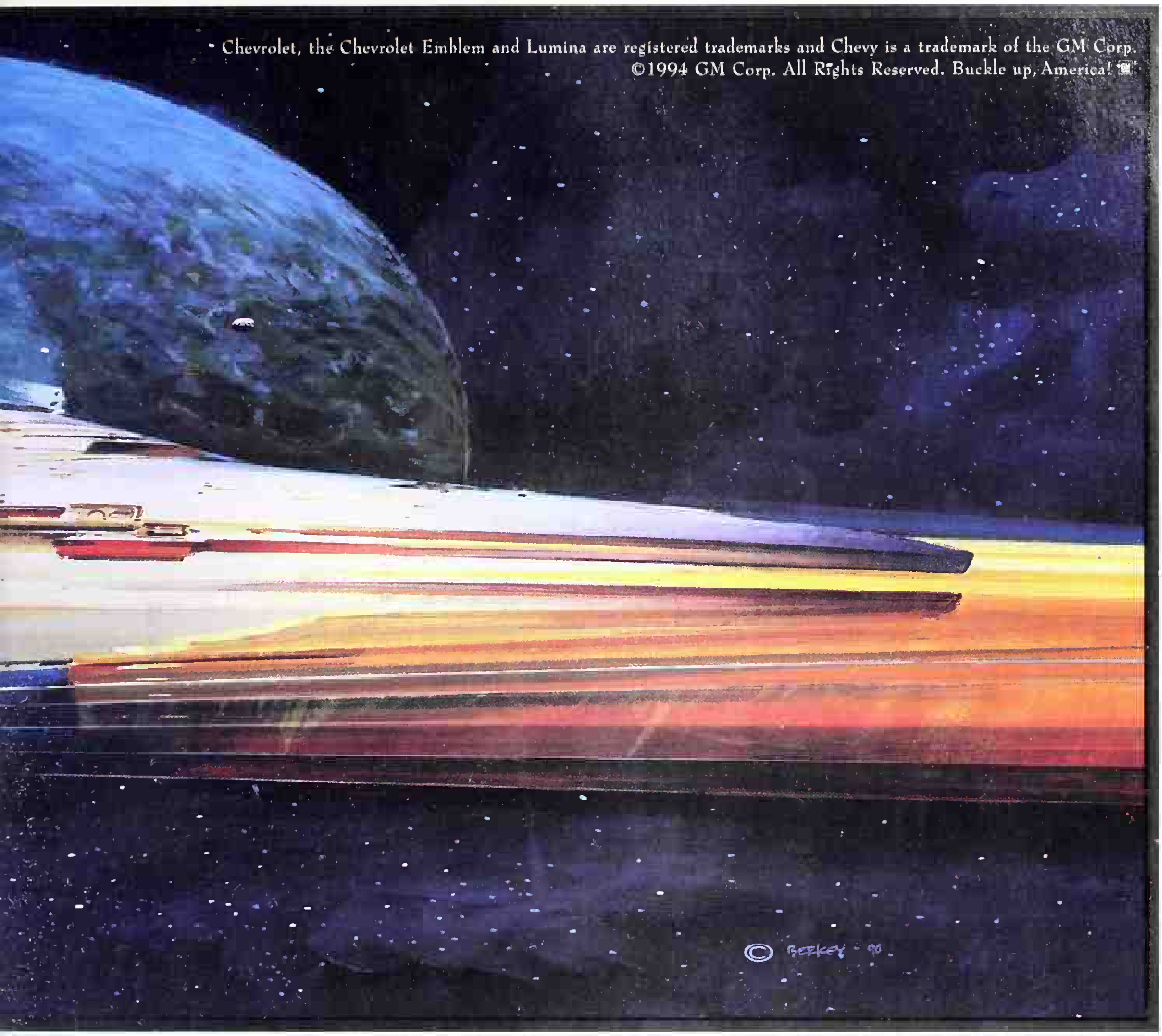
Ko knows firsthand about the coming competition. Her next post is Tianjin, China, where she will be in charge of a new factory. "In China, we are starting with people with a higher level of technical training," she says. "I give them five years before they catch up with us." If that's an accurate prediction, workers in both the U.S. and Malaysia will have even more reason to keep hustling. For both production workers and engineers, staying competitive is the only real job guarantee in the global economy.

By Pete Engardio in Penang and Gail DeGeorge in Plantation, Fla.



How to indulge those ex
notions of what company tra

Maybe they've been watching too many shows about intergalactic travel. But at least yo can provide your executives with the latest in transportation. In an all-new 1995 Lumina, of course. With standard dual air bags, available anti-lock brakes and our exciting inside-ou design, the new Lumina is destined to become the flagship of all Chevy fleet vehicles. Over 2000 consumers like you provided input for its development. And we took your comments so seriously, our engineers spent eighteen months improving the prototype alone. So call



Chevrolet, the Chevrolet Emblem and Lumina are registered trademarks and Chevy is a trademark of the GM Corp. ©1994 GM Corp. All Rights Reserved. Buckle up, America!

tives who have their own
portation should be.

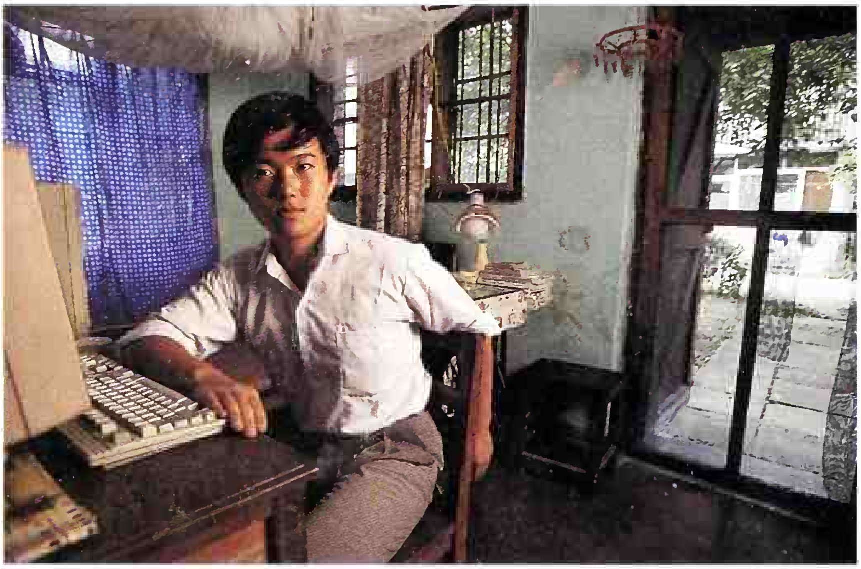
ation's largest Fleet Sales and Service organization at 1-800-FLEET-OPS (353-3807).

ut your executives into a whole new atmosphere. GENUINE CHEVROLET™

SHANGHAI WHIZ KIDS

A HOTHOUSE OF HIGH-TECH TALENT

Multinationals are looking to Shanghai's universities as a fertile source of diligent, inexpensive engineers



BESIDES ACING HIS DEMANDING STUDIES, STUDENT YAN KANGRONG DESIGNS SOFTWARE

GREG GIRARD/CONTACT

The barely lit hallways are scarred with deep holes and peeling paint. Inside the rooms, seven men crowd into 12-square-meter spaces with hard steel bunks, concrete floors, broken windows, and rough-hewn desks. It sounds like a jail, but it's the student dormitory at Shanghai's prestigious Jiaotong University, a hotbed of engineering knowhow.

Despite the spartan conditions, electrical-engineering students such as senior Yan Kangrong, 22, keep up a daunting course load. A math pro, Yan already has breezed through advanced calculus, computer theory, quantum physics, business management, microeconomics, and electronic-circuit design. His spare time is devoted to poring through thick American computer texts and designing software for a local medical-services company on a borrowed PC. "We learn the basics from teachers," explains Yan, who hopes to land a job with a foreign high-tech company when he graduates. "But we need to expand on this knowledge by ourselves."

The plenitude of diligent whiz kids like Yan is one reason many multinationals are raving about Shanghai's potential. Some foreign businesses see only the myriad headaches of infrastructure bottlenecks and a lax attitude toward quality and management. But others see the primordial soup of a 21st century high-tech power. "Shanghai has everything," says Albert Siu, human resources director of AT&T China Inc. "It has a very robust economy, good universities, pro-business policies, and a very big supply of engineers."

OUTSIDE HELP WANTED. City officials have equally high expectations. By the year 2000, Shanghai hopes to have a computer industry with more than $2 billion in annual sales, compared with some $80 million last year. A planned software park is aiming to employ 30,000 engineers. But unlike ill-fated "great leaps" of the communist past, officials know that they need outside help. Planners want to position Shanghai as a major international research and development hub like Taiwan, South Korea, and Singapore. The city's attraction is an immense pool of cheap but talented engineers pouring out of its dozens of universities.

But first, cash-strapped colleges like Jiaotong, which has some 2,000 electronics and computer students, must overcome serious handicaps. Graduates master basic theory quickly, but they are ill prepared for working in a market economy.

Jiaotong is trying to change that. To prepare its students for the multimedia age, for example, the school is moving toward an interdisciplinary approach, one of the first in Asia to do so. It's encouraging students to take courses, even majors, in fields outside of engineering, such as business management.

Another problem is a scarcity of equipment. Research funds from the Chinese Academy of Sciences are "very limited," says Wu Zhiming, a professor in Jiaotong's automatic-controls department. Multinationals could end up helping—and perhaps get a lock on some of the country's best engineering talent. Microsoft Corp. has donated 25 PCs for a software-training facility for Shanghai professionals, and Honeywell Inc. has supplied computer-aided design and manufacturing systems. Matsushita Electric Works Ltd. donated machinery needed for designing robots. The school is currently talking with Intel, Digital Equipment, IBM, and others about financing labs in a new $10 million, 24-story high-tech center scheduled to open in 1996.

Already, such multinationals as General Electric, Philips, Foxboro, and Taiwanese computer maker Inventec have opened major plants in the nearby Caohejing High-Tech Park. Although currently focused only on the Chinese market, most say that over the long term Shanghai will become a global engineering base, on a par with Taiwan and Singapore. It seems as if another profound shift in world labor markets is in the making.

By Pete Engardio in Shanghai

➤ One handicap: Chinese students are ill prepared to work in a market economy

Dan Pollera
Iselin, NJ
Connie Nickerson
Lakeland, FL
Dick Smith
Anchorage, AK
Mark Russell
San Diego, CA

Meet the people who can build you a network across the hall or across the country.

Your company's locations may extend across thousands of miles. But ComputerLand can link them together as easily as if they were in one place. Just ask these ComputerLand owners. They deliver networking, systems maintenance and systems ntegration to the largest corporations in America. And the smallest. And because each of more than 200 ComputerLand locations nationwide is locally owned and operated, you can always expect personalized service from a committed business owner. So if you need a computer network that reaches 4,000 miles — or even four feet — turn to the nation's oldest and most established network of computer resellers. Call 1-800-893-6893 oday to learn more about how ComputerLand can add power and speed to your network. ComputerLand. Where business-o-business means person-to-person.

ComputerLand®

©1994 Merisel FAB, Inc. ComputerLand Corporate Offices: 5964 W. Las Positas Blvd., Pleasanton, CA 94588

THE LESINS: YOUNGER WORKERS ARE THE KEY TO RUSSIA'S FUTURE COMPETITIVENESS

RUSSIA'S STRIVERS

THE YOUNG AND THE AMBITIOUS

Hotly pursued by employers, Russia's under-40 workers are hard-working, educated, and energetic

Timofei Lesin is worried. It's almost midnight, and his wife, Julia, who is four months pregnant, still hasn't returned home from her accounting job at Arthur Andersen Co.'s office in central Moscow. A few minutes later, she arrives. "Sorry I'm so late, honey," apologizes Julia. "We had to meet a crash deadline." She was wrapping up a report for a big foreign client.

That's a far cry from the communist days, when the watchword was "we pretend to work, and they pretend to pay us." Today, Timofei, 25, a commodities trader, and Julia, 23, represent a new breed of Russian worker—hard-working, ambitious, adaptable, and young.

RESILIENT. Russia's under-40 generation is emerging as the key to the country's competitiveness in the next century. These workers are quickly adapting to the marketplace and showing a flexibility and energy unheard of in the days of the Soviet command economy. Well-educated and multilingual, they are fast developing a work ethic aggressive enough to rival that of any American yuppie. Explains Max Asgari, president of ABB Russia Ltd.: "In another five years, the young workers in Russia will have the same attitudes and work habits as those in the West."

But for every Julia and Timofei, there are hundreds of middle-aged and elderly Russians who face the prospect of lifetime unemployment. As Russia begins to close down its inefficient industrial enterprises, many of the older workers, with limited skills or initiative, won't fit into the more demanding private sector.

By the turn of the century, the Russian workforce may be split into two groups based on age: a permanent underclass of unemployed workers over 40 and the more resilient younger generation who will be supporting them. The government's ability to avoid social unrest hinges in part on whether the young workers are able to generate an economic recovery that is healthy enough to provide a safety net for their unemployed parents and older brothers and sisters.

> ➛ A permanent underclass of older, jobless workers may emerge by the year 2000

Class status is also reemerging as a factor in determining which young people get a good education and good jobs. The high-quality, free education under the Soviets is breaking down. Primary school teachers are abandoning the academy in droves because of low pay, and colleges are forced to charge high tuition. Children of factory workers are likely to find it hard to compete with the offspring of the new elite, who can afford to send their kids to private schools and grease their way into jobs.

SCHOOL TIES. Signs of the growing generational split are already emerging. With no age-discrimination laws to stop them, foreign companies and new Russian businesses routinely list age requirements in newspaper ads. And while the median monthly salary for a young marketing manager in Moscow is $1,000, a factory worker, likely to be over 40, earns $100 a month on average.

Many Western companies recruit young Russians while they're still in school. Arthur Andersen approached Julia while she was in her last year at the Russian State Finance Academy and hired her and 19 of her fellow classmates, all of whom were fluent in English. Just as important, the young Russians aren't locked into the old Soviet mentality. "It's easier for a person with less of the wrong skills to learn more of the right skills," says Adam Banker, a manager at Lotus Development Russia. All but 2 of Lotus' 23 Russian employees are under 35.

As the market system takes hold in Russia, workers who cannot adapt will be swept aside. Unemployment is still manageable, officially at 6%. But factories won't be able to delay massive layoffs for a lot longer. The old dictatorship of the Soviet proletariat is giving way to a new system that's based on age, education, and money.

By Patricia Kranz in Moscow

Only from the mind of Minolta... The Watchdog Copier!™

Introducing the CS-Pro Series!
With hidden electronic Watchdogs to unleash CS (Customer Satisfaction). Watchdogs that guard against misfeeding, guard against miscopying and cut malfunctions way back. Plus: Minolta's S.M.A.R.T. System. So clever, it calls the Dealer by itself... to prevent downtime. Press a button, it even orders toner and supplies! In addition, our Automatic 3-hole punch and Booklet Making Mode. All these features and 100% productivity. To give this Watchdog a home, just call **1-800-9-MINOLTA**

CS PRO Series
Duplex

There's a Watchdog copier to fit every size company.

Copiers
Cameras
Faxes
Digital Systems
Document Imaging
Camcorders
Binoculars

Only from the mind of Minolta

MINOLTA

INOLTA CORPORATION

THE FUTURE OF UNIONS

RAISED FISTS IN THE DEVELOPING WORLD

Suddenly, workers in what were cheap-labor havens are demanding more money, improved working conditions, and freer societies

Earlier this year, the struggling state factories in China's industrial northeast came up short on cash. No wages were paid, sometimes for more than three months running. So workers took to the streets, staging wildcat strikes and demonstrations. In South Korea, a 61-day strike last summer by workers at Hyundai Corp.'s Ulsan shipyard threatened to grow into a general strike until the union won a national, pace-setting 11.3% pay raise. Restive workers in Indonesia held hundreds of strikes earlier this year and by August won a 50% hike in the minimum wage plus tougher enforcement of the minimum-wage law.

TEENAGE TOYMAKERS IN CHINA: THE GOVERNMENT HAS DOWNPLAYED PLANT SAFETY

GREG GIRARD/CONTACT

Across Asia and in developing nations around the world, workers and overseers in government and corporations seem to be entering a new era of tension. As the former cheap-labor havens attract more investment and transform themselves into flourishing economies, traditional, often feudal, labor relations are crumbling. The developing world's workers want more money, better working conditions, and more open societies.

OUTFLANKED? These demands set the stage for years of conflict with a new generation of political and financial elites who often see workers' rights as little more than an impediment to national progress. Standing behind those elites are multinational corporations that threaten to shift investments if labor movements get too strong or too demanding. At an international symposium earlier this year, Frank P. Doyle, executive vice-president of General Electric Co., warned that "the new agenda will have to recognize the fact that workers' rights that don't promote employment growth and economic development are not in the best long-term interests of workers."

The message couldn't be made more clear to union leaders such as Ma Weipin, regional secretary for the Asia-Pacific region of the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco, & Allied Workers Assn. "In the 21st century, the capitalists are envisioning a union-free world, imagining that they will have outflanked the workers," explains Ma. "The challenge of organizing is great."

Growing worker awareness also poses a threat to authoritarian regimes at the helm in many developing nations. Labor and democracy movements often are indistinguishable. In China, since the 1989 Tiananmen Square massacre, many young student leaders have shifted their focus from democracy to workers' rights. Wei Jingsheng, the founder of China's modern democracy movement who is now being held in secret, is a worker, not a student or intellectual.

Students and workers have been largely united, too, in the decades-long push for democracy in South Korea, as well as in Thailand and to some extent in Indonesia. One consequence could be even more crackdowns. "Political leaders in Asia try to weaken unions," says Takashi Izumi, general secretary for the Asian region of the International Confederation of Free Trade Unions, based in Singapore. "But if the workers of a country aren't partners in nation-building, the economy won't grow."

HOT SPOT. Because of its sheer size and dynamism, China will be the emerging world's chief battleground. Handling restive workers is a growing problem for Beijing's ruling elite. With the opening of the Chinese economy, workers have been jolted by repeated shocks. Inflation is rising rapidly, and Chinese workers are now facing massive unemployment. Nearly half of all state businesses, employers of some 110 million Chinese workers, are technically insolvent. Fearing a blowup, China's leaders are reluctant to take the next logical step of shutting down the money-hemorrhaging state companies. But with the country increasingly tied to the global economy, layoffs can't be postponed forever.

DŮL FRANTIŠEK a.s.OKD
HORNÍ SUCHA
VÝROB E KVALITNÍHO
HC ATELNÉHO UHLÍ

DEMONSTRATION OF CZECH COAL MINERS: UNIONS IN THAT COUNTRY PREFER TO NEGOTIATE FIRST, THEN STRIKE IF NECESSARY

China's new private sector is an- ther hot spot. To draw in foreign in- estment and stoke growth, the gov- rnment has virtually ignored safety at he thousands of new factories in the oastal provinces. In recent months, a eries of factory disasters from fires o collapsing buildings have killed cores of workers. Last year was also record year for mine fatalities.

Beijing's response has been to man- late unionization of all foreign ven- ures by the government-controlled All-China Federation of Trade Unions. Mostly, the rule is for show. Says one Hong Kong manager of a Guangdong oint venture: "That's just another rubber-band' regulation: They stretch it tight when people are looking and then just let it go slack again."

To keep the lid on, meanwhile, the government is cracking down on labor activists and supporters. Says exiled labor activist Han Dongfang: "An explosion could turn into a mass urban labor uprising that could spread across the country in a matter of months."

Optimists say China's workers will eventually follow South Korea's labor model. Repressed there, too, by a series of military dictatorships, the labor movement fought alongside students and other sectors of society for democracy. The battles were bloody, dividing the nation in the early 1980s. In the end, Koreans won both democracy and a strong, legal trade-union movement. In the rest of Asia outside Japan, however, workers' rights are still honored mostly in the breach, and labor movements are still struggling for a foothold.

In the world's other big growth zone, Latin America, strains are appearing, too. Rapid industrialization and privatization are leading to new worker demands for both higher wages and more of a say in industrial policy. The North American Free Trade Agreement and other trading blocs are making jobs more vulnerable and increasing income disparities inside Latin America, even as they boost gross domestic product.

But in Brazil, workers and employ-

Where Labor Strife Will Be Heating Up

CHINA	**RUSSIA**	**VIETNAM**	**INDONESIA**	**SOUTH AFRICA**
Massive privatization is shaking up the workforce. To date, Chinese workers have no legal rights to organize or even to demand safer conditions.	As privatized companies start to take off, workers will start demanding some payoff for the hard times during the transition from communism to capitalism.	Just this year, Hanoi passed a new law granting workers the right to strike—an admission that high levels of foreign investment had led to a new labor situation.	Recent riots, in part precipitated by strikes, have shown that government control of unions is slipping. Privatizations will also loosen traditional ties.	The unions' conciliatory mood as they help with national reconstruction could wear thin, and a tradition of militancy could come to the fore.

SPECTRUM PICTURES

GRAPHIC BY LISA KNOUSE BRAIMAN/BW

Target High-Tech Stars For High-Growth Sales

25% of America's emerging high-tech manufacturers are growing 40% annually. Expanding employment. Increasing office space. And buying everything from consulting and equipment to insurance and training. These rising stars are prime sales prospects. Do you know who they are? Let CorpTech tell you...

FREE!

Call for your copy of the *Technology Industry Growth Forecaster* newsletter

CORPTECH®
Technology Company Information

Corporate Technology Information Services, Inc.
12 Alfred Street, Suite 200 • Woburn, MA 01801-1915
1-800-333-8036

"YOUR FREE CATALOG KNOCKED MY SOCKS OFF"

We get that sort of comment all the time. People are impressed that our free Consumer Information Catalog lists so many free and low-cost government booklets. There are more than 200 in all, containing a wealth of valuable information.

Our free Catalog will very likely impress you, too. But first you have to get it. Just send your name and address to:

Consumer Information Center
Department KO
Pueblo,
Colorado
81009

A public service of this publication and the Consumer Information Center of the U. S. General Services Administration

ers in the auto sector have forged a new industrial pact. Three years ago, the Brazilian economy was in recession. At the same time, unionists realized that the lifting of a decades-old ban on auto imports and gradual reduction in auto tariffs would cripple the local industry.

So unions, companies, and the government sat down and hammered out an innovative pact: Workers agreed to delay salary negotiations, manufacturers agreed to boost production and lower prices, and the government eliminated several major taxes to make sticker prices more affordable. The result has been a boom in auto sales, which have jumped from 750,000 to more than 1 million a year in just two years. Says Vicente Paulo da Silva, head of the Central Unica dos Trabalhadores, Brazil's largest labor confederation: "We still know how to stage a strike, but we also know how to negotiate, and we have assumed co-responsibility for the country's growth."

➔ Growing worker awareness also poses a threat to political elites: In many cases, labor and democracy movements are indistinguishable

NATION TIME. While Mexico's labor relations seem smooth on the surface, some changes could be brewing. Unions have been dominated by the ruling Revolutionary Institutional Party and until now have been a willing partner in a national pact to hold down wages in the name of inflation fighting. But NAFTA has threatened this cozy relationship and has set the stage for an unprecedented level of cooperation between labor groups across national borders.

Once bitter opponents of NAFTA for fear that jobs would flee to Mexico's low-wage workers, U.S. unions are now employing the treaty to help organize in that country. If Mexican wages begin to rise, companies won't be "so apt to move their plants down there," figures Bob Olson, a United Automobile Workers official in St. Paul, Minn. Members of his Local 879, who work at a Ford Motor Co. Ranger pickup plant, have sent money to workers at the Ford plant in Cuatitlan, just north of Mexico City, who have been battling the company over layoffs and work rules.

Formerly ruled by self-proclaimed workers' states, Eastern Europeans now find themselves in the delicate position of trying to balance their own needs with those of their fragile economies. Solidarity, the Polish union federation, sees itself as part union, part nation-builder. Explains Maciej Jankowski, chairman of the Warsaw chapter of Solidarity: "Trade unions must be active in economic, social, and legal policy. Our aim is to be a partner." At the same time, he still wants Solidarity to be rooted in trade unionism: Jankowski is intending to train 300 union activists over the next three years.

In the Czech Republic, unions usually prefer to negotiate first, then strike if it becomes necessary. "There are no big strikes," says Kamil Janacek, chief economist of Komercni Banka. For one thing, explains Janacek, the country's major competitive advantage is highly qualified workers whose wages are relatively low.

This fact explains the 20% rise in Czech exports last year. There could be some danger that workers will strain to bring their salaries up to the level of German employees. "But the workers understand the advantage of moderate wage increases instead of big jumps where half is then eaten away by the inflation it causes," Janacek concludes.

None of these developments suggest that workers are in the driver's seat anywhere in the developing or the former communist world. But foreign investors and multinational managers in search of cheap labor and new markets are going to find themselves tussling with employees in emerging economies who have a much keener awareness of their rights. While workers may have little choice but to accept the discipline of the global economy, they are sure to demand better quality in their work lives in return. "If the world keeps democratizing, you'll reach a point where you can't continue that search for cheap labor anymore," says Brazil's da Silva. "In modern industry, we workers will play a bigger role."

By Dave Lindorff in Hong Kong, with Karen Lowry Miller in Warsaw and Geri Smith in São Paulo

BROUGHT TO YOU BY

BusinessWeek

Beyond news. Intelligence.

EXPORT HOTLINE

Only One Information Source Can Deliver the World by Fax... Anytime...Anywhere... Free and Instantly.

BUSINESS WEEK IS BRINGING YOU THE OPPORTUNITY TO ADVERTISE YOUR COMPANY TO THE 1,000 BUSINESS CALLERS WHO USE THE EXPORT HOTLINE DAILY. FOR AN ANNUAL FEE OF ONLY $50, YOU CAN LIST YOUR COMPANY ON THE LARGEST FAX RETRIEVAL SERVICE IN THE COUNTRY,

THE EXPORT HOTLINE.

CALL OUR 800 NUMBER FOR BUSINESS WEEK READERS AND WE'LL FAX YOU A BROCHURE WITH EVERYTHING YOU NEED TO GET STARTED.

1-800-760-1111

IT'S THAT SIMPLE!

A COMMITMENT TO BUSINESS FROM OUR SPONSORS

AT&T • Business Week • Delta Air Lines • KPMG Peat Marwick • The Journal of Commerce
The National Association of Manufacturers • U.S. Council for International Business

In cooperation with the U.S. Department of Commerce. Developed & Managed by International Strategies, Inc.

TROUBLE AHEAD?

Market capitalism has triumphed over communism, and billions of people are hoping finally to escape from grinding poverty. But while visions of better days are at hand, the reality is a long way off

136 THREATS TO PROSPERITY

In this transitional era, growth intensifies hazards such as pollution and overpopulation, global capital markets carry the potential for unprecedented instability, and old ethnic and nationalist hatreds can snuff out the gains of such countries as the former Yugoslavia. It seems wherever you look, there's something that could derail global development

142 POPULATION PRESSURES

India is growing by 19 million people a year, putting a heavy yoke on the country's economic and social progress. By 2020, it will be home to 1.3 billion people. And by mid-century, it's likely to overtake China as the earth's most populous nation

THREATS TO PROSPERITY

LAND MINES ON THE ROAD TO UTOPIA

Less menaced by doomsday than in the cold-war era, the world remains plagued by regional conflicts, environmental destruction, and overpopulation

If Emina, a Bosnian woman in her 40s, tried to look ahead to the 21st century, her view would be bleak. She's from Mostar, a centuries-old town on the Neretva River. It used to have one of Europe's most picturesque village centers. Now, after months of shelling, the damage is worse than in better-known Sarajevo, just 50 miles away. "I had everything, but it's all gone," says Emina, who now lives in a refugee camp in Croatia. "Two houses, a dishwasher, a video, a tractor. All gone." She doesn't mention incomparably greater losses: the deaths of all her menfolk in the fighting.

Of course, communism is dead and buried, and market capitalism is triumphing from Poland to Peru. Hundreds of millions of people are prospering, and billions may finally hope to escape from grinding poverty in a global economic bonanza unparalleled in human history. But Emina and her ruined Mostar are stark reminders of the possible setbacks and detours on the road to this better future.

CONSTANT THREAT. Governments, businesses, and international agencies will have to deal with these new uncertainties. In this transitional era, growth creates such hazards as pollution and overpopulation, global capital markets carry the potential for unprecedented instability, and old ethnic and nationalist hatreds can snuff out the gains of countries such as the former Yugoslavia.

TURKISH TROOPS AND MINORITY KURDS: TODAY, AT LEAST 30 WARS ARE UNDER WAY, FROM ANGOLA TO PERU

Though the world will be more chaotic, it will also be less menaced by doomsday than the era that ended with the fall of the Berlin Wall. The four-decade face-off between the United States and the Soviet Union—the nuclear "balance of terror"—was a frightening chapter in human history. But the division of the world into two blocs, each led by a superpower with its allies and clients, at least brought a stable framework to big power relations. And the Iron and Bamboo curtains restricted the impact freewheeling capitalism could have on undeveloped economies and markets.

Now geopolitical analysts, trying to discern the future's shape, see plenty of possible scenarios that if unchecked could slow the pace of global development and undermine the confidence many countries now have in market capitalism and its benefits. Interdependence—the flow of information, goods, money, and people—is magnifying the disruptive potential of events such as the outbreak of plague in India or the assassinations of Mexican political leaders and the Chiapas uprising. Too many such episodes could send investors retreating and drive governments to such measures as currency controls, trade barriers, and new isolationism.

War or the threat of war will pose a constant threat to global psychology. By one count, there are at least 30 "low-intensity" wars and insurgencies under way, from Angola to Peru and Turkey. Their number will increase, warns Martin van Creveld, a military historian at Israel's Hebrew University who has served as a consultant to the U. S., Canadian, and Swedish armed forces. "Large-scale interstate war is coming to an end," says Creveld. In its place he foresees "relatively smaller-scale conflicts."

Francis Fukuyama, a Rand senior researcher and former State Dept. official who coined the phrase "end of history" to describe the triumph of democratic capitalism over communism, says these wars afflict countries that remain trapped "in history." But many countries in Africa remain mired in economic stagnation and old conflicts. And with the removal of the blanket of Soviet power that dampened tribal, religious, and racial antagonisms, ethnic miniwars have erupted in the ex-Soviet republics of the Caucasus and Central Asia.

Despite such turmoil, Fukuyama argues there is no longer any credible alternative to the free market and democracy as the model for modern societies. All up-and-coming countries—those that will dominate the world—have adopted such a system or are moving toward it, in his view. That, he says, will lead to "a kind of democratic zone of peace."

But the advanced and advancing countries face their own threat from the market forces that bring them wealth. The impact is seen in the huge financial flows surging through the increasingly open global trading system. Today, a Singapore company backed by Taiwanese capital can use Israeli software to manufacture telecommunication devices in China for sale in the U. S. The company can hedge its U. S. dollar earnings for the next three years by simply taking options written on London's foreign exchange market.

LOSS OF CONTROL. Ten or 15 years ago, trade restrictions, currency regulations, political barriers, and the simple lack of electronic trading would have made this web of transactions unthinkable. If communism, as Lenin claimed, was Soviet political power plus electricity, today's global capitalism is free trade plus microprocessors.

Yet the ability of the Singaporean company to scour the world for the best technology, capital, and markets—the openness at the heart of today's free economies—has a potentially dangerous downside. That is the loss of control on the part of institutions that once policed the global marketplace. Everywhere, regulators are being bewildered by hybrid financial instruments from mortgage-backed securities to currency swaps and multibillion-dollar hedge funds. By some estimates, such dimly understood financial derivatives have a nominal value of $20 trillion—more than three times the size of the U. S. economy.

The investors of those funds have not panicked enough yet to overturn the system. Yet the potential shaki-

HOW IT COULD GO WRONG

The prosperity spreading around the globe confers enormous benefits but also increases the likelihood of major dislocations in the developed economies, East Asia, and the old Soviet empire. Capitalism can deal with many of these obstacles, but if they multiply, a major reversal could occur.

PROTECTIONIST BACKLASH

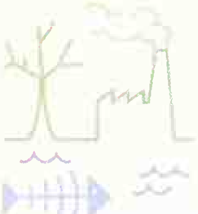
Speculative trading in currency derivatives triggers a bond market crash. A new pessimism brings global investment to a halt. As worldwide recession deepens, U.S. and European governments bend to pressures to shield domestic industries. Import curbs multiply, provoking trade wars that prolong the recession. Massive unemployment forces heavy government intervention in economies, undoing a half-century of free-market liberalization.

CHINA BREAKUP

Chinese provinces gain increasing autonomy as Beijing's authority erodes. Key provinces reject Beijing's tax levies and statist controls, triggering a chain of secessions supported by local army commanders. The political crisis brakes China's economic growth and disrupts agriculture, causing widespread unemployment and food riots. Fighting erupts among provinces, some armed with nuclear weapons. Fearful of spreading conflict, neighboring countries hunker down and capital flees, putting an end to Asia's boom.

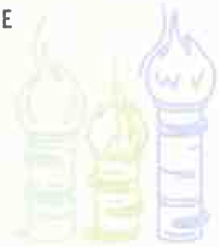
RAY VELLA/BW

TROUBLE AHEAD?



ECO-TENSIONS

Booming economies and rising population cause widespread ecological damage, especially in developing countries. The resource base for economic expansion is eroded by destruction of forests and fisheries, shrinking water supplies, and loss of farmland to urban sprawl. Two possible scenarios ensue: Development grinds to a halt or squabbles over resources escalate military tensions in Asia.

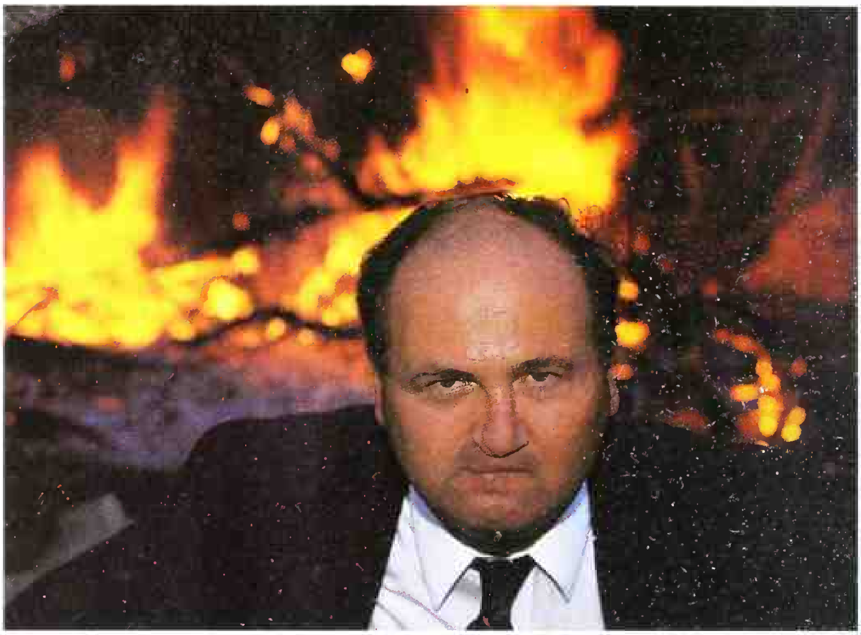


RUSSIAN REVERSE

Russia's new capitalist sector fails to generate enough jobs to offset massive declines in old industries and agriculture. Polarization between poor and newly affluent creates fertile ground for demagogues, who revert to protectionism, frightening off foreign investors. Fanning Russian nationalism, politicians intervene in ex-Soviet republics in Central Asia, the Baltics, and Ukraine. Alarms go off in Europe and China, triggering a new arms race.

NUKES EVERYWHERE

Nuclear warheads spread, fed by black-market sales from the ex-Soviet Union and enhanced by Asian homegrown electronics. Limited nuclear wars erupt in the Middle East and the Asian subcontinent. Pakistan and India collapse after a nuclear exchange. The global economy plunges into recession as the U.S., Europe, and Japan impose draconian controls on trade, travel, and other exchanges to counter threat from mobile "suitcase" weapons.



HISTORIAN VAN CREVELD SAYS THE NUMBER OF "LOW-INTENSITY" WARS IS LIKELY TO INCREASE

ness of the markets is enormous. Just how little sway governments now exercise over globe-girdling money surges was revealed in June, when central bankers of the Group of Seven led a $4 billion coordinated intervention to support the dollar. Foreign exchange markets, which routinely trade $1 trillion a day, hardly noticed.

The message from that episode: Markets driven by short-term forces can override the will of nation-states to stop them. Indeed, in other areas of social life, the nation-state itself, the central institution in the West for 300 years, is in decline. Deregulation of economies and downsizing of armed forces in most countries are diminishing governments' size and authority. Privatization, now a multibillion-a-year global business that frees up resources with sell-offs of everything from power monopolies to telephone companies, lessens state authority. Pensions, traditionally a basic government function, are being handed over rapidly to the private sector.

Such developments, spurring efficiency, are mostly positive. But as governments shrink, their ability to cushion the shocks of global change is also diminishing just when the pace and scale of changes are accelerating. Economic restructuring is causing vast job dislocations, from Chiapas to China, where as many as 100 million former rural workers have left their villages to seek work elsewhere, mostly on the booming east coast. The lowering of trade barriers is also removing protections for industries and workers that are often among the poorest and most vulnerable. And cheaper, faster transport and communications have triggered migrations that are eroding states' control over their borders. The result is rising social tensions and political backlash.

REBUILDING EFFORTS. To cope with this upheaval, some of the traditional functions of the nation-state are being taken over by plodding supranational institutions like the European Union and the U. N. But as civil war in Yugoslavia has shown, the EU and the U. N. are having great difficulty keeping the peace. And without a stable global-security system, the door is open to a variety of thugs, warlords, and maverick dictators, from Serbia's Slobodan Milosevic to Iraq's Saddam Hussein. To thwart Saddam's latest saber-rattling, President Clinton was able to reactivate mechanisms that were put in place by Desert Storm. But the U.S., though it is now the world's only superpower, is ill-equipped politically and militarily to cope with many of these challenges, from Somalia to Serbian warlords.

Part of the problem is setting priorities. The wealthy societies of Europe and America can mobilize resources to combat the effects of disruption. They rebuilt Los Angeles' looted ghetto section, and Germany spent $450 billion to buy out the rundown German Democratic Republic. "It's the countries where you don't have the resources to take care of the

Shades of success.

© 1994 IBM Corp

Color Me Beautiful works with hundreds of colors. IBM helped them enhance one: Green.

Five years ago, at our first meeting with Steve DiAntonio, President of Color Me Beautiful, he told us quite frankly:

"We're in the cosmetics business, not the technology business."

Five years later, with a 40% annual increase in sales and cash flow, Steve and his company are turning others in the industry a soft shade of envious green.

Back when Color Me Beautiful outgrew their computer system, they began interviewing technology vendors.

And no, IBM was *not* the most expensive. In the words of Lee Nelson, CFO, "We shopped around. Not only were they very competitive, but the guys from IBM talked about tailoring a system for our specific situation. Others wanted to take a more off-the-shelf route."

Together with Color Me Beautiful, we developed a business plan that's being followed to this day. It involves managing inventory, electronic order-writing, point-of-sale, plus all distribution and delivery.

"The best part," Lee adds, "is that if I have a question or a problem, I make a single phone call and IBM is there."

No matter what *your* favorite color is, we and our Business Partners can help you stay very much… in the black.

For a free booklet on how technology can help growing businesses, call us at 1 800 IBM-6676, ext. 638.

IBM®

> ➛ “We have been living off [our] natural capital,” says a State Dept. official, “and that’s coming to an end”

inequalities that will be the biggest problems,” says Harvard University’s Richard B. Freeman, an expert on income distribution. That includes the roughly two-fifths of the globe where Marxism-Leninism once held sway. Freeman is worried about social strains in Russia itself, where male life expectancy is falling and gangsters live lavishly while government officials are paid just enough to survive.

The danger of instability in Russia is also a nightmare scenario for strategic planners. If President Boris Yeltsin is unable to keep a firm grip on the reins of power in the sprawling Russian federation, he could also lose control over its stockpile of some 50,000 nuclear warheads.

U.N. TROOPS IN BOSNIA: FUNCTIONS OF THE NATION-STATE ARE BEING ASSUMED BY SUPRANATIONAL INSTITUTIONS

China, too, holds frightening possibilities. If Beijing’s communist leaders can’t hold together the increasingly disunited country, provincial bosses could become latter-day nuclear-armed warlords, or the central government could resort to throwing its political and military weight around. Such a threat could touch off a weapons race in East Asia. Says risk analyst Peter Schwartz, president of Global Business Networks in Emeryville, Calif.: “The greatest growth in arms spending in the world now is in Asia. There’s a relatively high probability of conflict in the region.”

On an increasingly crowded planet, the new surge of capitalist prosperity could also choke on its own success. Deforestation, loss of farmland, pollution of air and water supplies, depletion of fisheries, and proliferating streams of toxic waste are setting off alarm bells about the sustainability of economic growth. “We have been living off an enormous supply of natural capital,” says U.S. Under Secretary of State for Global Affairs Timothy E. Wirth, “and that’s coming to an end all over the world.”

From tiny Haiti to giant China, environmental stresses and depletion are becoming acute. So thick is the smog over Benxi, a city of one million in northeastern China, that the city doesn’t appear on satellite maps. In Tianjin, wells are draining groundwater so fast that the city is sinking 2.5 meters per year. Across China, soil erosion and urban sprawl are shrinking farmland in a country with 14 million new mouths to feed every year.

To boost income and head off discontent, Beijing’s aging hierarchs believe they have only one choice: Go for growth, and worry about the environment later. But with roughly 1.2 billion people living on a limited resource base, swift environmental deterioration could put a sharp brake on growth. If China runs into an environmental wall, the shocks could reverberate around the world.

China’s soaring energy demand, for example could trigger clashes with neighbors over oil in the South China Sea. And in the Middle East, water conflicts are bound to intensify. At the global level, Thomas Selden, an environmental economist at Syracuse University, thinks concentrations of carbon dioxide, a contributor to global warming, and other atmospheric pollutants will keep going up steeply. “We are engaged in an unparalleled experiment with the earth’s atmosphere,” he says.

SALVAGE JOB. At some stage of economic development—around $8,000 of gross domestic product a person, Selden figures—countries tend to feel wealthy enough to start trying to salvage their environments. But China, India, and Southeast Asian countries are nowhere near that point. While Taiwan and South Korea are now spending heavily on ecological repairs, one of the ways they are doing it is by going to other countries and taking resources from them. “It’s a bit like an environmental chain letter—the Madagascars and Ecuadors get left at the bottom,” maintains the U.S.’s Wirth.

The road to global prosperity through freer markets and democracy is probably studded with many such pitfalls, detours, and surprises. But at the least, the evident problems—pollution, overpopulation, poverty—will have to be dealt with soon. Otherwise, these obstacles may expand to such massive proportions they will block off the goal.

By John Rossant in Rome, with John Pearson in New York and bureau reports

Assume this is a business risk worth taking.

First, let's discuss parachutes.

Before business leaps at opportunity, it must be equipped to handle risk.

Which is why many of the top 500 corporations in North America turn to Union Bank of Switzerland as a leading financial resource.

As one of the world's largest banks, and arguably the strongest, we apply our Triple-A rated strength in ways that are impressive.

Our global perspective and breadth of capabilities are impressive, too. Because the UBS network offers the full range of on- and off-balance-sheet solutions to sourcing capital both here and abroad.

For a bank equipped to support your efforts in North America as well as outside of it, depend on Union Bank of Switzerland.

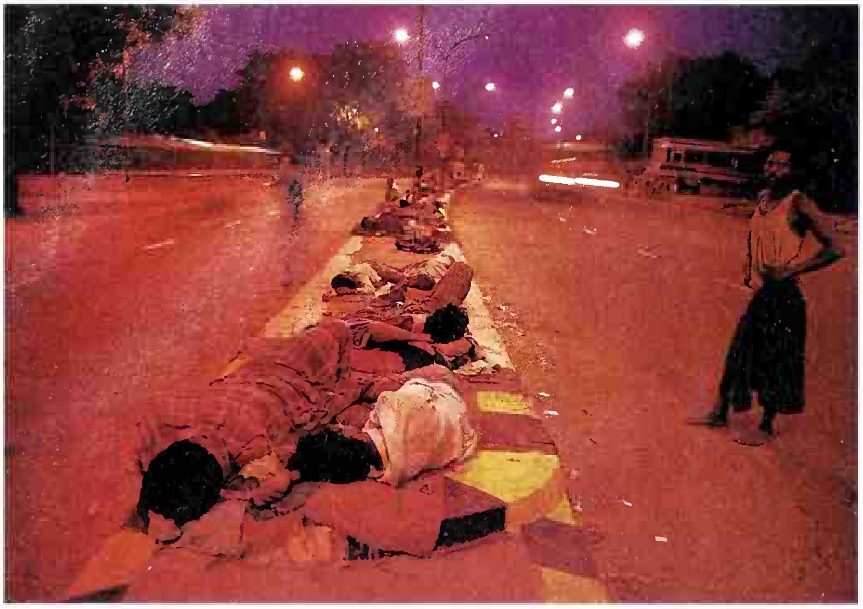
We'll be there to help you land safely on your feet.

As global as business itself.

Union Bank
of Switzerland

In the U.S., UBS operates through various branches and subsidiaries with headquarters at 299 Park Avenue, New York, NY 10171
Other offices in North America: Chicago, Houston, Los Angeles, San Francisco, Toronto, Montreal

TROUBLE AHEAD?



HOMELESS IN NEW DELHI: FAMILY PLANNING IS SLOW IN REACHING THE GRASS ROOTS

POPULATION PRESSURES

SO MANY PEOPLE, SO LITTLE TIME

In India, the addition of 19 million people every year threatens to block economic and social progress

The clock keeps ticking away. It doesn't tell the time: It depicts a time bomb.

Set up at a busy intersection in New Delhi, the digital clock registers India's population growth—2,174 people every hour. That's 19 million more every year in a land already crowded with 920 million people. By the year 2020, India will have around 1.3 billion people. By mid-century, it's likely to overtake China as the earth's most populous nation.

Slowing this population juggernaut will be a major challenge for India's—and the world's—prosperity. Soberingly, India has been trying to tame its growth since 1951, when its population numbered 361 million. It has achieved some gains: The birth rate is down from an average of 5 per woman to 3.5 today.

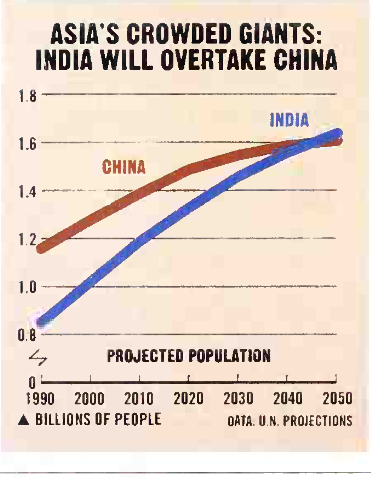
Still, 19 million added people every year put a heavy yoke on India's economic and social progress; the country cannot provide schools, housing, health care, and jobs for so many, so fast. Instead of attending school, many young children work—some in virtual bondage in textile mills. Many will never acquire modern skills. In overcrowded cities, India's poor suffer from malnutrition and disease—even the plague, which recently reappeared. "If the population is too big to share in the benefits of economic growth, there will be an explosion," warns U. V. Rao, who retired recently as managing director of engineering company Larsen & Toubro.

For some analysts, a revitalized, free-market economy holds the answer. Says Ashis Nandy, director of New Delhi's Center for the Study of Developing Societies: "In every Western society, population declines after accelerated economic growth." But Harish Khanna, executive director of New Delhi's Population Foundation, sees a widening social gulf. "India's middle class, about 200 million people, is the motor force of modernization," he explains. "They will benefit, and they have fewer children. But what about the rest?"

What's unusual in India's struggle to get off the demographic treadmill is business' role. Many companies provide family planning for employees. Every day, 60 to 70 women line up in the waiting room of Dr. Anita Soni, a gynecologist at Escorts Medical Center. It is operated by motorcycle maker Escorts Ltd. at its 12,500-worker New Delhi plant. Escorts offers contraceptive services for workers and their families along with monetary incentives for employees who agree to be sterilized. The purpose, says Dr. Soni, is "to help the nation" and also to boost the morale of Escorts' workers. "Smaller families are happy families," Dr. Soni says. A number of companies offer subsidized housing to those workers who limit their family size, and some offer abortions.

OLD-AGE INSURANCE. Such programs are noncontroversial, reflecting broad recognition of the dangers of unchecked population. But critics say government programs emphasizing voluntary sterilization have only a limited effect. By contrast, Kerala, a southern state, seems to confirm that raising women's status, which was a central theme at the recent U. N. population conference in Cairo, is fundamental. In Kerala, where 90% of women are literate and they have traditionally had high status, the average number of children per woman is 1.8—below the replacement level.

ASIA'S CROWDED GIANTS: INDIA WILL OVERTAKE CHINA



▲ BILLIONS OF PEOPLE

DATA: U.N. PROJECTIONS

For most families, though, sons are still a form of old-age insurance. "Women of all classes seem to know about birth control, but those in a lower socioeconomic status are the ones who have the most kids," says Dr. Soni. India's contest between rising expectations and the power of old ways will take decades to decide.

By Sharon Moshavi in New Delhi

PHOTOGRAPH BY DILIP MEHTA/CONTACT. CHART BY ALBERTO MENA/BW

Microsoft Office
Microsoft Word
Schedule+
Powerpnt
Mail
Microsoft Excel
MS-DOS Prompt
TD-4

Conceptual design by Robert P. Humeniuk and Jerry D. Flynn of McDonnell Douglas Space Systems

Out-of-this-world graphics have *landed* on the *Intel* platform.

sonal workstations from Intergraph Computer Systems transport you to a world where high-end graphics software runs alongside your office omation tools – at a cost that won't send your budget into orbit. Until now, the processing power required for high-level CAD/CAM/CAE software ced you to work in two separate worlds: a PC for your office tasks and a workstation for intensive graphics design.

v you can experience warp speed in both worlds. Personal workstations (TD-2 through TD-5) are equipped with single or dual Intel Pentium cessors. In addition, they implement a workstation architecture that boosts Pentium power. So compute-intensive engineering operations – and r Microsoft Windows applications – run at lightning speed. And you can choose either Windows NT or Windows/DOS.

ht years beyond other systems, personal workstations are the first to implement the full thrust of OpenGL for graphics acceleration. So you can rocket ough intensive 3D graphics operations such as rendering, modeling, and animation up to 100 times faster than conventional technology allows.

y pay astronomical prices for workstations or push a PC beyond its limits? Choose the only Intel-based system made for the world of graphics – personal workstation from Intergraph Computer Systems.

ll today: 800-763-0242 or 1-205-730-5441. Or reach us on the Internet at p://www.intergraph.com.

INTERGRAPH
COMPUTER SYSTEMS

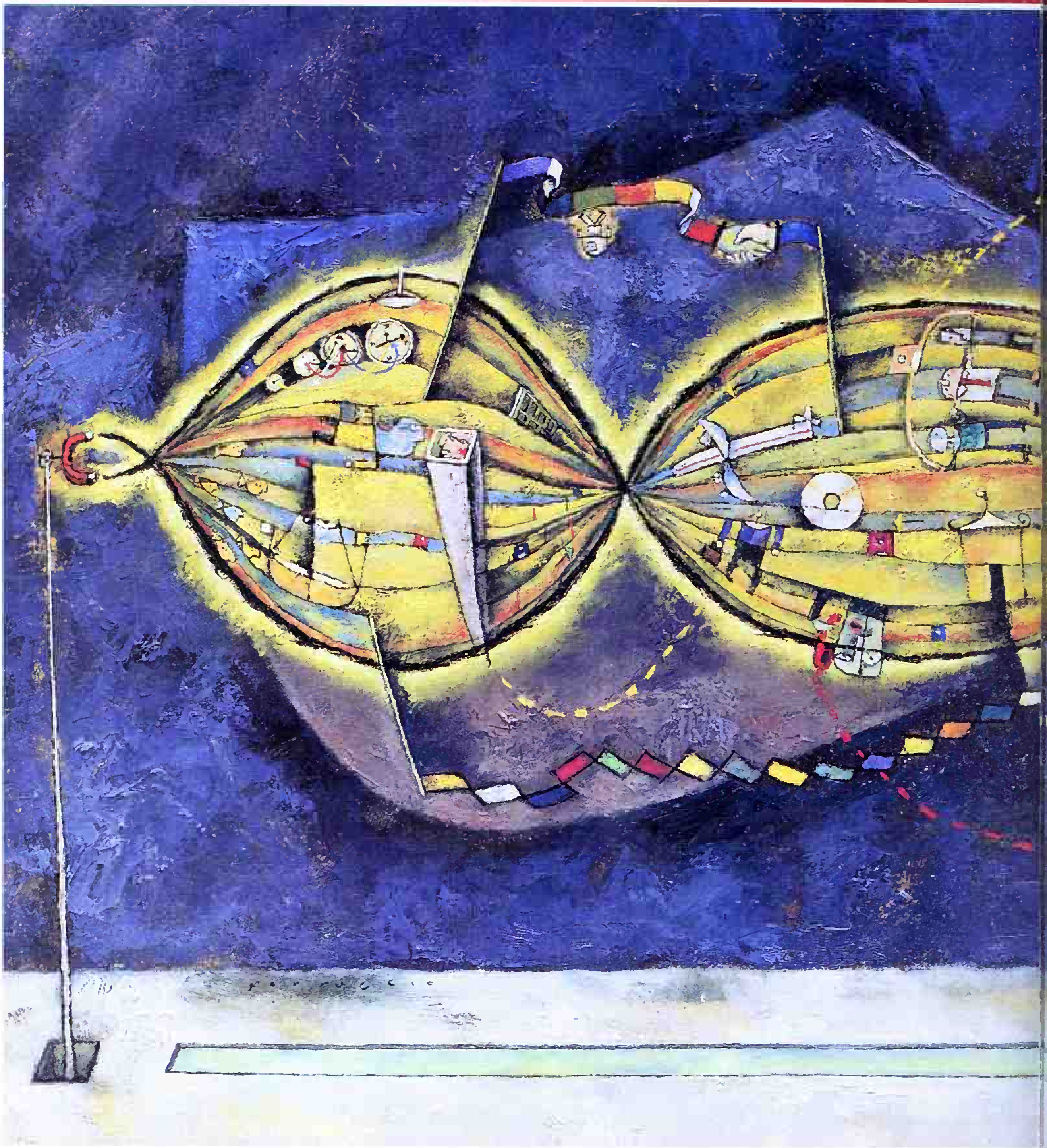
tel inside
ntium

MICROSOFT®
WINDOWS NT™

BEST OF BYTE
Comdex Spring 94
Winner

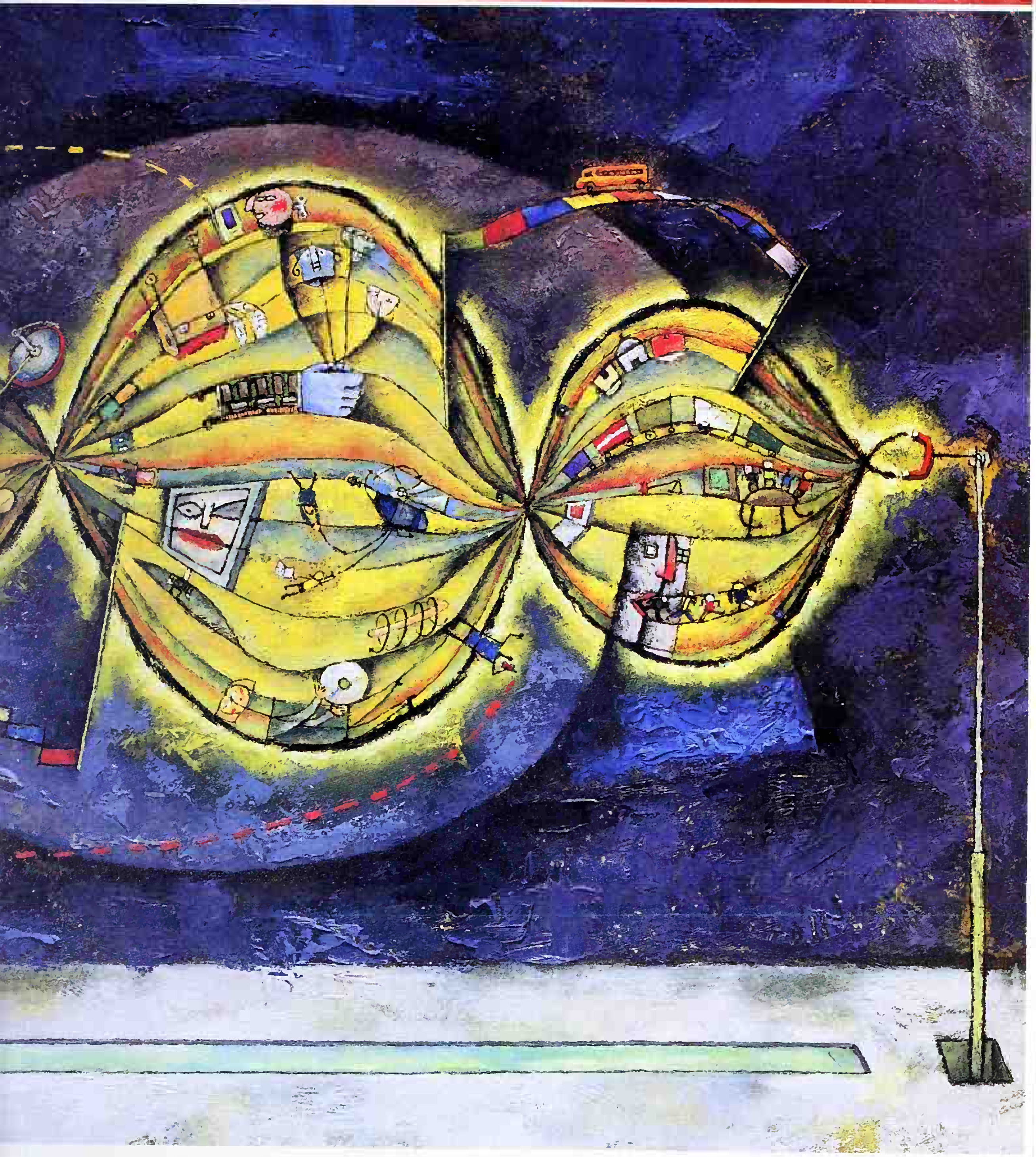
American Megatrends

Intergraph and the Intergraph logo are registered trademarks and TD-2, TD-3, TD-4, and TD-5 are trademarks of Intergraph Corporation. Microsoft is a registered trademark and Windows and the Windows logo are trademarks of Microsoft Corporation. The Intel Inside and Pentium Processor logos are trademarks of Intel Corporation. Other brands and product names are trademarks of their respective owners.
Copyright 1994 Intergraph Corporation, Huntsville, AL 35894-0001. DDAD190B0



TECHNOLOGY & MANUFACTURING

One of history's greatest technologic transformations is a hand. Here's a look what's in store



6 DIGITAL DERBY
nology leadership is up
rabs in the 21st century

6 NOKIA CALLS
small Finnish company
w a cellular powerhouse

158 TAILOR-MADE
Tomorrow's factories will
offer mass customization

160 NEW JOBS?
America's manufacturing
comeback lacks one thing

162 CATCHING UP
Developing countries find
new ways to play leapfrog

164 FREE AGENTS
U.S.-trained foreigners are
bringing their skills home

168 BIOTECH
European drugmakers are
buying American expertise

169 FUTURE CURES
Get ready for remote surgery,
gene repairs, custom drugs…

GRAPHIC BY LISA KNOUSE BRAIMAN/BW

SMALLER, CHEAPER, FASTER

IN THE DIGITAL DERBY, THERE'S NO INSIDE LANE

The innovations are so fast and the production so cheap that no company or country—not even the U.S. or Japan—can count on keeping the lead

In the next 20 years, humankind will witness one of history's greatest technological transformations. At its heart are digital electronics. The trends are inescapable: The circuit density of computer chips—and hence their computing power—is doubling an average of every 18 months. Already, the next generation of $300 video-game machines, due out next year, will put in schoolkids' hands the graphics power of a 1980s-vintage Cray supercomputer. By 2010, the same device will fit in the palm of your hand and deliver photo-perfect images on a razor-thin display. By then, too, the transmission speeds of optical fibers will have jumped a hundredfold, enabling a strand of glass thinner than a human hair to carry a full-length movie in a fraction of a second.

At the same time, the unit cost of this computer power will decline dramatically. That will distribute discount digital knowhow to every corner of the earth, transforming corporations, redistributing wealth, and remodeling institutions. All this is happening at a far faster pace than the spread of technologies during the Industrial Revolution. In the digital age, product cycles are measured in months. Says Columbia University research fellow

SOME TECHNOLOGY HOT SPOTS

U.S.

TODAY The world's hotbed for creation of digital technology, from wireless communications to multimedia. No. 1 in basic science, biotech, microprocessors, and environmental technologies.

FUTURE *Importance of software plays to American strength. Relatively weak public schooling could pinch.*

LATIN AMERICA

TODAY Generally the region has little homegrown technology leadership.

FUTURE *Latin America is absorbing high-tech investment even faster, per capita, than Pacific Rim countries. That bodes well for the long term.*

ISRAEL

TODAY A wealth of mathematical expertise makes Israel a powerhouse in chip design and digital imaging.

FUTURE *Peace could enable Israel to convert world-class military technology to civilian purposes.*

WESTERN EUROPE

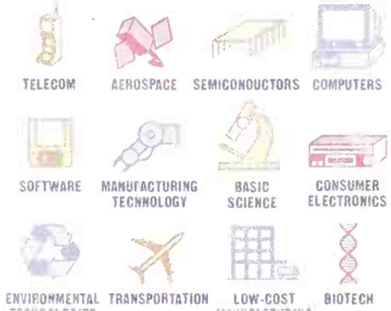
TODAY Excellence in chemicals, pharmaceuticals, aerospace, transportation, and basic science.

FUTURE *Europe must loosen constrictive regulations and speed the transition to the digital era.*

EASTERN EUROPE

TODAY Pockets of skilled scientists and engineers, such as Hungarian mathematicians and Bulgarian computer scientists.

FUTURE *Strong education and a better investment climate should help.*



LISA KNOUSE BRAIMAN/BW

Bruce L. Egan: "Technology has never moved so quickly."

Or caused so much uncertainty. Over the next decade, world technology leadership will be up for grabs. Only a few years back, most pundits were sure that semiconductor manufacturing would migrate inexorably from America to Asia, particularly Japan. Today, the U. S. has more than its share of the newest, most advanced chip plants and rules the high end of the microprocessor market. And while many of Japan's most successful technology policies of decades past are getting clobbered in the 1990s, Silicon Valley still leads the world in digital technology, the key to breakthroughs in everything from multimedia to genetic engineering.

But new global challengers are emerging everywhere. Upstart South Korea has broken Japan's stranglehold on memory chips and consumer electronics. And since mathematics is the foundation of all digital advances, nations well versed in that discipline—including China, India, and the nations of Southeast Asia—could turn their homelands into formidable technology powers.

SMARTER SILICON. The extraordinary pace of change and the ever-denser web of global communications give the upstarts a big boost. Today, a breakthrough in a laboratory at Stanford University or Massachusetts Institute of Technology or a hot new device from Motorola Inc. can be rapidly designed into commodity products. As silicon gets "smarter," even the most dazzling electronic products can be slapped together quickly in almost any location for less money than in the West or Japan. Unlike the infrastructure needed for the steel or petrochemical industries, which can take decades to transplant to a new country, the knowledge and software tools for designing new circuits can be taught in a classroom or downloaded over a telephone line.

Witness Taiwan. With an army of U. S.-trained talent, the country grabbed a huge chunk of the global PC assembly business in just five years. It took the Japanese 40 years to do the same thing in autos and a decade for memory chips.

For national planners and chieftains at technology giants, this is a new world of big risks and baffling choices. Over the next 10 to 15 years, the entire information industry is likely to be restructured, although nobody can say just how. Will the world go wireless or be encased in optic fiber? Will the PC gobble up the functions of telephones, video games, and television, or will phone companies win that race?

To hedge their bets, companies are piecing together broad new technology portfolios. Often they are teaming up in joint ventures to shave the enormous R&D costs of staying ahead. Scaring them into action are the woeful tales of big bets gone wrong. Japan is saddled with unsalable high-definition

RUSSIA

TODAY Strengths in physics, mathematics, and aerospace and metallurgy. But the infrastructure is crumbling.

FUTURE *Challenge will be supporting world-class science and technology with developing-world national income.*

SOUTH KOREA

TODAY Has moved to the front ranks in memory chips and is pushing hard in areas such as consumer electronics and factory automation.

FUTURE *Can government-guided* chaebols *work in a more complex economy?*

JAPAN

TODAY Along with the U.S., one of the giants. Japan continues to lead the world in manufacturing knowhow, miniaturization, low-power lasers, memory chips, and computer displays.

FUTURE *Needs to catch up in computer networking, application software, and systems integration.*

CHINA

TODAY Not yet a world leader in domestically developed technology. China has emerged as a low-cost manufacturing powerhouse.

FUTURE *Will continue to acquire higher-tech production skills.*

SOUTHEAST ASIA

TODAY The region is rapidly moving from low-skill manufacturing to product design: Malaysia in chip packaging, Singapore in software, Hong Kong in consumer electronics, Taiwan in personal computer technology.

FUTURE *Taiwan is taking a stab at aerospace, while Singapore pursues biotechnology.*

INDIA

TODAY Sheltered industries are below world class, but Bangalore has emerged as a leading center for software development.

FUTURE *Government reforms opening the economy could trigger a surge in Indian technology.*

→ High-speed videoconferencing lets specialists in major medical centers diagnose patients overseas

televisions—relics of a multibillion-dollar bet on an analog technology that was eclipsed by digital video. Apple and AT&T can barely give away their "personal digital assistants"—evidence of a misread tech road map. "All the pathways of even thinking about industry will be fundamentally altered," says John Gage, director of Sun Microsystems Inc.'s Science Office in Mountain View, Calif.

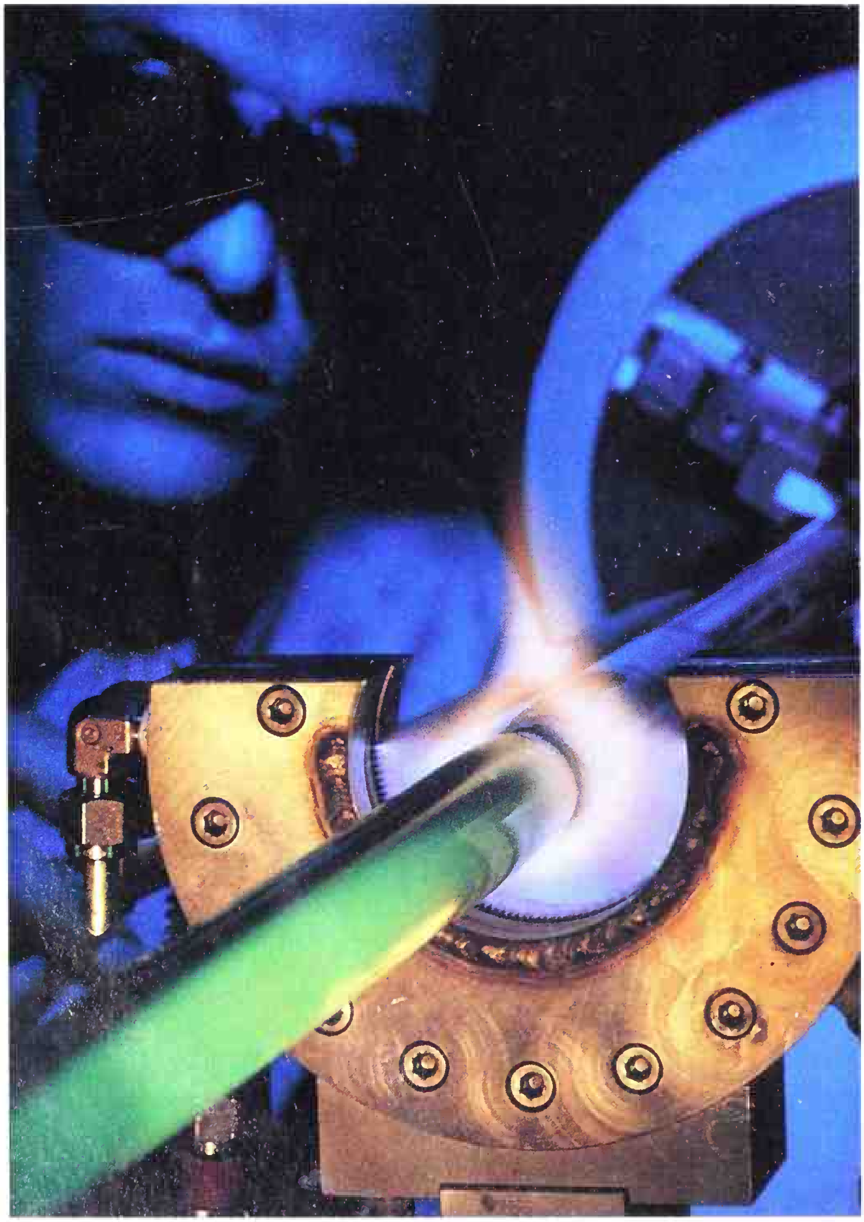
The Information Superhighway will be a crucial agent of such change as hardware and software capabilities catch up with current market hype. Early in the 21st century, says AT&T Bell Laboratories President John S. Mayo, components based on light waves will start to augment slower electronic parts. The result will be seamless networks of data, voice, and moving pictures. In AT&T's vision, videoconferencing with built-in language translation across national borders will be as common as today's word-processing programs and spreadsheets. The technological building blocks for these advances are almost in place. "The chief technology issue now is not 'can we do it?' but 'is it worth doing?' " says Mayo.

While AT&T plans the future, individuals will acquire more digital power of their own. This year, buyers around the world will snap up 44 million personal computers, according to International Data Corp. That includes 3.4 million running on Intel Corp.'s Pentium processors, whose power easily eclipses IBM's early mainframes.

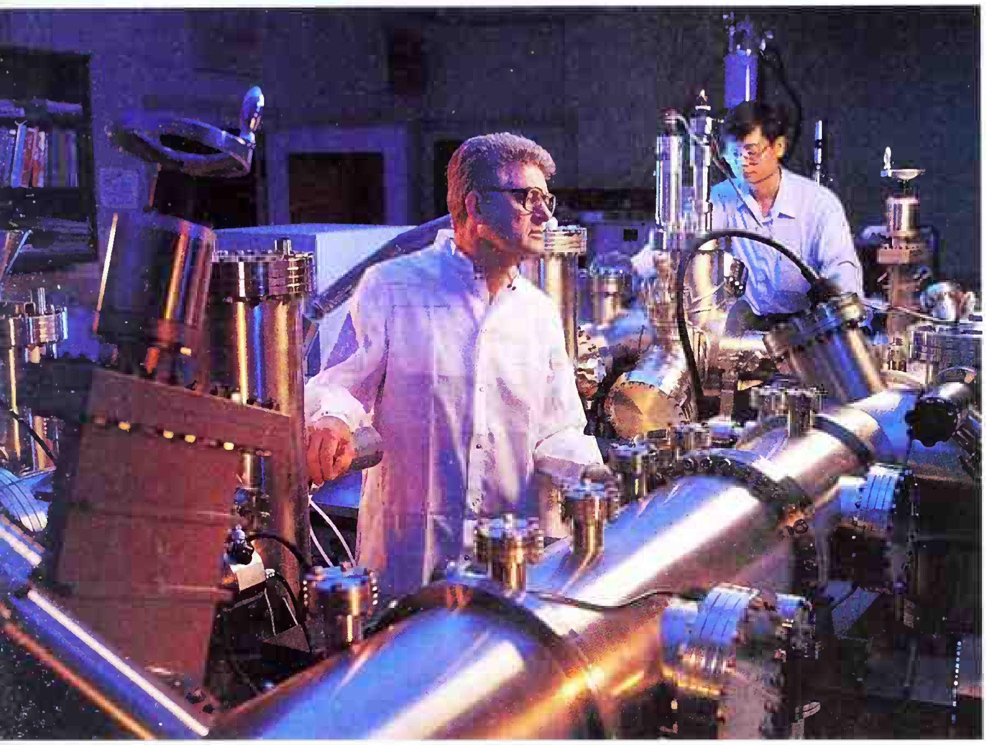
CHANGING SOCIETY. Many will land in schools, hospitals, and government agencies yet untouched by the efficiencies inherent in computer technologies. Using high-speed videoconferencing links, specialists at some large U.S. medical centers, for example, can now diagnose and treat patients at remote locations—from small rural American hospitals to facilities overseas. The U.S. government is also pumping money into digital libraries that will give students around the country unlimited access to resource materials. "The next stage of the information revolution will change not just industry but society itself," says AT&T's Mayo.

Twenty-first century digital horsepower is already at the fingertips of the global tech elite—executives like Sun's Gage, along with a few thousand top scientists and engineers in universities and corporate labs around the world. The computer at Gage's desk sends and receives data, sound, and digitized video at 622 million bits per second—43,000 times faster than what the typical modem plugged into a home computer can do. That speed allows Gage and his cohorts to swap detailed chip designs and run many scientific simulations, practically without a time delay.

Roll such systems out to millions around the globe, and the world economy changes profoundly. Retailers will contact customers on four continents. Shippers will track everything from container ships to parcels with centimeter precision using satellite-based global positioning systems. In publishing and entertainment, readers and viewers will pull news, movies, or documents directly from the "bitstream,"



AT&T'S HOT ROD: FIBER-OPTIC TRANSMISSION SPEEDS WILL JUMP A HUNDREDFOLD IN 15 YEARS



TEXAS INSTRUMENTS IS THE WORLD LEADER IN HIGH-SPEED DIGITAL SIGNAL PROCESSORS FOR MULTIMEDIA

JOSEPH SAVANT

the vast galaxies of digitized video, sound, and data swirling in cyberspace. Even money goes digital, as greenbacks are replaced by electronic certificates with encrypted signatures.

Building the guts of this digital world—the hardware, software, fiber optics, and microprocessors—will realign the computer and information industries. In the world of multimedia and data superhighways, U. S. companies are in a stronger position than ever. Yet looking out over the next decade or so, Asia's new powerhouses will close the gap.

For a clue to how intense this conflict will become, take a look back at the drastic realignment of the world semiconductor and PC businesses over the past decade. From 1975 to 1985, U. S. engineers built dynamic random-access memory chips (DRAMS) into a multibillion dollar market and then ceded it to Japan. The Japanese planned to milk their hard-won monopoly long into the 21st century.

But their engineering skills and deep pockets were no match for South Korea's Samsung Group, which soared from ninth place in memory chips in 1989 to No. 1 in 1993. Recently, Samsung was first out with a working prototype of the 256-megabit chips that will dominate the market by 2000. And market researcher Dataquest Inc. predicts that Samsung will be the world's top chipmaker of all kinds by 2005.

"INTELLECTUAL HUBS." Korea will not be the only Asian country vying for high-technology leadership. Once low-tech manufacturers of casings and keyboards, Taiwan's electronics companies now have two-thirds of the world market for personal computer motherboards—which contain the microprocessor and other chips. That success added mightily to the country's $90 billion in foreign reserves. Now, Taiwan is moving into networks and low-end telecommunications. Last year, a Taiwanese company called D-Link Corp. grabbed nearly 5% of the $1.4 billion U. S. market for so-called "intelligent hubs," the circuit boards that enable PCs to swap information over local area networks. "We didn't even track this company in 1992," says Dataquest analyst Marty Palka in San Jose, Calif.

The new Asian challengers will rely increasingly on commoditization—a process that combines American chip ingenuity and Asian product innovation. An early example was the generation of versatile U. S.-made chips that arrived in the 1970s. They allowed Japan's Casio, Sharp, and others to crank out millions of low-price digital watches and calculators.

In more advanced chips, such as those that control everything from cameras and mobile phones to auto engines, robots, and factory production lines, the U. S. is driving commoditization. These chips perform functions once handled by mechanical switches, motors, and other moving parts. By replacing these mechanical functions with mathematical formulas, called algorithms, embedded on silicon chips, companies such as Motorola, Intel, Texas Instruments, and LSI Logic deliver stunning price reductions. Since the chips can be fabricated in huge volumes, prices drop, both for the chips and the products that use them.

After a two-year, $15 million development project, C-Cube Microsystems, in Milpitas, Calif., unveiled a $25 compression chip that squeezes audio and video information so that a full-length movie will fit onto a single compact disk—a task that once required 10 separate chips. LSI Logic Corp. builds the powerful microprocessor that runs Sony Corp.'s new video-game machine, the Play Station. Now, LSI hopes to shake up the telecom world by bringing all the complex functions of phone switches and network controllers onto one piece of silicon. "By the end of the decade, we'll be looking at 50 million transistors on a chip, and almost any electronic system will fit on it," says LSI CEO Wilfred J. Corrigan.

But there's a risk for the U. S. here, too. Nimble manufacturers overseas can buy these cheaper, more powerful American chips and software and ace U. S. competitors. In 1986, for exam-

➔ Unlike steel or chemicals, circuit design requires no more infrastructure than a workstation and a phone

➔ Japan built an empire on analog technologies—and now finds itself playing catch-up in digital

ple, Japanese auto makers turned to Silicon Valley to help them shorten their production cycles. Santa Clara-based Integrated Systems Inc. began providing automated design tools to Nissan and Honda. Using this software, embedded in tiny control chips, engineers could simulate a car's performance and modify the characteristics of prototypes while they were still on the test track. By not having to build a string of new prototypes, Japan shaved years off its production cycle. "Detroit's attitude changed overnight," says Integrated Systems' Marketing Vice-President Moses Joseph. Today, General Motors Corp. and Ford Motor Co. are two of the company's largest accounts.

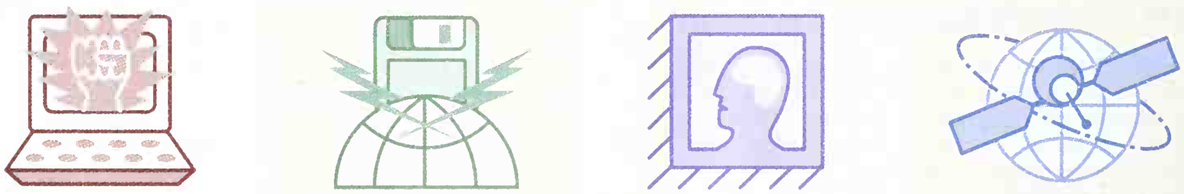
In high-volume electronics manufacturing, the risks can be more harrowing. Chips & Technologies Inc. in San Jose, for example, first created the low-price chipsets used to make motherboards. But the Taiwanese—with their manufacturing and low-wage cost advantage over American companies—quickly figured out a way to make the chipsets and motherboards more cheaply. They soon ran away with low-end PC manufacturing, including manufacture of some of the chips. Taiwan's next target: telecommunications.

But U. S. companies such as C-Cube Microsystems believe they have little alternative except to keep slashing costs and shrinking product cycles if they hope to stay on high tech's front lines. "There's no choice but to run as fast as you possibly can," says C-Cube founder and Executive Vice-President Alexandre Balkanski.

Take a look at how Japan has stumbled. Companies such as Sony, Hitachi, and Toshiba spent 50 years building an empire of analog technology—televisions, VCRs, household ap-

DIGITAL PATHWAYS TO THE 21st CENTURY

Quantum gains in computing and communications open new worlds



	COMPUTING POWER	SMART SOFTWARE	MEMORY	TELECOM
WHERE WE STAND	Powerful processors such as Intel's Pentium, with 3 million transistors, perform 50 million operations per second—more than enough for spreadsheets and E-mail.	Multimedia databases proliferate. Software "agents" start to do our bidding, sorting E-mail messages, venturing out onto networks to retrieve information.	DRAM chips store 64 million bits of information, and CD-ROMs hold half a billion bytes—nearly enough for a full-length movie. Magnetic disk capacity grows 60% a year.	Optic fibers carry 3.4 billion bits per second. Four million undersea phone links connect 51 countries. Cellular-phone circuits are crowded in major cities.
TOWARD 2010	Chips with a quarter-billion transistors cram supercomputer power into a credit card-size device. Computers run on elements of light. 3-D photo-realism arrives in virtual reality games and videoconferencing. Central phone switches shrink onto a sliver of silicon. Computers respond to human voice. Hand-held color videophones are commonplace.	Smart software manages vast computer networks too large and complex to tolerate human control. Production is highly automated. Software suffuses everything from automobile suspensions to urban traffic systems and global information superhighways. Using genetic algorithms, software can adapt and evolve to solve changing problems, without new programming	Transistors on silicon are just a few hundred atoms wide. Chips hold a billion bits, enough for medical ID cards with x-rays and full patient records. CD-ROMs are replaced by small, recordable disks storing a library of text and video. Experimental storage techniques such as holography move into the mainstream, enabling superfast access to digital images.	Transmission speed is measured in trillions of bits per second. A dense, global network of fiber, satellite, and wireless links bestow unlimited bandwidth. More than 90% of traffic on networks is video, not voice communications. Hospitals and universities are transformed by networks swapping real-time medical images and learning materials.

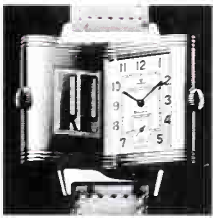
DATA: AT&T, KMI CORP., FORWARD CONCEPTS, IBM

ALBERTO MENA/BW

Reverso.
Avant-garde since 1931.

Choose your identity. Flip up the face of time or protect it under your monogram. For more than 60 years Jaeger-LeCoultre's original Reverso has been evolving – and revolving – with the times. But the essentials have remained the same: superb mechanical watchmaking, noble materials, and the value of quality. Today the Reverso shows its generosity with time in the Grande Taille size and traditional Art Deco casework. Made entirely by the watchmakers of Jaeger-LeCoultre, creators of Switzerland's most authentic timepieces.

Jaeger-LeCoultre
Reverso



Keep your own time under a monogram carved in the steel or gold case of your Reverso watch.

Jaeger-LeCoultre

Jaeger-LeCoultre invites you to the **U.S.** premiere of the exhibition "**Reverso. The Living Legend**", an extraordinary collection of **Reverso** watches dating from **1931** to the present.

The exhibition can be viewed in New York at **Cellini** from 4th to 12th November 1994, in Miami at **Mayor's** in the Falls Mall from 17th to 19th November 1994 and in Dallas at **DeBoulle** from 25th November to 3rd December 1994. For further information about Jaeger-LeCoultre exhibits or for a free copy of our color catalog, please call 1-800-JLC-TIME pliances—that have since proved to be weak engines of profit growth. The companies also acquired superb digital skills, which they parlayed into profitable computer peripherals and audio/video gear. But much of the technology remained locked inside giant corporations, insulated from the software advances that have created America's most successful digital products.

That failure to go digital quickly has left Japanese companies even more vulnerable by creating an opening for a host of Asian competitors. "Analog circuitry is an art that requires years and years of experience," says Lance Wu, deputy general director of Taiwan's governmental Computer & Communications Research Laboratories. "That suited Japan's approach. But in the digital world, where speed to market counts," he says, "Taiwan had the advantage."

Moreover, Taiwan and other Asian challengers have benefited from a key human resource: the ethnic and intellectual bridge to Silicon Valley, sometimes called the Chinese Highway. Thousands of Chinese engineers—many with advanced degrees from U. S. universities—make up the largest ethnic minority in Silicon Valley. But there are many similar digital tribes crossing the global fields of high technology (page 164). Israelis dominate key parts of digital encryption, used in the new American cable- and satellite-TV equipment. Asian Indians run some of America's most prestigious research labs.

These groups are increasingly sought by technology giants for their expertise. A good example is the diaspora of Russian physicists and engineers uprooted by the collapse of the old Soviet research institutions. Last year, Samsung Electronics Co. demonstrated one of the world's first digital videodisk recorders, with far greater capacity than today's audio-CD systems. Samsung's secret weapon was blue-green laser technology licensed from Russian physicists. Sun Microsystems also recruited a group of Russians well grounded in a powerful chip architecture, which Sun will deploy in future workstations.

To remain successful, technology giants need to absorb a broad range of knowledge—be it from Asia, Russia, or the U. S. The huge costs of funding R&D, chip fabrication, and product development have forced many companies into strategic alliances. No company has exploited this strategy more shrewdly than Texas Instruments Inc. Since 1988, TI has initiated memory chip projects with Hitachi and Kobe Steel in Japan, Acer in Taiwan, and Canon and Hewlett-Packard in Singapore.

These alliances shelter TI from the cyclical slumps in the DRAM market. And in the upswings, the ventures generate cash that TI uses to diversify into higher-margin products, such as digital signal processors, whose booming sales fueled 11 consecutive quarters of profit growth.

Some strategic alliances require collaborating with a direct competitor. In the 1970s, Hewlett-Packard Co., hooked up with one of its fiercest rivals—Canon Inc.—to split a major investment in next-generation laser printers. Canon supplies the key mechanical component called the print engine, while HP provides the control chips and software. Outside this alliance, however, HP and Canon are locked in combat over a different technology—inkjet printers.

NOT FOOLPROOF. Canon's deal with HP may provide a model for a broader Japanese comeback. Nearly all of Canon's key alliances involve U. S. companies. It was the first company to license the PowerPC chip from IBM, for example, and has an equity stake in chip equipment leader Silicon Valley Group Inc. "Seeking partners in Japan is futile," says Canon Senior Managing Director Hiroshi Tanaka. "The Valley is 10 years, maybe 20 years, ahead of anywhere else. America is unmatched in every area of computer hardware and software."

Even alliances aren't a foolproof hedge against the uncertainties of this vast digital transition, however. The stakes are highest in the battles over next-generation telecommunications infrastructure. Europe, America, and

THE HP DESIGNJET: IT COMPETES WITH CANON'S INKJETS, BUT THE COMPANIES MAKE LASER PRINTERS TOGETHER

ROBERT BURROUGHS

→ "By the end of the decade," says one CEO, "we'll be looking at 50 million transistors on a chip"

Latin America

Begin with the most convenient locations in Latin America's most important business and leisure destinations. Add ternational reputation for unsurpassed quality ervice, accommodations, amenities and food. Blend with a global communications network and firsthand knowledge of local customs, traditions and attractions.

ITT SHERATON MAKES IT SO MUCH BETTER

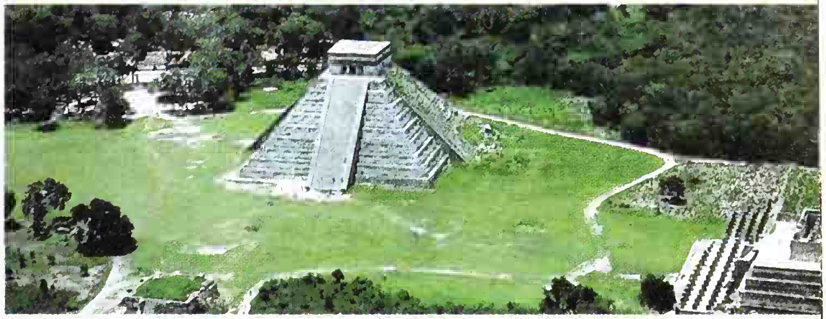
And, ITT Sheraton is proud to offer T in every room for easy access and reliable service at reasonable prices.

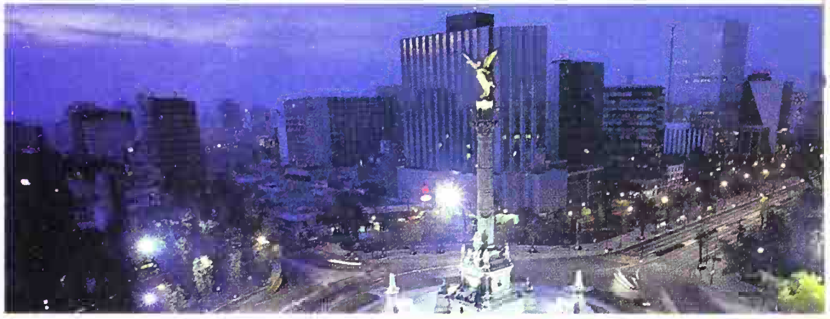
AT&T

Bring it all together under the one name that means hospitality roughout Latin America. ITT Sheraton. For reservations see your travel professional or call 800-325-3535.

ITT Sheraton

OUR WORLD REVOLVES AROUND YOU





ITT SHERATONS OF LATIN AMERICA:

ARGENTINA
Buenos Aires
Sheraton Buenos Aires Hotel & Towers

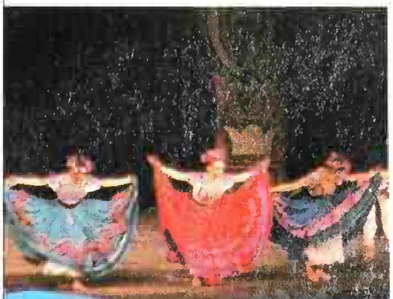
BRAZIL
Recife
Sheraton Petribu Hotel
Rio de Janeiro
Sheraton Rio Hotel & Towers
Sao Paulo
Sheraton Mofarrej

CHILE
Santiago
Sheraton San Cristobal

MEXICO
Acapulco
Sheraton Acapulco Resort
Cancun
Sheraton Cancun Resort & Towers
Huatulco
Sheraton Huatulco Resort
Ixtapa
Sheraton Ixtapa Resort
Mexico City
Sheraton Maria Isabel Hotel & Towers

PERU
Lima
Sheraton Lima Hotel & Towers

VENEZUELA
Caracas, La Guaira
Sheraton Macuto Resort



➔ Using desktops, small, poor nations will be able to do the basic science only superpowers could once afford

Japan are pumping billions of dollars into high-speed networks based on fiber and coaxial cable. Countries around the world installed more than 7.4 million miles of fiber last year, and the total will continue to grow 22% a year through the end of the century, predicts KMI Corp., a Newport (R. I.) market researcher. Estimates of the cost of rewiring America alone with fiber run as high as $400 billion, with private companies shouldering most of the costs.

"ALLEGORY 2": SOPHISTICATED IMAGES RISE FROM EVER-LESS-FANCY COMPUTERS

But the wired world is just one option. Cheaper, wireless technology is also attracting massive investment. Developing countries could use wireless to bypass the wireline phase. Already, digital phone and TV signals can be bounced off satellites, to be picked up by small dish antennas.

BIG RETHINK. Such systems are ideal for delivering entertainment to millions of homes. In the U. S., GM Hughes Electronics Corp. and Hubbard Broadcasting Inc., which just launched a 150-channel satellite-TV service, project that there will be a half-million satellite-dish owners by yearend. By 1997, says CEO C. Michael Armstrong, Hughes will begin person-to-person videoconferencing services over high-speed satellite links.

This clash of alternatives—phone lines, cable, satellite, and cellular—is prompting a major strategic rethinking among phone and cable companies that are expected to pay for much of the Information Superhighway's cost. The confusion and the stalemate over regulation in Washington are stalling some critical experiments. During the past year, Tele-Communications Inc. backed off from a planned megamerger with Bell Atlantic, and few of the multimedia network trials initiated by U S West, TCI, AT&T, and Time Warner are making progress.

The shakeup in the information industries is rippling all the way back to basic science. There, cheaper research methods promise to democratize what remains one of the most capital-intensive activities of the late 20th century. Supercomputers and sophisticated software have already reduced the need for expensively equipped biology labs or wind tunnels. Thanks to better instruments, more powerful simulations, and faster searches of scientific journals, "we can do five times more in the labs than we did 15 years ago," says Joe A. Miller Jr., senior vice-president for R&D at DuPont Co. At their desktops, today's scientists and engineers have more sophisticated software than their predecessors who built atomic power plants and rockets in the 1960s.

Science has always been an international game. French biologists codisovered the AIDS virus, and the Max Planck Society has garnered over two dozen Nobel prizes in this century. Japan operates the world's largest atom-smashers for medical research. And the World Wide Web, a hot link on the global Internet, evolved out of the European Particle Physics Laboratory, called CERN.

BREAKTHROUGHS. But as science itself goes digital and supercomputer speeds migrate down to desktops, all geographical barriers are disintegrating, putting basic science within the reach of smaller and poorer nations. Scientists sitting in Taiwan's Hsinchu science park or in Seoul can run the same computational models as counterparts at MIT or Stanford. One result may be the erosion of America's commanding lead in basic research. Still, the gains or losses of individual companies or countries are trivial when viewed against the potential scientific breakthroughs ahead.

Indeed when so much brainpower is linked together, there are no permanent birthrights among individuals or nations. Despite jarring dislocations, the digital revolution has already distributed fantastically powerful tools across a huge sweep of humanity. That momentum will continue well into the 21st century.

By Neil Gross in New York, with John Carey in Washington

"Missouri really wanted to make it happen."

LRA
ST. LOUIS, INC
CAUTION
CAUTION

Gil Lee
President/CEO
LRA, St. Louis, Inc.

Gil Lee founded LRA, St. Louis, Inc. with a goal of creating more than just profits. After growing up in Kansas and later operating a similar electronics firm in California, he returned to the Midwest to create high-tech jobs in SMT manufacturing.

"It took a team effort to make it work," Lee says, referring to the combination of federal, state and local support that helped land LRA in Missouri. "The state looked at our plan and tailored their programs to meet our needs, including financing, tax credits and job training funds."

But that was just the beginning. As Lee puts it, "Missouri is ripe for growth," noting a very favorable business climate and "an excellent pool of skilled, high-tech workers." Plus, he says that Missouri's low costs for things like labor, taxes and real estate make his company more competitive. "We can bid the same contracts here much lower than we could in other states."

Today, after just one year, LRA is thriving. And Lee's goal of creating jobs is becoming a reality, with a work force expected to reach 150 to 200 within three years—thanks in part to Missouri's commitment to make it happen.

To find out how Missouri can make it happen for your business, call 1-800-523-1434 for your FREE Show Me Showcase information kit.

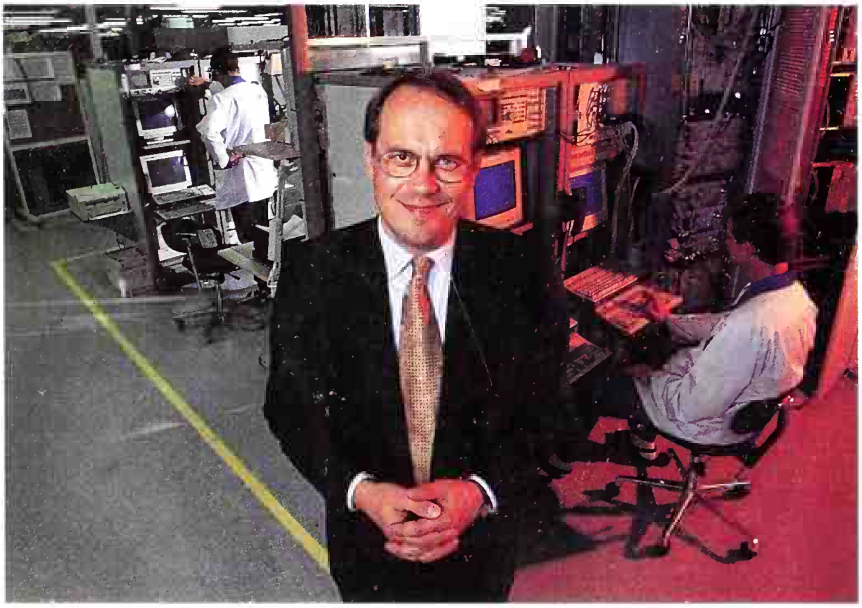
The Missouri Advantage™
YOUR COMPETITIVE EDGE

Missouri Department Of Economic Development, P.O. Box 118, Jefferson City, MO 65102-1118

SMALL IS BEAUTIFUL

GRABBING MARKETS FROM THE GIANTS

Cellular knowhow and a "we-try-harder" attitude has made Finland's Nokia No. 2 worldwide in mobile phones



KEEP MOVING: OLLILA WANTS 20% ANNUAL PRODUCTIVITY GAINS TO HEAD OFF LOW-COST RIVALS

CLAES LOFGREN

With today's digital-electronics markets moving at warp speeds, even small, relatively new players can, if they're agile enough, seize strategic positions from multinationals. Take Nokia. Just three years ago, the Helsinki company was one of Europe's also-rans. It racked up $40 million in losses selling everything from television tubes to toilet paper. But since then, the $4.6 billion Finnish company has zoomed out of the technology hinterlands to become No. 2 worldwide in mobile phones, one of the hottest technologies of the decade. This cellular upstart hasn't stopped running since.

PIONEER. Nokia's rapid rise in digital cellular phones began when Jorma Ollila, 44, took over as chief executive in 1992. He sold off dozens of other product lines and zeroed in on Nokia's core strength. The company had been a pioneer in mobile phone technology in the 1980s, when early cellular markets emerged in Scandinavia. Ollila was convinced that Nokia had the expertise to become a major player—if it moved fast enough.

Ollila's decision to go global was right on. When the world market for digital mobile phones took off, Nokia's hot products, low-cost manufacturing, and "we-try-harder" strategy helped it win three of the first four contracts for personal communication networks (PCN) worldwide. When British PCN operator Orange PCS Ltd., for example, asked bidders to design novel features for its new $75 million network—such as one mobile handset with two phone numbers and two different ring tones—most failed to deliver. "Nokia was the only manufacturer that listened to us and didn't tell us what to do," says Paul Craig, general manager at Bristol-based Orange.

The strategic investment in research and development has paid off: Nokia was the first to achieve error-free cellular data transmission under the new GSM digital standard for cellular networks adopted by European and some Asia countries. Introduced eight months before industry leader Motorola Inc.'s entry, Nokia's digital phone with a five-line screen allows traveling executives to send and receive E-mail and faxes through an easy-to-use menu of instructions. "Motorola lost its technology lead to Nokia last year," says Peter G. Purton, editor of *Telecomeuropa*, a British publisher of telecommunications newsletters, based in Bath.

But first-rate technology is merely the entry ticket to markets beyond 2000. Ollila wants annual productivity gains of 20% so Nokia isn't outmaneuvered as mobile phones become low-cost commodity products. He built R&D centers next to Nokia's five key factories around the globe so that concurrent engineering can take place "every day on the factory floor." That's critical for a product with an 18-month life cycle.

FLEXIBILITY. Although Japanese, U. S., and European technical standards differ, Nokia designs its phones to be as similar as possible to hold down manufacturing costs. That way they can all be made on the same production line, allowing Nokia to shift rapidly from one model to another to meet changes in demand. Highly automated assembly and improved designs helped boost Nokia's telecommunications operating margins to 17.7% last year vs. 14.4% at Motorola, according to Merrill Lynch & Co. analyst Neil Barton.

Keeping abreast of the rapidly changing cellular market will be tough, too. By 2000, mobile-phone makers will likely be churning out versatile hardware that works on cellular and satellite networks. And experts predict that by 2010, mobile phones will be jam-packed with video and computing power. Executives might tune into CNN on their video mobile phone en route to catch a plane, hold a videoconference, tap into the Internet, or dictate a message that appears as a fax seconds later halfway around the world.

And the competition isn't likely to stand still. Japan's global market share plunged from 52% in 1990 to 26% today, according to Dataquest Inc. But now that standards for digital cellular products are emerging, "the Japanese and the Koreans are bound to take the business more seriously," warns Motorola Corporate Vice-President Don Burns. That confrontation is sure to draw new battle lines for global technology companies competing in the 21st century. But Nokia aims to be one of the new-age champions.

By Gail Edmondson in Helsinki

Get a gift.

Get a card.

Happy Holidays

Get it wrapped.

Get it shipped.

Get the 5:28!

AIRLINE TICKETS
TRAIN TICKETS

Need to send a gift in a hurry? Radio Shack Gift Express will wrap, pack, enclose a card, and ship your purchase anywhere in the U.S. via FedEx® delivery service—all for a nominal charge. For gift orders or the location of the store nearest you, call

1-800-THE-SHACK℠

Radio Shack®
Gift Express℠

You've got questions. We've got answers.℠

Cordless phone with "corded" clarity
$79.99 #43-1005pp

Organizer/calc with clock and scheduler
$39.99 #65-830pp

Handheld LCD draw poker game
$19.99 #60-2417pp

Digital-tuning pocket color TV
$139.99 #16-164pp

Radio-controlled Off-Road Tiger 4×4
Sale $49.99
#60-4113pp, reg. $59.99

Optimus® portable compact disc player
Sale $99.99
#42-5042pp, reg. $119.99

Sale prices guaranteed through 12/24/94
FedEx trademarks used by permission.

For product warranty information, write: Customer Relations, 1400 One Tandy Center, Fort Worth, Texas 76102.

THE AGILE FACTORY

CUSTOM-MADE, DIRECT FROM THE PLANT

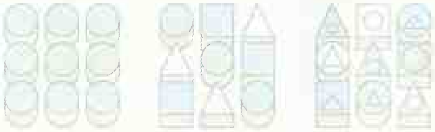
The newest manufacturing combines state-of-the-art fabrication and product-delivery technologies with the old-world artisan's aim to please

It is 2010, and you need a new suit—fast—for an overseas business trip. No problem. You head to the department store at the mall. You step into a kiosk-like contraption, and an optical scanner automatically measures your body. Seconds after you record your choice of style and fabric, the information is relayed to a plant where lasers cut the cloth precisely to your size. A few days later, the suit is ready.

You may not have to wait 15 years for this kind of high-tech couture. Manufacturing is fast entering a new age of industrial excellence: mass customization. Not only clothes, but a huge variety of goods, from autos to computers, will be manufactured to match each customer's taste, specifications, and budget. Mass customization will mark the culmination and synthesis of agile manufacturing, virtual companies, and total quality management. If ever the term "paradigm shift" was appropriate, "this is it," says Roger N. Nagel, deputy director of Lehigh University's Iacocca Institute, the Bethlehem (Pa.) think tank where the notion of agile manufacturing was born three years ago.

THE EVOLUTION OF THE FACTORY

Factories will soon rival craftshops in their ability to customize



FACTORY FOCUS	MASS PRODUCTION	FLEXIBLE PRODUCTION	MASS CUSTOMIZATION
	1900 TO 1970	1971 TO 2000	2001 TO 2020
TYPICAL NUMBER OF:			
Machine tools	150	50 TO 30	25 TO 20
Products made	10 TO 15	100 TO 1,000	UNLIMITED
PRODUCTS REWORKED DUE TO POOR QUALITY	25% OR MORE	0.02% OR LESS	UNDER 0.0005%

DATA: HARVARD BUSINESS SCHOOL, BUSINESS WEEK

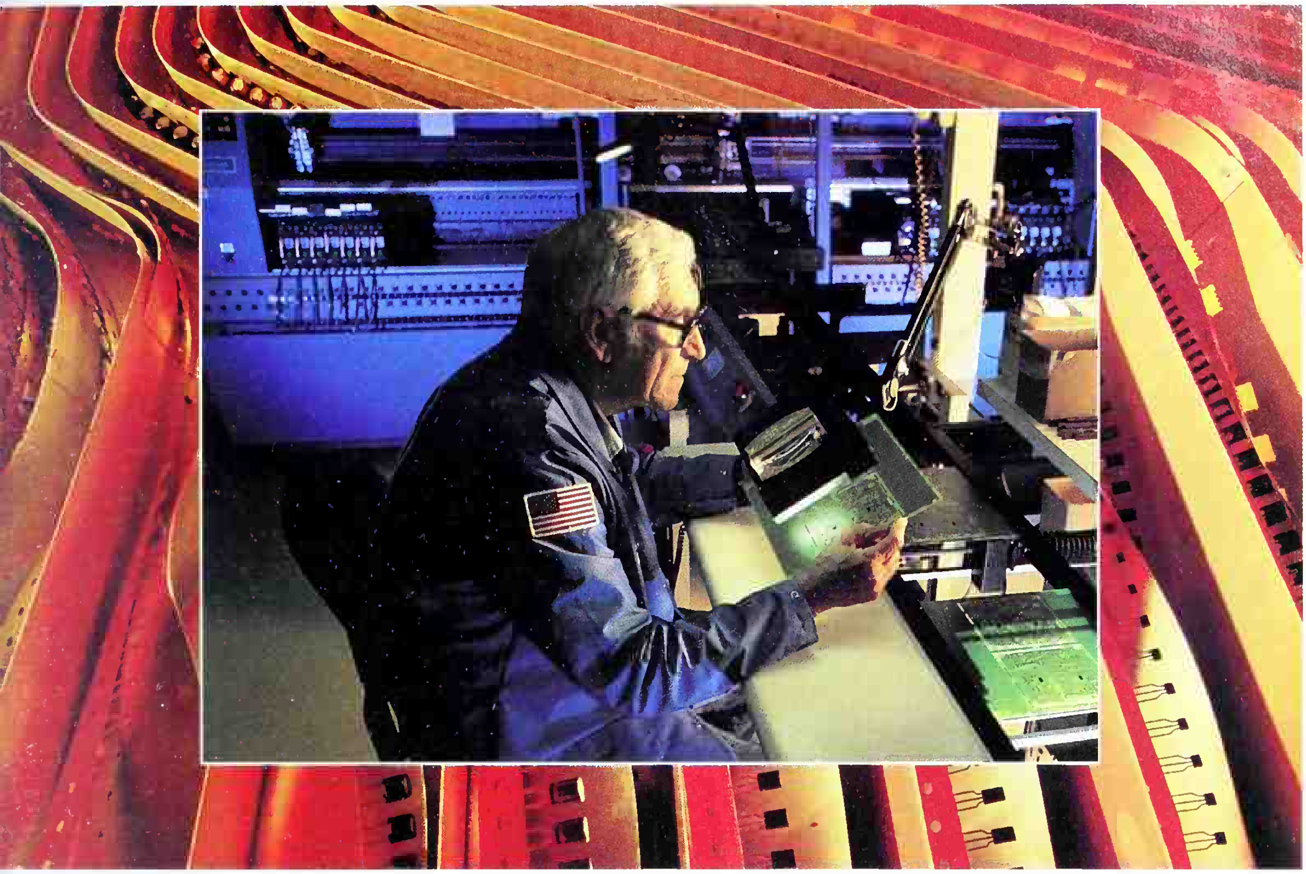
Customized products will be made as fast and as cheaply as mass-produced products. "But factories won't sell things—they'll sell customer gratification," says Nagel. The price of products will be determined not by adding up the costs of all the parts in a finished product, but by the value of the knowhow and services that a company musters to assure utmost customer satisfaction. Once customers realize that agile suppliers can provide exactly what's needed on a tight schedule and eliminate the costs of maintaining inventories of parts, "price is no longer a factor," says David L. Ross, marketing director at Ross Operating Valve Co., a private 350-employee maker of pneumatic valves in Troy, Mich. "It is literally the last thing discussed."

This isn't just fantasy. More than 200 companies have joined the Agile Manufacturing Enterprise Forum, which Nagel co-founded. AMEF members include such heavyweights as Air Products & Chemicals, Chrysler, FMC, Honeywell, Milliken, Texas Instruments, and Westinghouse. This past summer, the National Science Foundation and the Pentagon's Advanced Research Projects Agency helped set up three agile manufacturing research institutes: at the University of Illinois, the University of Texas, and Rensselaer Polytechnic Institute. And the apparel industry's research consortium, the Textile/Clothing Technology Corp. in Cary, N. C., is leading the development of the optical-scanning "tailor" described above.

Agile manufacturing might do more for U. S. employment than the post-industrial work that was supposed to supplant manufacturing. Some of the production work that went offshore in the 1980s has been returning in the 1990s. One reason: Companies striving to become agile are forced to slash cycle time—the period between receiving an order and delivering the goods—and they often discover that moving products through an international pipeline eats up more time than the labor savings are worth. Items that have come back to agile wannabes range from some of Caterpillar Inc.'s huge earthmoving equipment, for a while made in Korea, to computer modems from U. S. Robotics Inc., which used to outsource the production of components in Mexico.

VALVES BY PHONE. Nobody expects blue-collar jobs to hold the line, much less grow. Building on the pioneering work of Allen-Bradley Co. and others, tomorrow's factories will be smaller, with fewer but smarter machine tools that need only token human care—yet they'll turn out a far richer variety of goods. So, shop-floor employment is heading the way of farm labor. However, agile technology is also spawning new white-collar jobs in support industries, just as modern agriculture has created myriad jobs in package design, food engineering, marketing, and other services (page 160).

However, such growth is taxing agile companies. Take Ross Operating Valve. "I cannot train people quick enough to take care of all the potential new business," says Ross. At the Ross/Flex plant in Lavonia, Ga., customers phone to discuss what valves they need with company engineers called "integrators." The specs are entered into a CAD/CAM system to design a one-of-a-kind valve, and automated



MAKING CIRCUIT BOARDS AT ALLEN-BRADLEY: TOMORROW'S FACTORIES WILL USE SMART MACHINES THAT REQUIRE LITTLE HUMAN INTERVENTION

machine tools grind out the metal parts overnight. Finished valves are delivered in as little as 72 hours, at a typical cost of $3,000. That's about one-hundredth the time and one-tenth the cost of traditional methods.

Richard K. Dove, a consultant on agile manufacturing in Oakland, Calif., believes this new method may be the ticket to surpassing the Japanese. He sees a future where the U.S. exploits its lead in information technologies. "The Japanese miracle was based on the exquisite refinement of manufacturing," notes Steven L. Goldman, a Lehigh professor of humanities who is an expert in the history of technology. "But agility moves the center of value away from manufacturing itself. What counts now is the software, the knowledge—and that expertise is outside Japan."

ROVING ROBOTS. The goal is to link customers, suppliers, and manufacturers into a kind of superefficient confederation. What a factory produces today will be driven by yesterday's retail sales—or an order received moments ago from an on-line partner. By 2000, says Carl P. McCormick, president of electronics maker Group Technologies Corp., many factories will be tightly interlinked via nationwide networks such as the Enterprise Integration Network. EINet is being developed by Microelectronics & Computer Technology Corp. (MCC), a consortium of high-tech companies in Austin. Networked manufacturers will be able to dump their orders directly into their suppliers' factory computers, and these will in turn relay the suppliers' needs to their own suppliers.

Ultimately, the communications web may extend the connection down to individual machines on the shop floor. Already, researchers at Massachusetts Institute of Technology and Purdue University are jointly developing software for smart machine tools. Under the MIT-Purdue scheme, mobile robots would carry parts around the factory. When a robot rolled onto the floor, it would broadcast to the machine tools what work its part requires. The affected machine tools would then consult their production schedules to determine when they could be available, and the computers would collectively calculate which combination of machines would most efficiently polish off the necessary work.

→ "Agility moves the center of value away from manufacturing." What counts now: software, knowledge

Computers negotiating production schedules with other computers, taking care of routine business transactions without human intervention, and even programming each other: This agile world will take some getting used to. And it's coming faster than anyone expected. "Fundamental transformations of the terms of commerce have always been measured in decades," says Lehigh's Goldman. "In 1991, I figured it would take 15 years for agile manufacturing to become common practice. But now, I think it will be the norm within five years."

By Otis Port in New York

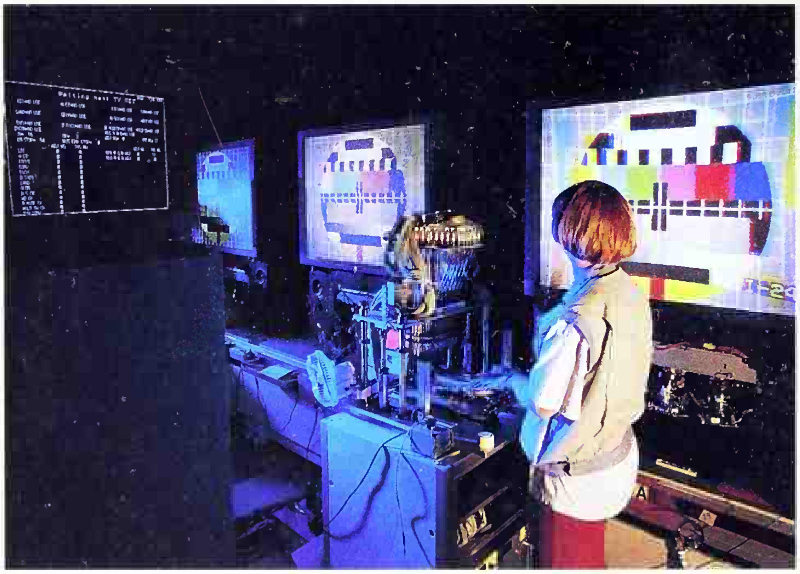
INSET BY CHRIS CORSMEIER, PHOTOGRAPH BY DANIEL LEVIN

NEW U.S. FACTORY JOBS AREN'T IN THE FACTORY

An hour's drive east from Pittsburgh in the hills of Westmoreland County, Pa., stands a symbol of America's manufacturing renaissance. In 1988, the sprawling former auto assembly plant was abandoned, a Rust Belt relic, its workers scattered to other jobs or the unemployment rolls. Then two years ago, Sony Corp. arrived. Today, Westmoreland is one of the world's most advanced electronics plants, churning out thousands of big-screen television sets. And this is no border-style *maquiladora*, with Americans merely snapping together Japanese-made parts. Fully 80% of the components are U.S. made.

Why does Sony make televisions in Pennsylvania? The U.S. is the world's largest TV market by far, especially for big-screen versions, and the closer Sony gets to its customers, the less it has to spend on shipping.

Moreover, the U.S. has a strong industrial infrastructure—wide roads, clean water, educated workers, and plenty of suppliers—and a superb technical base. Drawing on resources at nearby Carnegie-Mellon University helped Sony engineers build a robot that automatically fine-tunes the televisions before shipping.



U.S.-MADE: SONY'S TV PLANT IS SUPPORTED BY A SECOND TIER OF COMPUTER COMPANIES

DANIEL LEVIN

Sony's plant is part of a fundamental shift in manufacturing—one that will leave the U.S. well positioned for global competition in the coming decades. Taking advantage of great economies of scale, manufacturers long built huge mass-production plants, then shipped their products to distant markets. But today, the trend is toward smaller, more flexible, less labor-intensive operations near the customers.

That's as true for steel and autos as it is for TV sets. Built close to their industrial customers, the low-cost U.S. minimills run by Nucor Corp., Birmingham Steel Corp., and others are among the world's most efficient steel plants. In autos, U.S. production this year will surpass Japan's for the first time since 1979, thanks in part to more than a million Hondas, Nissans, and Toyotas pouring out of factories in Ohio, Tennessee, and Kentucky.

And it's not just currency swings and local-content concerns that lure manufacturers to the U.S. In no other market in the world do American, Asian, and European manufacturers compete so directly and freely. "If you are successful in the U.S., you are proving that you are a global player," says Helmut Werner, chairman of Mercedes-Benz. The company is setting up an assembly plant in Alabama.

MANUALS IN GERMAN. Don't expect the manufacturing renaissance in the U.S. to spark a boom in factory jobs, however. Just as the mechanization of agriculture a century ago all but emptied the farms, the new factory model means fewer workers are needed to put the final product together. The number of U.S. workers employed in manufacturing has fallen by 3.2 million since the peak of 21 million in 1979. Yet manufacturing output has remained stable as a percentage of gross national product. "We did not see any trends toward lower manufacturing activity," says economist Gordan Richards of the National Association of Manufacturers.

Yet as these factory jobs vanish, a new manufacturing-driven economic sector will emerge—industries such as computer software, robot making, and countless services that will add jobs to supply the leaner manufacturers. At Carnegie Group Inc. in Pittsburgh, technicians are putting together software to guide Ford Motor Co.'s engineers through circuit board design. And they devise programs that translate Caterpillar Inc.'s mountains of technical manuals into German, Russian, and other languages.

Carnegie Group is expanding from 125 to 200 workers this year alone. Says Chief Executive Dennis Yablonsky: "It's a wide universe of technology companies that service manufacturing. The jobs add up pretty quickly."

These support industries, with their high component of knowledge skills, constitute nothing less than a second tier of the manufacturing industries. "A smaller percentage of our workforce will be in production," comments Carnegie Mellon University professor Richard L. Florida. "But a much larger percentage will be supporting that."

These U.S. systems analysts, robot makers, and software engineers will increasingly be selling their wares around the globe. Indeed, 20 years after the much-ballyhooed deindustrialization of America, the U.S. keeps discovering new ways to make things.

By Stephen Baker in Pittsburgh and James B. Treece in Detroit

"NationsBank knows the dynamics of our industry and devotes the time and people required to fully understand our company. They were extremely responsive, provided better service, and structured and arranged our financing at attractive rates."

Steven L. Sinn
Chief Executive Officer and President
Page America Group, Inc.
$13,000,000 Subordinated Notes Due 2003 With Warrants
$31,000,000 Convertible Preferred Stock
$56,270,000 Senior Secured Revolver And Term Loan
915,625 Common Shares
Structured And Placed By NationsBanc Capital Markets, Inc.*

Why NationsBank Is One Of Corporate America's Principal Sources For Corporate Finance.

"I am impressed with the caliber of the NationsBank people and the way they care about our relationship. They went out of their way to create a financial structure for La Quinta that was extremely valuable to us."

Michael Depatie
Senior Vice President,
Chief Financial Officer
La Quinta Inns, Inc.
$60,000,000 Variable Rate Demand Notes*
$242,000,000 Revolving Credit
And Term Loan Facility

"NationsBank plays a key partnership role in our development. They understand the cyclical nature of our industry, and have demonstrated the courage to provide us with the capital resources required in our expansion."

Phillip E. Casey
Vice Chairman
Birmingham Steel Corporation
$130,000,000 Privately Placed Senior Notes*
$80,000,000 Credit Facility

NationsBank – a trusted financial advisor to successful corporations. Our people understand the unique financial and operating strategies of our clients and deliver value-added solutions to assist them in meeting their objectives.

NationsBank®

*NationsBanc Capital Markets, Inc., is a subsidiary of NationsBank Corporation and is a member of SIPC and NASD.

© 1994 NationsBank Corporation.

TELECOM GURU PITRODA IN INDIA: EVERYTHING NEEDN'T BE DONE FROM SCRATCH

JUMPING INTO MODERNITY

THERE'S MORE THAN ONE WAY TO PLAY LEAPFROG

From India to Mexico, engineers, bureaucrats, and entrepreneurs are adopting and absorbing key technologies to give their economies a boost

Randy Bush, a Portland (Ore.) networking consultant, is a kind of Johnny Appleseed of the Internet. When he went to Peru in 1991, the country's universities had no computer links to one another or the outside world. So he quickly taught Peruvian engineers to connect five schools electronically. Within two years, with little outside assistance, the Peruvians broadened the network to 400 sites and leased a full-time satellite link to the U. S. The Peruvians have since donated money to Kenya to start up an Internet link, and Bush has moved on to Africa. "The problem in these countries is not so much poverty. It's isolation," he says.

That isolation will become increasingly rare in the next decade as one developing country after another acquires the leading technologies of the age. From India to Mexico, a techno-class of engineers, bureaucrats, and entrepreneurs is getting its hands on advanced cellular-phone systems, computer networks, and manufacturing skills. This trend will not create mini-Japans around the world by 2000. But it will make these nations more competitive and place them at least in the second tier of technologically sophisticated economies.

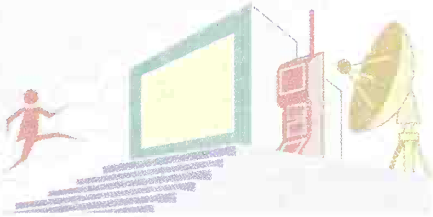
There will be many ways for these developing nations to manage and exploit advanced knowhow. Satyan "Sam" Pitroda is one of India's top telecom specialists. His goal: to have India leapfrog into the upper ranks of telecom operators and manufacturers. But unlike rigidly nationalistic bureaucrats of the past in countries such as Brazil, Pitroda is willing to borrow from abroad to build at home. Says Pitroda: "Indigenous development does not necessarily imply that you do everything from scratch."

HEAT AND DUST. In the 1980s, Pitroda used an all-Indian team to design a phone switch suited to India's heat, humidity, dust, and frequent power failures. But open one up, and you'll find chips from Motorola, Intel, and Texas Instruments—as well as Unix, the AT&T-invented software operating system. As a result of this technology transfer, India has a large corps of telecom engineers who are designing and exporting switches. Thanks to a similar program in the computer field, an Indian-designed supercomputer that employs foreign-made components has been sold to France and Germany.

The key, as Pitroda observes, is to absorb the technology, not just install it. Hong Kong and Singapore leapfrogged the easy way, by welcoming direct foreign investment—factories, for example, that transferred knowhow to local workers. Japan and South Korea discouraged such direct investments, but they still managed to absorb technology expertise by sending students abroad and licensing U. S. and European patents.

HOW DEVELOPING NATIONS CAN GET AHEAD

BUILD an educated workforce capable of absorbing new technologies	*China and India direct many top students into elite technical institutes*
ACQUIRE advanced technology from abroad by encouraging foreign investment	*Malaysia, Singapore, and Taiwan have raced ahead by inviting export-oriented manufacturing*
INVEST in an "information infrastructure" of computers and telecommunications	*Germany is pouring billions of dollars into phone networks and computers to upgrade the east*
BE PATIENT and don't waste money on white-elephant schemes	*Brazil has abandoned a failed program to be self-sufficient in computers*



KEY INGREDIENTS. Now, another wave of countries, from China to Kazakhstan, is hoping to execute the same jump into modernity. The essential ingredients for absorption of technology are an educated, motivated populace and a receptive economy. Wealth is not required. Saudi Arabia, for all its petrobillions, has a second-rate phone system—in part because it lacks a cadre of technologists devoted to upgrading the equipment it buys from Europe and, now, the U. S.

A developing country can often get plenty of technology firepower for no more than it paid for less-sophisticated systems a decade ago. Radio-based communications, for instance, are far cheaper to install than ones that use wires. Wireless cable-TV systems—cousins of the ones that now supply some Manhattan apartment buildings—are currently being installed by International Telcell Inc., of Greenwich, Conn., in Russia, Latvia, Georgia, and Uzbekistan. The Chinese have managed to make simple pagers from Motorola Inc. and other companies convey volumes of information. Widely distributed numeric codebooks allow users to send hundreds of useful expressions, from "I love you" to "please come home within the hour."

Executives from 3Com Corp., the Santa Clara (Calif.) networking company, are such believers in leapfrogging that they include pictures of frogs in their presentations to Chinese officials. 3Com advises the Chinese to store data in cheaper "server farms" instead of mainframe computers and to communicate wirelessly with personal digital assistants—those handheld computer-communicators that have yet to catch on even in the U. S. 3Com hopes to garner a piece of China's Golden Bridge project to unite Beijing with major cities and factories.

Some officials in developing countries resist high technology, saying it's wasteful in an economy that has low wages and surplus workers. But as India's Pitroda observes, advanced technology actually reduces costs and solves problems when it is applied properly. A case in point is Cementos Mexicanos, which turned over a computerization project in 1988 to one of its own employees, informatics chief Gelacio Iñiguez, who is Mexican-educated with an MBA from the Wharton School. Iñiguez went to work and came up with a new computer system that's now up and running. One feature: a machine that prints out checks to suppliers when their deliverymen insert a card and ID number.

→ By hiring top engineering talent at bargain-basement prices, multinationals are speeding up the technology transfer

GOVERNMENT PUSH. Big multinationals are accelerating this process of technology transfer by assigning technologically complex work to low-wage countries. Indeed, these big companies benefit by hiring top engineering talent at bargain prices—sometimes even letting locals run the whole show. Intel Corp., for instance, has chosen to make Penang, Malaysia, a design center for microprocessors for handheld gadgets.

Governments, too, will be pushing their own citizens to develop the best technology. Singapore, not content with its achievements in information technology, is mounting a campaign in biotechnology. Taiwan is attempting to build an aviation and aerospace industry. And Indonesia's Research & Technology Minister, B. J. Habibie, is pouring massive subsidies into Southeast Asia's only aircraft-manufacturing industry.

The jury is out on the ultimate fate of projects such as these. But then, developed nations have plowed money into debatable projects, too. The important thing for these countries is to maintain openness to the best technology and manufacturing that the world has to offer.

Thailand and Ghana offer a cautionary tale. In 1965, according to the World Bank, Thailand was poorer than Ghana. In the following years, Ghana pursued economic policies that discouraged foreign investment, while Thailand welcomed Japanese factories that churned out millions of televisions, VCRs, and other products. By last year, more than half of Thailand's exports were manufactured, and its gross domestic product per capita was 670% of Ghana's. That's the kind of astonishing growth that more nations are likely to pursue.

By Peter Coy in New York, with Sharon Moshavi in New Delhi, Geri Smith in Mexico City, and Gary McWilliams in Boston

GRAPHIC BY LISA KNOUSE BRAIMAN/BW

HIGH-TECH FREE AGENTS

HAVE SKILLS, WILL TRAVEL—HOMEWARD

South Korean, Indian, and Chinese techies, armed with education and experience often gained in the U.S., are going back to build competitive new businesses

Gazing over rows of engineers packed into spartan, closet-size cubicles at Taiwan's First International Computer Inc., Horace Tsiang can't help but marvel at the contrast with his 23 years at Boston's once-mighty Wang Laboratories Inc. As head of product development in the late 1980s, Tsiang oversaw nearly 1,500 engineers and an annual budget of $280 million. But Wang was too slow-moving to survive in the fast-paced PC markets.

Today, as chief executive of $600 million First International, Tsiang, 53, is learning what it's like to be lean and fiercely competitive. When Tsiang wanted to build a modular notebook PC, his small team of several dozen engineers designed the machine, built prototypes, and then began full production—in just six months. And First International's success is contagious: Tsiang is luring former top Wang researchers to Taiwan to help the entrepreneurial company develop its next-generation PCs. "All of my former lieutenants are joining me," he crows.

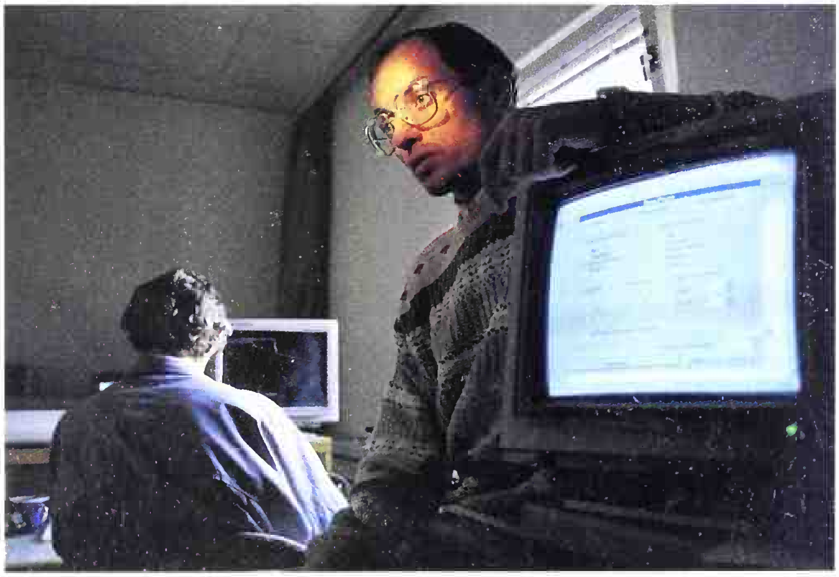
The Wang Labs veterans are part of a new crowd of high-tech free agents who are taking their experience global. Like the wandering tradesmen who spread their knowhow across medieval Europe, these high-tech journeymen are leaving their mark on the modern economy. They will certainly tilt the balance of technological power toward the emerging markets in the next century.

DEAD HEAT. The typical case is a South Korean, Indian, or Chinese scientist or engineer who, with a U. S. doctorate and a long stint with a top Silicon Valley company, returns home to start a new career building high-tech industries. "Half the engineering vice-presidents in Taiwan electronics companies went to school in the U. S., worked at Sun, worked at Hewlett-Packard, and brought back cash to Taiwan to start companies," notes John Gage, director of the science office at Sun Microsystems Inc.

Indeed, for decades the premier U. S. graduate schools have lured tens of thousands of the best and brightest scientists and engineers from across the globe for advanced study. Last year more than 48% of the engineering PhD recipients at U. S. universities were citizens of foreign countries. Because many stay on to work for Silicon Valley companies and top research-and-development centers such as AT&T Bell Laboratories, this vast talent pool has been—and is today—essential to U. S. success.

Still, as more of these high-tech journeymen head homeward with their skills and network of contacts, they are closing the technology gap. Take the case of South Korea. Thanks partly to U. S.-trained researchers who have returned over the past decade, Samsung Inc. is in a dead heat with Japanese chipmakers to dominate next-generation memory chips. The more than 100 AT&T Bell Laboratories alumni who have gone home to Taiwan are making the island an export power in semiconductors and multimedia gear. And Hong Kong, a hotbed of telecom and audio gadgets, has hundreds of entrepreneurs such as Allan C. Y. Wong, a U. S.-educated former NCR Corp. electrical engineer who has built his $532 million VTech Holdings Ltd. into a global supplier of innovative educational toys and cellular phones.

But this homeward migration of Asian techies is only part of a more complex trend. As corporate downsizings and cutbacks in basic research take their toll, American, British, and even Japanese expatriates are popping



YEVGENY N. VESELOV

A onetime émigré, he returned to Russia to direct software projects—but says most Russians working in the West "will not come back"

[illegible] NETWORK/MATRIX

up in the computer, biotech, and telecom labs of companies in Hong Kong and Singapore. Tsiang and some of his recruits who decamped to Taiwan's First International are U. S. citizens who were born in mainland China. And Russian scientists, once distrusted as spies, are a hot ticket from Jerusalem to Seoul to San Jose, Calif.

Even Japanese companies, long closed to outsiders, are beginning to open the gates to some *gaijin*, or foreign, researchers. "Americans understand that science functions best when it is international and people of different views come together. Now, Japanese corporations understand that's the normal way to go," says Thomas W. Ebbesen, who heads an advanced materials research group at NEC Corp.'s R&D lab in Tsukuba, Japan. The Norwegian-born scientist was educated in the U. S. and Europe before landing in Japan, where several hundred European scientists now work.

CRUCIAL EXPERTISE. Swift advances in telecommunications are another factor in the rise of these gearhead wanderers. With the Internet and videoconferencing, today's high-tech journeymen can stay at the cutting-edge practically anywhere they live. NEC's Ebbesen, for example, currently manages his research team in Japan via a computer network from the U. S., where he is spending a year as a visiting scientist at the company's Princeton (N. J.) research lab. In Bangalore, India, Pradeep Singh, a 37-year-old electrical engineer who worked in the U. S. for a decade at Texas Instruments and Microsoft, has set up NetQuest (India) Private to provide electronic services and software products on the emerging global Information Superhighway.

Few high-tech émigrés are able to duplicate the success of their old Western employers in achieving scientific breakthroughs. But they can do something equally important. Their management expertise is crucial in helping local companies absorb new technologies, get innovative products on the market, and tap cheap labor and components in countries such as China.

To reach his goal of building VTech into a $2 billion company within five years, Hong Kong's Allan Wong is expanding his manufacturing base in China–and drawing on his NCR experience to adopt a new management style. In Hong Kong and Taiwan, electronics companies rarely grow beyond $200 million to $300 million in size because owners have short time horizons and bright engineers quickly bolt to start their own businesses. "One thing that's impressive about NCR and other American companies is that they can retain technology and develop new people when top engineers leave," says Wong, who is starting to invest heavily in continuing education for technicians and managers.

GREG GIRARD/CONTACT

ALLAN C. Y. WONG

Drawing upon lessons learned at NCR, he's investing in continuing education as a means of holding on to skilled employees at his Hong Kong startup, VTech

Compared with Asian Tiger economies, India only now is starting to appeal to its formidable overseas talent pool. Some 1,000 Indian engineers work at Bell Labs alone in the U. S. Sweeping free-market reforms under Prime Minister P. V. Narasimha Rao and the takeoff of India's indigenous software industry are starting to entice émigrés such as G. Jagannath Raju, 40, who spent nearly two decades abroad. After earning a PhD from Massachusetts Institute of Technology, Raju founded Systemantics Inc., a Lexington (Mass.) robotics company. He also worked in Japan on telerobotics projects at the mechanical engineering lab of the Ministry of International Trade & Industry (MITI).

Last year, Raju relocated in Bangalore, the center of India's software industry. Already, he finds that his R&D work in the U. S. has a direct bearing on industrial problems in India, since he plans to develop robots for India's nuclear power plants, mining industry, and aircraft manufacturers.

Although Russia remains a formidable center of talent in physics, mathematics, and other technical disciplines, it is still experiencing a brain drain. But a few of the scientists who bolted to the West after the Soviet Union collapsed are starting to trickle back.

WORD MASTER. Yevgeny N. Veselov, who wrote the top-selling Russian language word processor at Lexicon, Moscow's premier Russian-language software house, moved to Norway in 1990 to work as a software developer. He returned to Moscow in December, 1991, after the failed coup by hardliners cleared the way for political freedom and economic reform. Today, he is technical director of Microinform, a software company, where he is adapting his old Lexicon word-processing program to run under Microsoft Windows. But though living standards are improving in Russia, Veselov predicts that most of Russian scientists working in the West "will not come back."

Wide gaps in knowledge, management culture, and opportunity often still remain between the West and the emerging economies. But as technology journeymen continue to fan out around the world, the links between East and West are likely to produce a cast of competitors on the global high-tech stage.

By Pete Engardio in Taipei, with Peter Galuszka in Moscow, Shekhar Hattangadi in Bangalore, and Neil Gross in New York

The **BusinessWeek** Library of Computing

Because **your world** is about to enter a whole **new** **chapter...**

It's a brave **NEW WORLD** and to get ahead, you've got to leverage all your resources. No one is better positioned to help you maximize your potential than **Business Week** and **Osborne/McGraw-Hill.** Whether you want to take command of world markets from your desktop or hone your presentation skills with the latest multimedia technology, the **Business Week Library of Computing** has the insights, practical advice, and **cutting edge information** you need to make a positive impact.

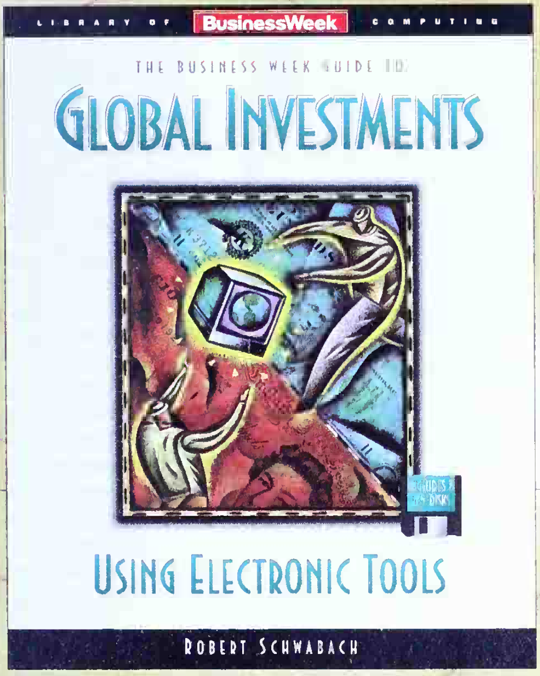
Don't wait for the future to be old news. The **Business Week Library of Computing** is designed to keep you ahead of the curve and well on your way to a SMOOTH TRANSITION into the business world of tomorrow.

Available at better bookstores and computer/software retailers everywhere, or for more information in the U.S.A. call **1 800 227-0900** (9:00 a.m. – 4:30 p.m. Weekdays Pacific Time). In Canada, call 1 800 565-5758 (8:30 a.m. – 4:30 p.m. Weekdays Eastern Time).

OSBORNE

The Business Week Guide to Global Investments Using Electronic Tools

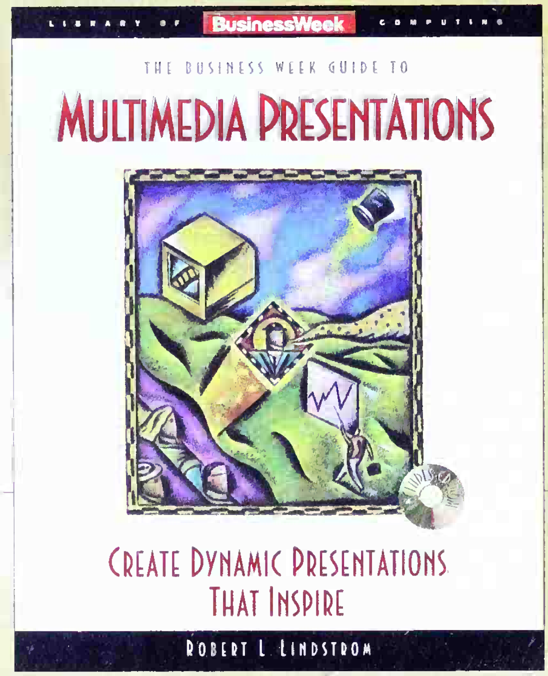
by Robert Schwabach
Paperback $39.95 U.S.A.
Includes three 3.5-inch PC disks with working versions of the best-selling programs for analyzing stocks and markets.


LIBRARY OF BusinessWeek COMPUTING
THE BUSINESS WEEK GUIDE TO
GLOBAL INVESTMENTS
USING ELECTRONIC TOOLS
ROBERT SCHWABACH

Includes three 3.5-inch PC disks

The Business Week Guide to Multimedia Presentations:
Create Dynamic Presentations That Inspire

by Robert L. Lindstrom
Paperback $39.95 U.S.A.
Test drive today's hottest presentation graphics software...full working versions included on one CD-ROM disk!


LIBRARY OF BusinessWeek COMPUTING
THE BUSINESS WEEK GUIDE TO
MULTIMEDIA PRESENTATIONS
CREATE DYNAMIC PRESENTATIONS THAT INSPIRE
ROBERT L. LINDSTROM

Includes one CD-ROM disk

BIOTECHNOLOGY

BOOSTER SHOTS FOR EUROPE'S DRUGMAKERS

They're aggressively buying long-term, strategic stakes in a slew of small U.S. biotech companies to outmaneuver distracted American rivals

It's a rare week that Dr. Jürgen Drews, president of international research and development at Swiss drugmaker Roche Holdings Ltd., doesn't spend at least a few hours checking out small U. S. biotech companies as potential partners for Roche. "The science these people have is fantastic," says Drews, 61, who works out of Roche's laboratory in Nutley, N.J. "It's far better than what the [established] pharmaceutical industry has."

Roche is in the vanguard of European pharmaceutical companies that are aggressively investing in American biotech to position themselves for the 21st century. Since 1990, the drugmaker has paid $2.1 billion for a controlling stake in Genentech Inc., the biotech pioneer, and $300 million for now-defunct Cetus Corp.'s Nobel prize-winning technology to generate billions of copies of DNA fast. In March, Roche committed an additional $70 million to tiny Boston-based Millennium Pharmaceuticals Inc., which specializes in understanding the human genome.

ROCHE'S DREWS: A RARE CHANCE TO TAP INTO A MAJOR SCIENTIFIC REVOLUTION

[illegible] ZICKL

ON THE PROWL. Meanwhile, Ciba-Geigy, Sandoz, and SmithKline Beecham have spent billions on U. S. biotech companies. And industry insiders say such drugmakers as Wellcome, Glaxo Holdings, and Astra Holdings, as well as a slew of midsize Japanese companies, such as Yamanouchi, are on the prowl.

There's not much doubt about what the Europeans have in mind. They hope the invested megabucks will give them a dominant position in key technologies and product areas. Right now, Drews sees a once-in-a-lifetime opportunity to profit from one of the major scientific revolutions of this century. The more than 100 biotech products now undergoing human trials include new childhood vaccines, several anticancer agents, a herpes vaccine, multiple-sclerosis treatments, and neurological agents for conditions such as Lou Gehrig's disease. Three biotech drugs are already among the world's bestsellers, with annual revenues topping $1 billion: erythropoeitin to fight anemia, alpha interferon to treat cancer and hepatitis, and human insulin for diabetes.

GENOME INFO. The next century portends even more: Besides steady progress on other diseases, biotechnology holds the promise of containing or even curing such scourges as AIDS, cystic fibrosis, and cancer. The most far-reaching approach is genetic therapy—slipping in a gene to repair faulty DNA, much the way a computer-program bug can be fixed with a software patch. Information from the human genome may be used to make new superdrugs or unravel neurological disorders. Many companies are learning to manipulate the "signaling" inside individual cells that tells them to grow, change, or produce useful or harmful proteins. The goal is to be able to switch off a cancer cell's unbridled desire to grow or balance the turbulent chemistry of a schizophrenic's brain.

This game calls for patience. "Large European pharmaceutical companies have tremendous amounts of cash, and they don't have the same pressure to maintain profit-and-loss trends [that U. S. companies do]," says Robert S. Esposito, who heads KPMG Peat Marwick's life-science practice. Indeed, Europeans have inked 25% of the more than 300 biotech alliances in the past 18 months, says Ernst & Young. And they have typically been longer-term, strategic investments.

Besides the heady

→ Three biotech drugs are already among the world's bestsellers, with revenues topping $1 billion promise of products to fight terrible diseases, two factors are spurring the Europeans. One is the need to catch up. Although Europe has some world-class academic science and almost 400 biotech companies, most are still very immature and face far more difficult capital markets. They haven't fared much better than Japanese multinationals, which poured billions into biotech research in their corporate labs in the 1980s but don't have a single noteworthy product to show for it. By contrast, the U.S. leads on the scientific front and has an unrivaled ability to transfer biotech knowledge from academe to the private sector.

Europe is also taking advantage of the fact that the logical godfathers of biotech—the big U.S. drug companies—have been much less aggressive. A few U.S. players, including Eli Lilly & Co. and Schering-Plough Corp., have been making investments in biotech throughout the last decade, and more are now adding biotech resources in their own labs, though with mixed results so far. But most of the efforts of American drug companies have been smaller and less strategic than those of European drugmakers. And lately, says Esposito, U.S. companies "are very much distracted" by buying distributors, such as Merck & Co.'s $6 billion acquisition of Medco Containment Services Inc., and other moves driven by health-care reform.

SHAKEOUT. That's not to say the Europeans will prop up every startup in biotech. A dramatic shrinking of the industry–currently 1,300 public and private companies–is inevitable, with far too many companies competing for too little capital today to survive.

The most likely scenario for the industry after it shakes itself out is that many biotechnology companies will become "discovery-and-development" arms of the majors by linking up on a project basis rather than by being absorbed altogether. The majority-ownership deal Roche pioneered with Genentech is one way to nurture innovation without suppressing entrepreneurship. In the past four years, Genentech has become more disciplined and focused in its research, yet it has also enjoyed the capital to take aggressive chances, such as developing its new cystic-fibrosis drug, Pulmozyme, in record time. If the Americans don't watch out, the best discovery and development will be done for their European rivals.

By Joan O'C. Hamilton in San Francisco

SCIENCE-FICTION MEDICINE IS FAST BECOMING FACT

Imagine reading the genes of newborns to figure out–and prevent–all the diseases to which their DNA makes them susceptible. Imagine doctors at top U.S. medical centers delivering care to rural Mississippi–or Bangladesh–through the magic of fiber-optic and satellite communication. Imagine custom-designing drugs atom by atom to vanquish cancer, AIDS, or heart disease.

By early next century, the extraordinary in medicine will be commonplace. Already, scientists have made startling progress. Researchers at Johns Hopkins University Medical School have found genes that, when mutated, lead to colon cancer. Soon, scientists expect to collar the rest of the 20 or so genes involved in the disease–and devise quick diagnostic tests in time to intervene. "This is not 22nd century stuff," says Alan E. Smith, senior vice-president for research at Genzyme Corp. "It will be here soon." Companies such as Affymetrix Inc. are already developing chips that instantly spot mutations in a sample of DNA. Moreover, by about 2010, researchers expect to have deciphered the entire human genome, unlocking the secrets to many diseases.

COMPUTED TOMOGRAPHY OF LUNGS AND RIBS: "SMART" DEVICES WILL BE KEY

PROFOUND EFFECT. The ability to sense and process information is key to tomorrow's smarter medical devices. At the University of Michigan and other centers, scientists are working on microdevices that move and control paralyzed limbs. W. R. Grace & Co. researchers are creating an artificial pancreas for diabetics. Implanted in the hip, it senses blood-sugar levels and pumps out insulin to keep the levels in the safe range. Once proven in humans, says Mel Soulé, a Grace senior executive, "it will have as profound an effect as organ transplants did." Meanwhile, sophisticated virtual-reality systems will let doctors train for delicate surgery or even, perhaps, do operations remotely.

The medical infrastructure will have to keep pace with such advances. In one of the new experiments in so-called telemedicine, eight small, rural hospitals will soon be tied through high-speed networks to a regional medical center in Lawton, Okla. Using video and computers, specialists at Lawton will read x-rays, conduct heart exams, and even do psychiatric tests for these small hospitals. Telemedicine will also spur a new international market for U.S. medicine, says John R. Ostrander, director of international consulting at Mayo Medical Ventures in Rochester, Minn., which is setting up electronic links with two hospitals in Jordan.

Reengineering hospitals to eliminate today's morass of paper records is another key step. Dozens of facilities are installing computer systems that keep patient records in electronic form, coordinate treatment among doctors, and can prevent common mistakes, such as adverse drug interactions. Such a system has cut costs at William Wishard Memorial Hospital in Indianapolis by $900 per patient.

Of course, the road to this medical future won't always be smooth. Tough questions loom over how genetic knowledge will be used–or misused–by families, doctors, employers, and insurers, or how privacy will be protected when vast amounts of medical information reside in databases and flow over networks. But we're already hurtling toward a new medical world transformed by advances in knowledge and information technology.

By John Carey in Washington

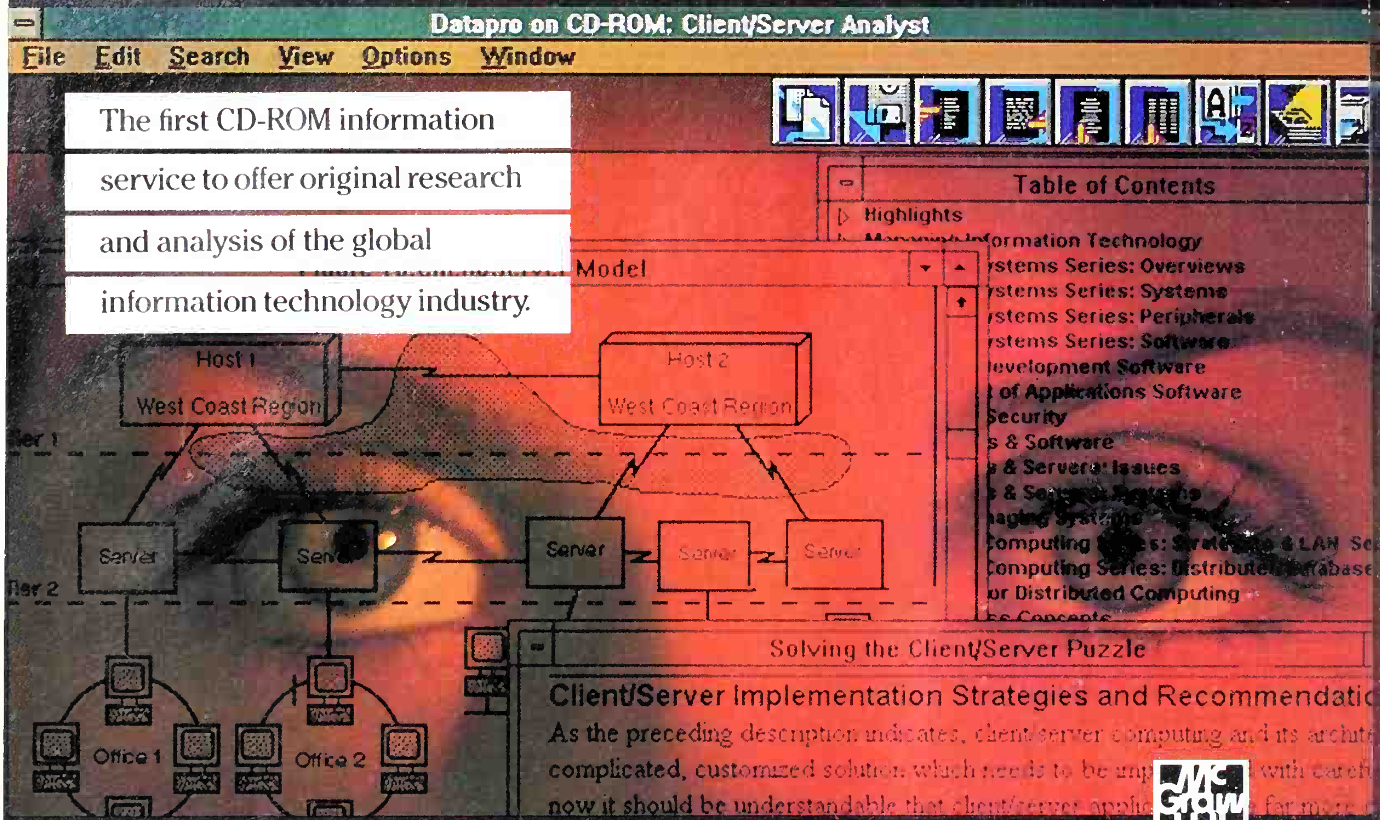

Datapro on CD-ROM: Client/Server Analyst
File
Edit
Search
View
Options
Window
Model
Host 1
West Coast Region
Host 2
West Coast Region
Tier 1
Tier 2
Server
Server
Server
Server
Server
Office 1
Office 2

Table of Contents

- Highlights
- ...formation Technology
- ...ystems Series: Overviews
- ...ystems Series: Systems
- ...ystems Series: Peripherals
- ...ystems Series: Software
- ...evelopment Software
- ...of Applications Software
- ...Security
- ...s & Software
- ...s & Servers: Issues
- ...computing Series: Strategies & LAN Se...
- ...computing Series: Distributed Database...
- ...or Distributed Computing

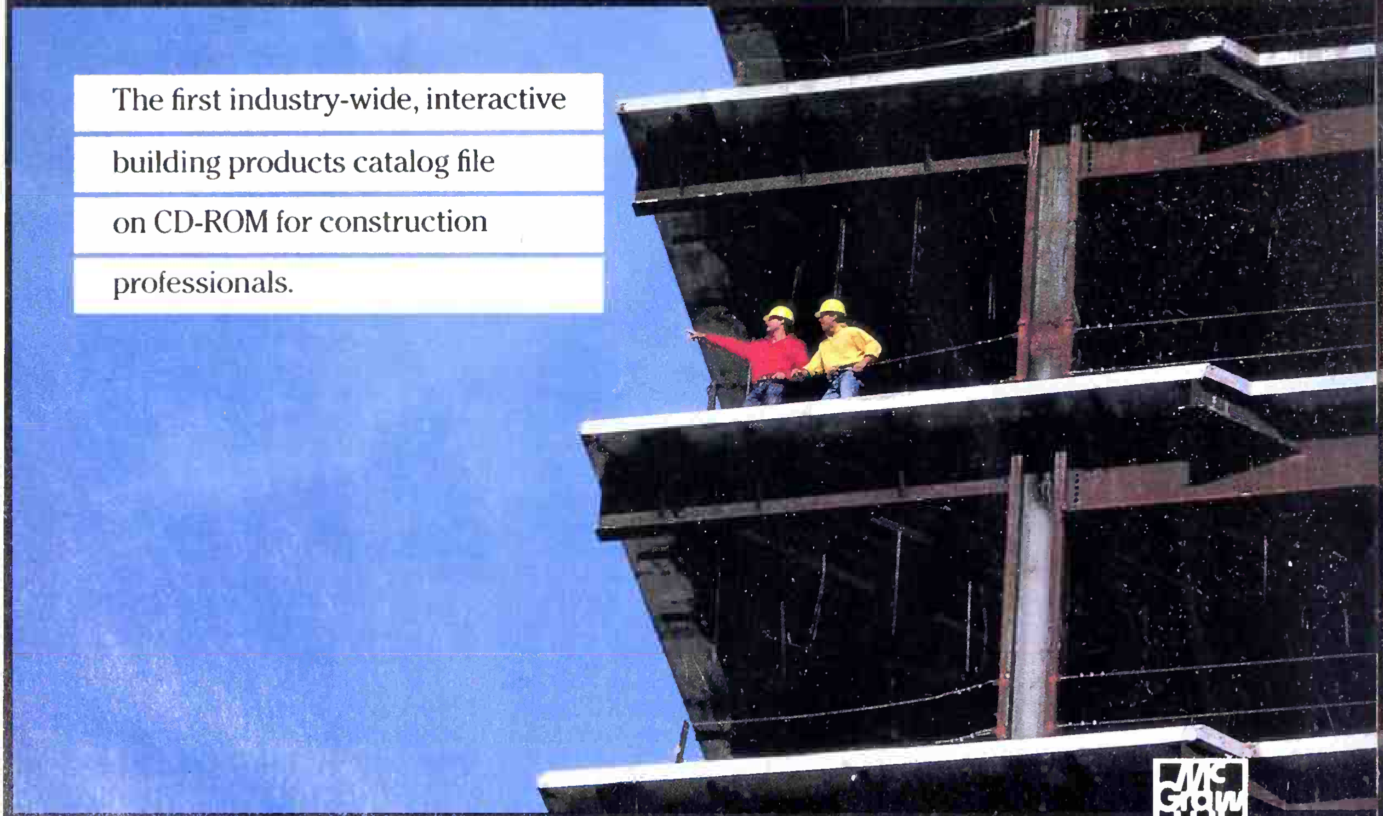
Solving the Client/Server Puzzle

Client/Server Implementation Strategies and Recommendatio...

As the preceding description indicates, client/server computing and its archite... complicated, customized solution which needs to be imp... with careful... now it should be understandable that client/server applic... far more...

The first CD-ROM information service to offer original research and analysis of the global information technology industry.

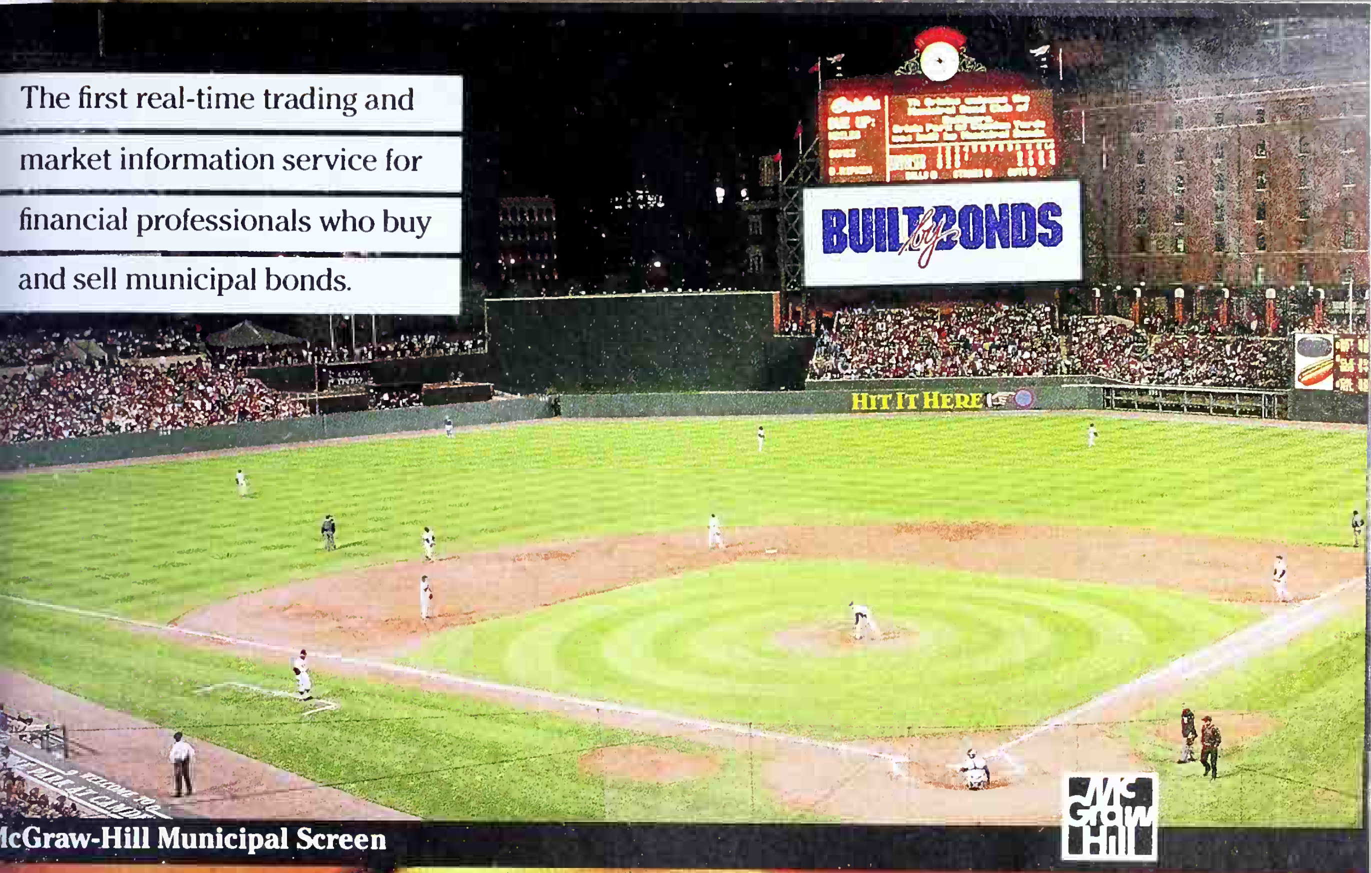
Datapro on CD-ROM



The first industry-wide, interactive building products catalog file on CD-ROM for construction professionals.

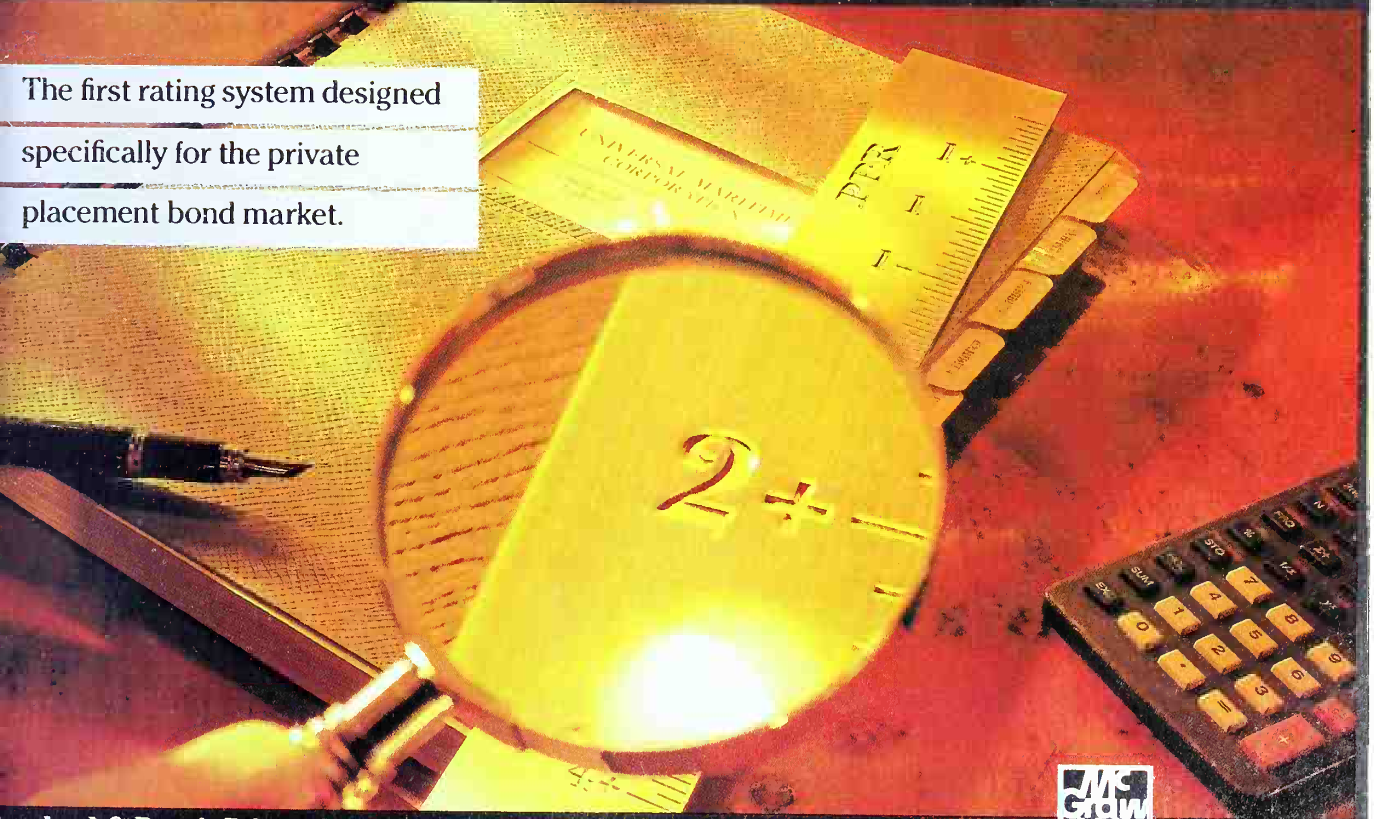
SweetSource

At McGraw-Hill, being first is almost second nature.


BUILT by BONDS
HIT IT HERE

The first real-time trading and market information service for financial professionals who buy and sell municipal bonds.

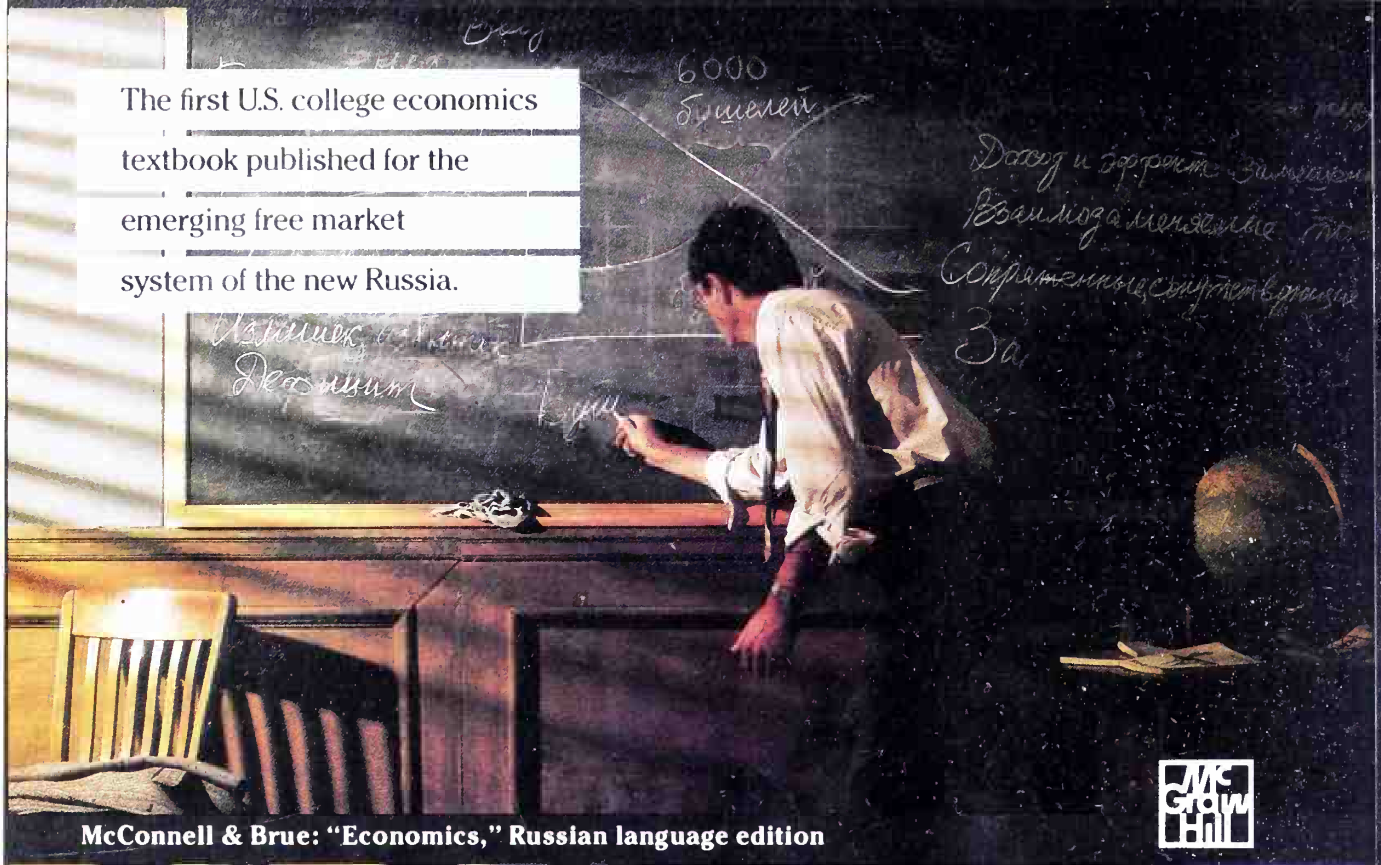
cGraw-Hill Municipal Screen


UNIVERSAL MARITIME CORPORATION
PPR
2+

The first rating system designed specifically for the private placement bond market.

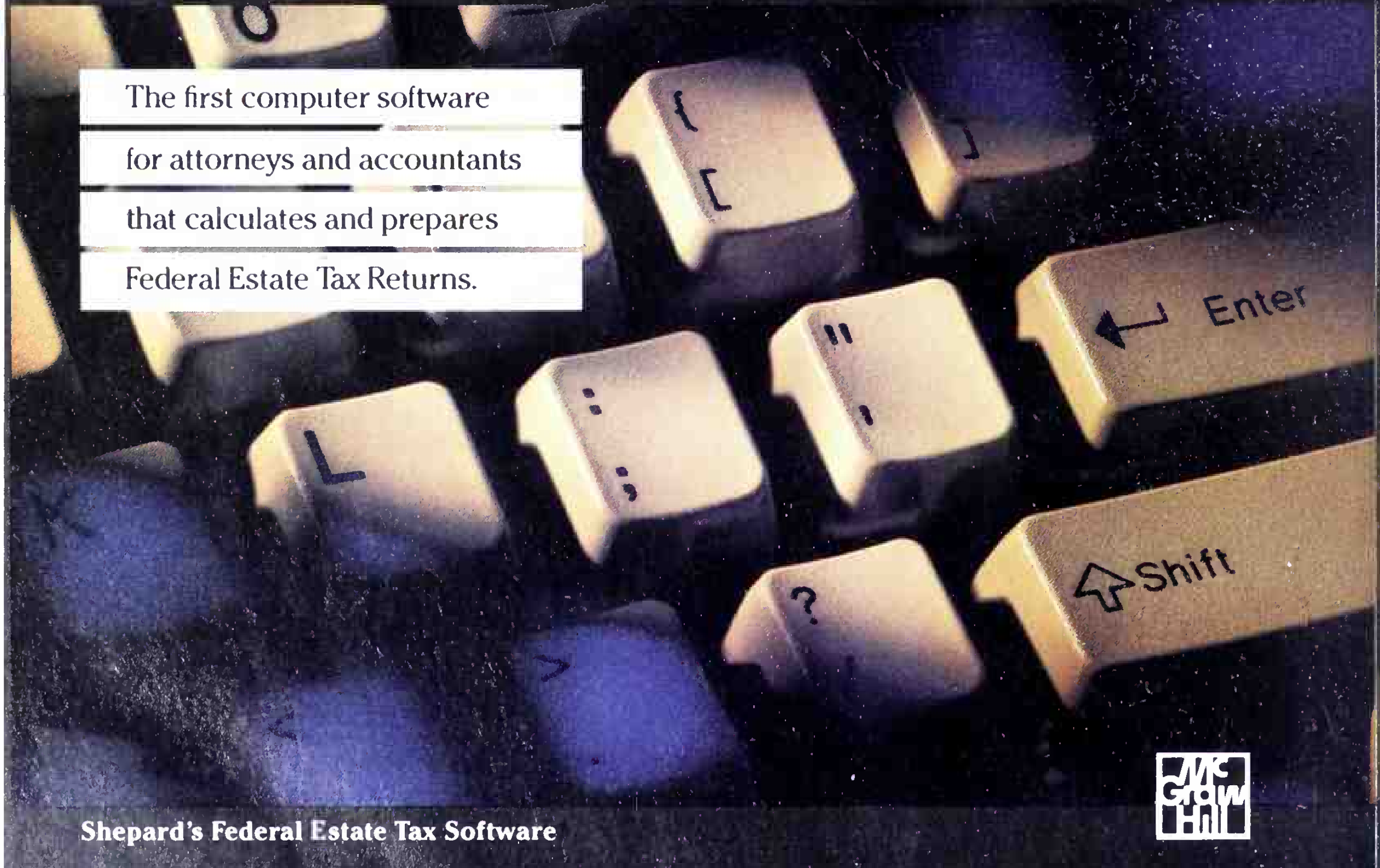
tandard & Poor's Private Placement Ratings

GRAPHIC BY LISA KNOUSE


6000
бушелей
Взаимозаменяемые
Сопряженные

The first U.S. college economics
textbook published for the
emerging free market
system of the new Russia.

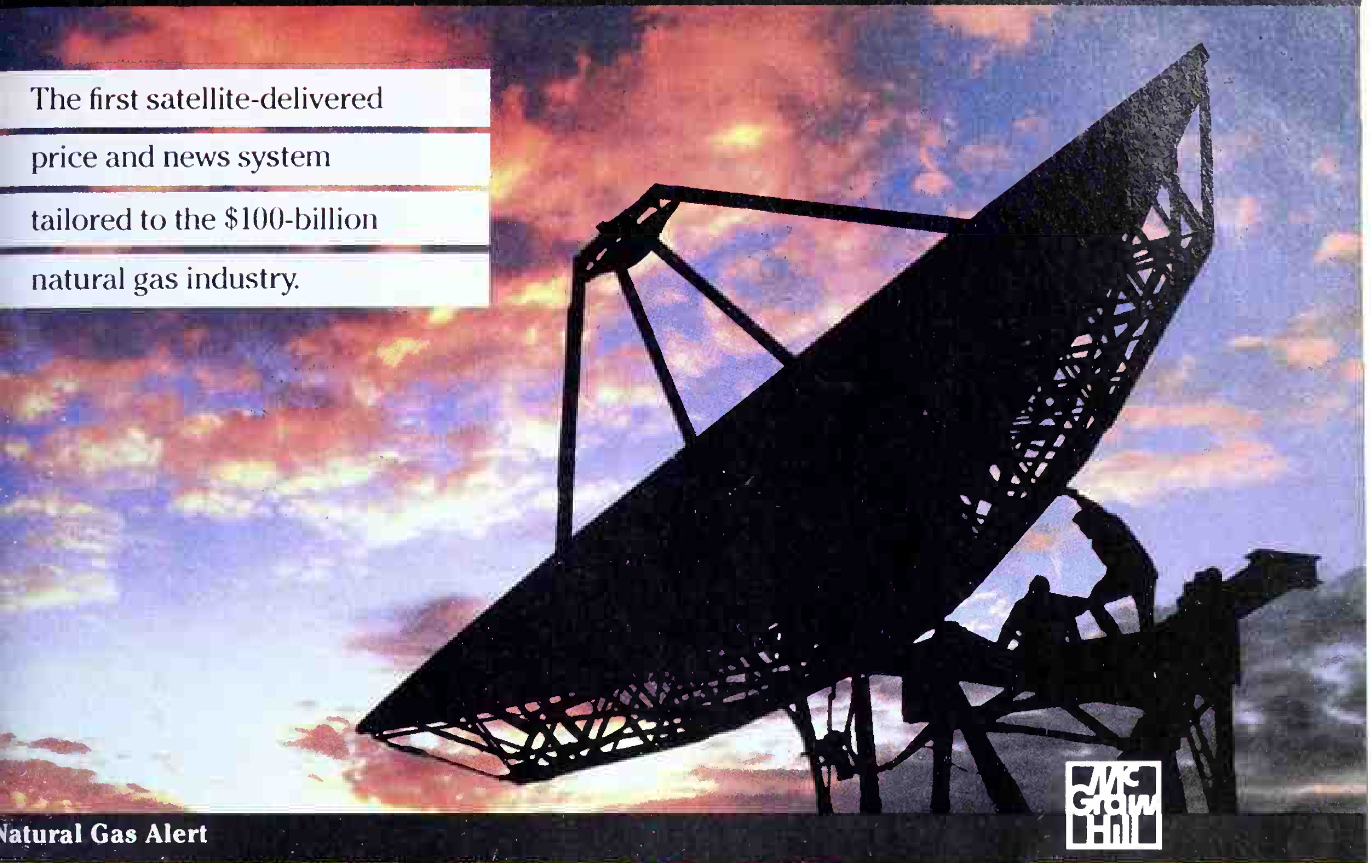
McConnell & Brue: "Economics," Russian language edition

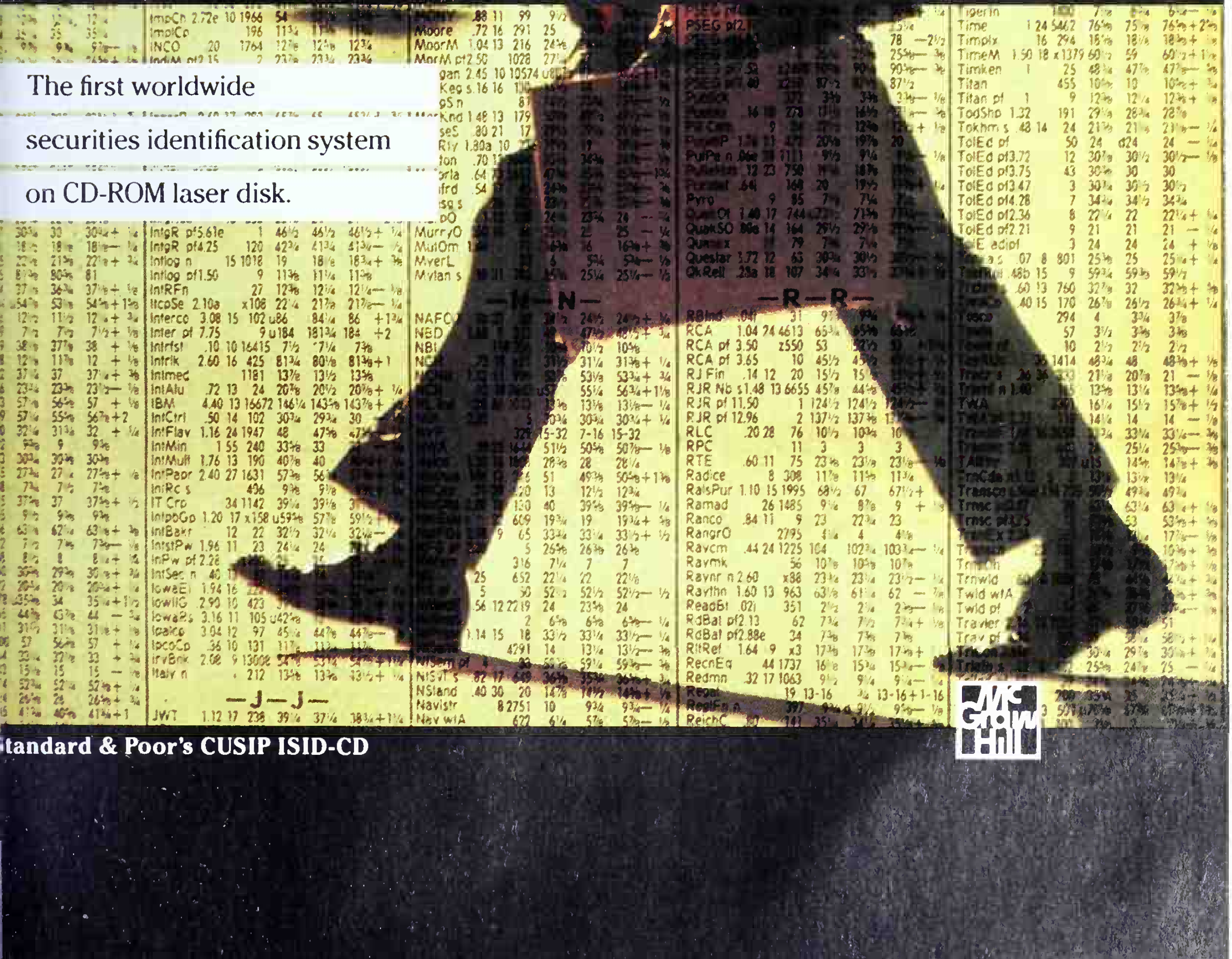

Enter
Shift

The first computer software
for attorneys and accountants
that calculates and prepares
Federal Estate Tax Returns.

Shepard's Federal Estate Tax Software

At McGraw-Hill, being first
is almost second nature.

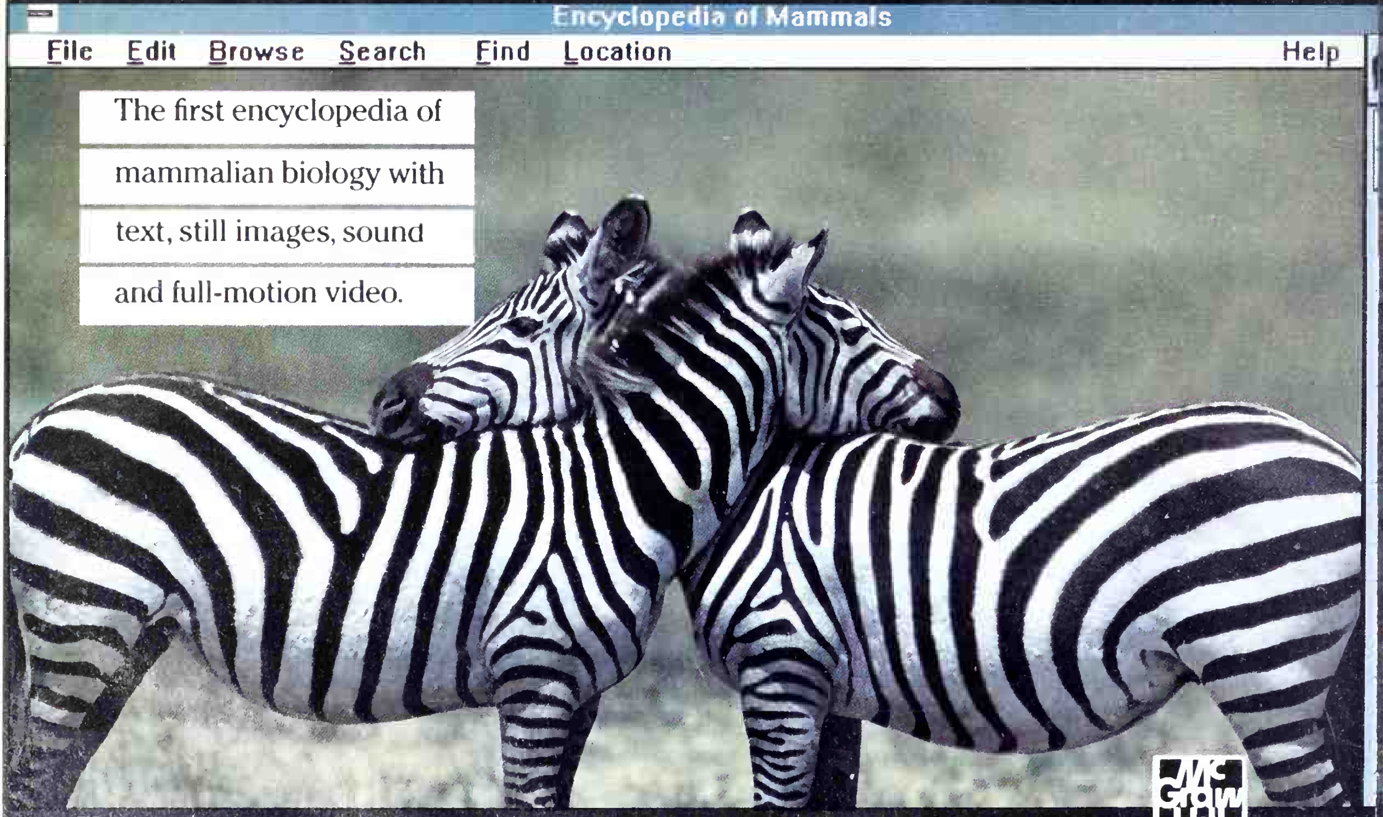

The first satellite-delivered
price and news system
tailored to the $100-billion
natural gas industry.
Natural Gas Alert
McGraw Hill


The first worldwide
securities identification system
on CD-ROM laser disk.
Standard & Poor's CUSIP ISID-CD
McGraw Hill

GRAPHIC BY LISA KNOUSE BRAIMAN

The first index to provide
a performance benchmark
for mid-capitalization stocks.
McGraw-Hill

Standard & Poor's Mid-Cap 400 Index at Chicago Mercantile Exchange


Encyclopedia of Mammals
File
Edit
Browse
Search
Find
Location
Help
The first encyclopedia of
mammalian biology with
text, still images, sound
and full-motion video.
McGraw-Hill

The Multimedia Encyclopedia of Mammalian Biology on CD-ROM

In print through books, magazines and newsletters • On-line over electronic networks • Over the air by television and satellite • On software, videotape, facsimile and compact disks.

McGraw-Hill provides information in many frequencies: instantly, daily, weekly, monthly, annually — to meet the growing and changing global

The first multimedia learning system integrated with a public television series for the study of Spanish.

DESTINOS: An Introduction to Spanish

削減で協力を
企業
億ドル
政府
M6．3の海
では、アジアの
で発言
削減を通告＝
積極的取り組み
のM&A半減＝

The first real-time Japanese bond and money market analysis for financial professionals worldwide.

MMS JAPAN from MMS International

At McGraw-Hill, being first is almost second nature.

GRAPHIC BY LISA KNOUSE BRAMAN/BW

A
B
C
D
E
F
G
H
I
J
K
L
M
N
O
P
1
2
3
4
5
6
7

THE EMERGING MIDDLE CLASS

From Brasília to Budapest to Bombay, the ranks of the relatively affluent are growing daily

HOT
PIZZA
12"
ARABIA
ARABIAN SEA
GULF OF ADEN
MALDIVES
60°
75°
SEYCHELLES
Direction of the Earth's Rotation
I
n
D
The New York Times
9
10
11
12
13
14
15

8 THE GOOD LIFE
t's "middle class" varies from country to country, but all
e new consumers will undoubtedly change the world

6 GLOBAL MEDIA WARS
easingly sophisticated local broadcasters are forcing
ern media giants to customize their TV offerings

190 A TALK WITH A MEDIA TYCOON
What Viacom Chief Executive Frank Biondi sees when he looks to the 21st century global media market: Competition

192 CITIES OF THE FUTURE
Evolving economies and demographics will create much higher profiles for some of today's second-tier cities

GRAPHIC BY LISA KNOUSE BRAINARD

THE GOOD LIFE

GETTING AND SPENDING

Wealth in more hands may someday mean more democracy. Today, it means vacations and VCRs

When Taiwan lifted restrictions on foreign travel in 1985, Florence Chen, a financial manager for Swiss pharmaceutical company Zuellig Pharma Inc., and her husband, Benjamin, were among the first to venture abroad. They jetted off for a vacation in the Maldives, an Indian Ocean playground frequented by well-off Europeans. Since then, the Taipei couple has visited Europe several times. The mother of two children, Florence takes home as much money as her husband: about $3,700 a month. And she is spending a healthy chunk of it to make sure her kids "have everything we did not," including weekly English and piano lessons. "English and cultural skills are a must in today's world," she says matter-of-factly.

> ➛ The reward most hotly pursued by the new middle class is their children's education. And that would be incomplete for many without English lessons

Chen is by no means alone in her pursuit of the good life. Just visit Kmart on Narodni Trida in downtown Prague, where the aisles are packed with Czechs snatching up Nintendo Game Boys and Michael Jordan basketball hoops. Or at a branch of Mexico City's Bancomer, where Mexican consumers are lining up for credit cards, auto loans, and mortgages. From Brasília to Budapest to Bombay, a vibrant and vital middle class is quickly emerging, as more countries loosen state controls and embrace market economies.

True, many of the world's newly affluent groups will develop along paths vastly different from those in the U.S. and Western Europe. They diverge widely in geography, political history, and social mores. But just as the aspirations of a broad middle class changed 19th century Western Europe, the desire of its 21st century counterparts for stability, prosperity, and freedom will transform the world.

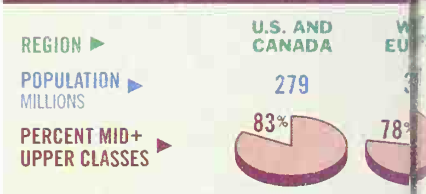
Part of this transformation will be political. While no one expects authoritarian regimes to collapse overnight, they're destined to relax controls in coming years, as the local middle classes flex their muscles. "Whenever the new middle class has emerged, political reform has followed in its wake," says Raymond F. Wylie, professor of international relations at Lehigh University.

Pressures for social change will mount, as well. Middle-class people usually want fewer restrictions on their private lives, including the ability to travel abroad and gain access to information. And ultimately, they will press for solutions to many of the same problems gripping the industrialized world: pollution, health care, crime, and drugs.

GRADUAL CHANGE. The flourishing of these emerging middle classes hinges on continued economic prosperity. Should developing nations that are booming today suddenly fall victim to political or ethnic turmoil, their middle classes are certain to suffer. Moreover, runaway inflation—the unwelcome partner of many an emerging economy—could easily wipe out their gains. As a result, global middle-class members covet stability, insurance against losing their newly created jobs or their still-novel personal freedoms. "The middle class does not support drastic changes," says Lui Tai-lok, an expert

THE SMALLEST OF CHINA'S SMALL BOURGEOISIE AT PRIVATE KINDERGARTEN

THE MIDDLE CLASS G



INDIA
920
MILLION
15%

TYPICAL MIDDLE-CLASS FAMILY INC
$300-$800 Monthly

Typical jobs: Bank tellers, m keting executives, and com programmers. College degre optional. Housing: Usually one or two-b room rental apartments. Consumer goo TVs and refrigerators, though air condit ers and autos are rarer. Leisure time u ly spent with extended family.

MEXICO
92
MILLION
32%

TYPICAL MIDDLE-CLASS FAMILY INC
$600-$2,500 Monthly

Typical jobs: Lower adminis tive positions in services or ily businesses. Two-year col diplomas common. More wo working to pay for middle-class lifestyl small car, an annual vacation, some me out, a VCR. Home ownership: Widespre often with help from family members.

DATA: DRI/McGRAW-HILL EVALUATION OF 1991 DATA, BUSINESS WEEK

GIRARD/CONTACT; CHART BY ALBERTO MENA/BW

on the middle class at Chinese University of Hong Kong. "They want a more gradual, evolutionary kind of change."

They may not have that luxury this time, however. Where it took more than a century for Britain's middle class to develop, in some places that same process is being accomplished in only a decade. With linkups to the rest of the world through advanced telecommunications and cable and satellite TV, the new middle class can instantly receive a clear picture of Western riches—and demand a similar lifestyle.

Asia is the hot spot in this international race to prosperity. Indeed, if Asian economies continue their dizzying 5%-to-8% annual expansion of the last decade, their middle classes will grow at double or even triple that rate, estimates Linda Y. C. Lim, director of the Southeast Asia Business Program at the University of Michigan. In fact, Lim predicts that the Asian middle class, excluding Japan's, could top 700 million people by 2010, wielding an astounding $9 trillion in spending power—50% more than the present-day gross domestic product of the U.S.

NEW RELIGION. But the fast-advancing Asian nations won't be the only ones that will enjoy a middle-class surge. The economies of Latin American countries such as Mexico are benefiting from privatization, the breakdown of trade barriers, and a sharp curtailment of inflation, providing hope—and, sometimes, shock (page 180)—for millions of middle-class strivers. Meanwhile, citizens of Russia and Eastern European nations such as Poland are renouncing the doctrine of communism for a far-more-tempting religion: the chance to get rich. Even in post-apartheid South Africa, where for 50 years only whites could dream of a comfortable middle-class lifestyle, a small circle of black professionals is expanding quickly (page 182).

Defining the composition of this global middle class is tricky, because of widely varying levels of development among Asian and Latin American nations (table). But a reasonable estimate is that one-fourth of the world, some 1.2 billion people, enjoy middle-class lives. In many ways, household income is a poor gauge of class. A middle-class family in Bombay, for example, may earn $6,000 annually, while one in Taipei can easily pocket six times as much. Income figures also ignore vast differences in international purchasing power. Rent and electricity in China are heavily subsidized by the state,

BAL

Their incomes may vary, but the middle classes are gaining in affluence and influence around the world

ST OPE	LATIN AMERICA	MIDDLE EAST	FAR EAST	SOUTH ASIA	AFRICA	WORLD TOTAL
7	447	259	1,812	1,130	664	5,315
	19%	13%	11%	8%	5%	23%

SSIA
49
LION

TYPICAL MIDDLE-CLASS FAMILY INCOME
$300-$800 Monthly

Housing and utilities cost virtually nothing. Jobs in trade and services typical. Education: Bachelor's degree widely held. ing: Cramped two-room apartments orm. Consumption: Blue jeans, run- shoes, cassette recorders, imported VCRs, and bootleg videotapes.

U.S.
254
MILLION
60%

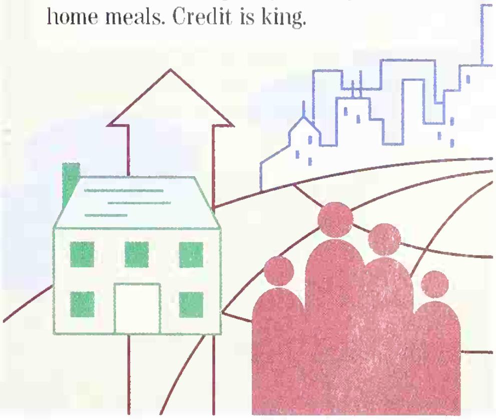
TYPICAL MIDDLE-CLASS FAMILY INCOME
$2,300-$5,500 Monthly

Purchasing power in big cities eroded by high housing and child-care expenses. Education: Many have post-secondary training or some college. Home ownership: Widespread. Consumption: A TV, a VCR, at least one car, and plenty of away-from-home meals. Credit is king.

WAN
1
LION

TYPICAL MIDDLE-CLASS FAMILY INCOME
$3,000-$7,500 Monthly

Typical jobs: Civil servants, factory managers, and executive secretaries at multinationals. About half have college de- . Apartment ownership common. Con- tion: Western-style fashions and ican restaurants. Cars: Hondas and ; preferred.



ERCENTAGES REPRESENT MIDDLE CLASS ONLY

GRAPHIC BY LISA KNOUSE BRAINWIN/BW

giving Chinese consumers more spending power than their modest salaries might suggest. Besides, income distinctions don't reflect education or values—two increasingly important barometers of middle-class status.

So, in the broadest sense, this new middle class can be best described as those with disposable incomes—people no longer concerned about daily survival who have joined the ranks of modern consumers. Beyond funding the purchase of televisions and automobiles, that increase in wealth allows its owners to spend on intangibles such as education—and to worry about societal ills that endanger their newfound lifestyles. The global middle classes "eat similar foods, they see the same entertainment programs, and they are likely to converge more as commerce assumes a dominant role," says Sarthi Acharya, deputy director of Bombay's Tata Institute of Social Sciences.

Already, multinational manufacturers are hungrily eyeing this huge influx of new consumers into the global marketplace. Little wonder: The emerging middle class's eagerness to upgrade its material well-being is sparking rav-

MEXICO / THE LOPEZ FAMILY

TWO INCOMES, BUT STILL SCRIMPING

MAKE A WISH: PRIVATE SCHOOL IS A TOP PRIORITY, INCLUDING EXTRA-COST COMPUTER CLASS

[illegible] RANTES/SYGMA

Elena Madariaga still remembers when she and her husband would fly their three children to Acapulco for the weekend on a lark. As an electrical-maintenance worker in Mexico City for the state-owned airline, Aeroméxico, Madariaga's husband, Abdiel López, received a 90% discount on all family flights, and back then, they could easily afford off-season hotel rates.

But like millions of middle-class Mexican families whose standard of living was slashed by the debt crisis of the 1980s and the free-market reforms that followed, López and Madariaga were abruptly jolted out of their comfort. Days of relative ease gave way to unemployment and a continuing life of peso-pinching. Only recently, with the Mexican economy's slow recovery from shock therapy, has the couple begun to plan for the future. Along the way, they've learned a painful lesson: Middle-class status can be decidedly fragile.

SALARY DIVE. The crunch came in 1988, when López was fired after the government declared Aeroméxico bankrupt and sold it. Out of work for 10 months, he was rehired by the carrier's new private owners at a 30% pay cut and fewer benefits. The couple was forced to give up its live-in maid, and Madariaga, 35, returned to work. "We had to make payments on the credit card, and we needed to pay the school fees," explains Madariaga, an executive secretary.

When finances were at their tightest, however, the Lópezes always paid the children's private-school bill. "The only thing middle-class people like us can leave our children is a good education," says López, 37. And the couple is happy that Priscila, 11, Saraí, 10, and Abdiel, 8, receive extra attention at their private school, plus classes in English and music. Computer classes cost extra, but the family foots the bill. "It's the future," notes Madariaga, who has already reserved a spot for a computer—as soon as she finds the extra cash.

Between them, López and Madariaga take home about $1,100 a month, leaving little for extras. One reason: School fees total $335 monthly, a third of their income, but the couple is determined to give the same education to both the girls and their son. "The time will come soon when women can aspire to the same jobs as men," says Madariaga confidently. Indeed, Priscila wants to be an oceanographer, while Saraí hopes to be a veterinarian. Young Abdiel's current career plan, however, is to be a fighter, like Arnold Schwarzenegger's Conan the Barbarian or one of Mexico's popular masked wrestlers.

> ➛ The free market's lesson: Middle-class status can be decidedly fragile

Like Abdiel's ambitions, the family's influences are a blend of Mexican tradition and U.S. imports. For her 10th birthday, Saraí and her siblings took turns whacking the traditional decorated *piñata*, but her gift was all-American: a Barbie doll. Still, Madariaga is hesitant about such U.S. influences flooding Mexico. "Japan would be a good model to follow," she says. "There seems to be more solidarity there." Yet López believes the U.S. allows more individual initiative. And right now, he covets a world for his children where initiative assures a more stable middle-class life than his own.

By Elisabeth Malkin in Mexico City

➔ New ways meet resistance: Malaysian teens like to hang out at shopping malls, but "loafing" is a crime

enous demand for everything from BMW's in Taiwan to $114 bottles of Remy Martin XO cognac in Guangzhou, turning the marketing even of luxury goods into a global affair. And many multinationals such as Unilever PLC envision a not-so-distant future when profits from emerging markets will outstrip those in the industrialized world.

One reason members of this new middle class are increasingly looking, living, and even talking more like each other is the rapid growth of media across borders (page 186). In many cases, the far-flung message is distinctly American: talk shows, Hollywood movies, CNN. In the Czech Republic, for instance, a new private TV station named Nova now broadcasts old *M*A*S*H* episodes. America's favorite cartoon family, *The Simpsons*, has become the most popular imported television show in Latin America. And Danielle Steel's steamy fiction now outsells Russian classics in Moscow bookstores. "It's an enormous media invasion from the skies," says Alyque Padamsee, a Bombay media consultant—and one that's spurring local media companies to boost their own native-language offerings.

DISHES A-POPPIN. Whatever the source of the newly popular programming—the current favorite on Russian TV is a Mexican soap opera called *Wild Rose*—the rapid growth of media outlets, televisions, and satellite dishes in emerging countries signals a middle-class hunger for information and entertainment. Indeed, in India there are now 50,000 private cable operators, and by 1996 there will be 30 channels, Padamsee says. And despite threats by Burma's military leadership, there are at least 4,000 satellite dishes in primitive Rangoon.

Stronger than the values spawned by global advertising and MTV is the desire, widely shared among the world's middle classes, to give their children the best education money can buy. Asians, many of whom put a premium on learning, feel that top-notch schooling gives a child the credentials ensuring success. Latin Americans view education as a way for their children to bridge the traditionally wide gap between rich and poor.

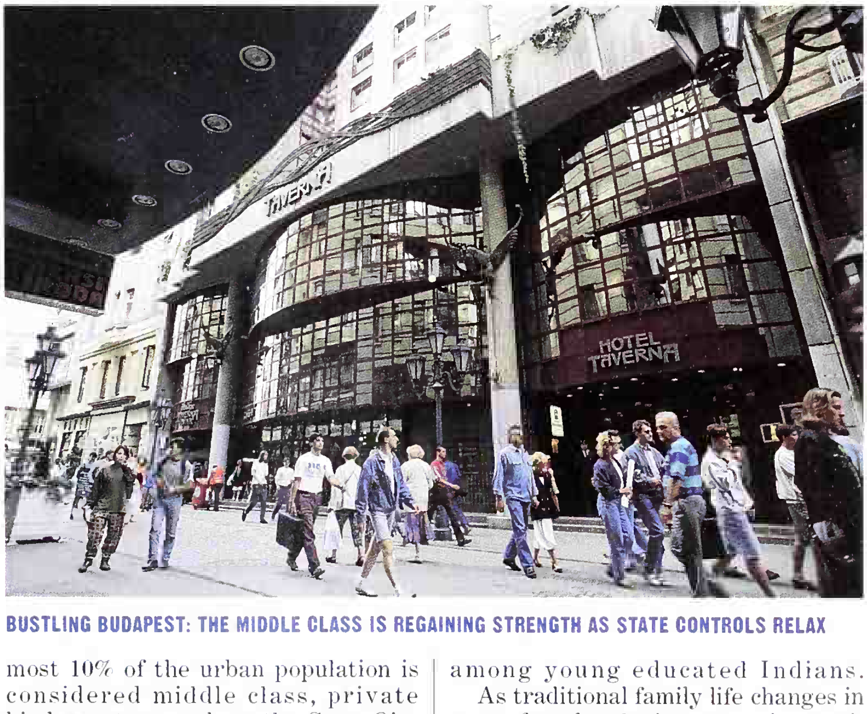
In Eastern Europe and Russia, where communist authorities for decades denied a decent education to anyone who differed with the system, many parents are also determined to give their kids the skills they lacked. "I want [my son] Jindra to go to university so he has freedom to choose what he wants to do," says Blanca Sedova, a secretary in Prague who wasn't allowed to attend college because her parents were expelled from the Communist Party.

EXPRESS YOURSELF. As a result, new private schools seem to be popping up everywhere. In India's 70,000-citizen university town of Dehra Dun, there are now scores of private schools. In Taipei, parents fed up with a strict Asian-style curriculum that stresses rote memorization and conformity, have started two private alternative elementary schools that encourage expression and creativity. Even in China, a nominally communist nation where at most 10% of the urban population is considered middle class, private kindergartens such as the Song Qingling school in Shanghai are spreading throughout major cities. "Education is increasingly important because it allows young people to move up because of their credentials," says Thomas W. P. Wong, a Hong Kong University sociologist.

As in the West, an increasing number of families worldwide can afford such perks because both husband and wife are wage-earners. The social stigma against married women working is easing, as shown by the 40% of Hong Kong's married women who are employed. And many middle-class women in developing nations can rely on relatives or cheap household workers to look after their children. With dishwashers, washing machines, and microwaves more easily within reach, "the homemaker roles can be automated to zero," says Joe Cobb, a Heritage Foundation economist.

Also, unlike poor agrarian societies where many children help relieve a family's burden of manual labor, increasingly middle-class parents deliberately have a small, more-affordable number of children. "I want not more than two kids," says Ashish Deshpande, a 26-year-old Bombay psychiatrist, echoing a popular sentiment among young educated Indians.

As traditional family life changes in many fast-developing countries, societies are starting to feel the strain. The newly wealthy in countries such as the Philippines and Malaysia are moving out of extended families and forming Western-style nuclear ones. And such changes sometimes endanger the centuries-old social pact between young and old. Elderly parents who would have lived with their grown children are now being sent to new old-



BUSTLING BUDAPEST: THE MIDDLE CLASS IS REGAINING STRENGTH AS STATE CONTROLS RELAX

IMRE BENKO/WOSTOK PRESS

SOUTH AFRICA / THE MOGASE FAMILY

FROM SOWETO TO THE SUBURBS

The ramshackle black township of Soweto where banker Mutle Mogase grew up is only 30 miles from his new home in Randburg, the mostly white Afrikaner Johannesburg suburb. But getting there has been an enormous journey for Mogase, a member of South Africa's small but growing black middle class.

NEW WORLD: FOUR BEDROOMS, PRIVATE SCHOOL, AND TWO CARS

Fifteen years ago, even a black bank clerk was an oddity. And no black—even Mogase, a 30-year-old rising star at the nation's largest bank, ABSA Ltd.—would have been allowed under apartheid to live in this prosperous town. But majority rule has sent corporations scrambling to recruit black talent, spawning a nascent black middle class that is fast amassing all the trappings of its international brethren. Mogase is moving to a four-bedroom home, sending his daughter to private school, has taken up golf, and owns two cars—including a five-year-old BMW.

EDUCATION FIRST. Mogase's father, Isaac, was a respected adviser to the students who mounted the 1976 Soweto uprising that led to apartheid's downfall. But when the younger Mogase tried to lead a strike at his high school in the late 1970s, his father derailed the plan with a middle-class admonition: Education comes first. "My father was in and out of prison for the 10 years from 1978 to 1988," recalls Mogase. "[So] my mother, a nurse, supported three children at university."

His bachelor's degree from the University of Cape Town, training at Chase Manhattan Bank in New York, and current part-time MBA studies make Mogase unusual among South African blacks, who were routinely denied good educations under apartheid. After four years at Nedcor Bank Ltd. managing the account of the giant Anglo American mining conglomerate, Mogase in September joined ABSA as assistant general manager in charge of new business lending.

Mogase notes that recruiting skilled blacks has become commonplace, yet he warns that many companies are eager to place blacks in visible—but often token—positions. "We are a big item on the market," says Mogase, who turned down several offers he felt were made only because of his color. Others, he says, use the bidding to hike their pay: "There's a lot of job-hopping."

Mogase says he hasn't abandoned his roots. "I often go back to Soweto and am as comfortable drinking in a *shebeen* [or private drinking house] as associating with [white] colleagues at work," he says. "They are two different worlds, but I am equally comfortable with both."

By Alan Fine in Johann

➛ Majority rule has sent companies scrambling to recruit black talent

age homes opening in wealthier Asian nations such as Singapore and Taiwan.

Other outside—often American—influences are causing culture clashes for nations with fast-growing middle classes. In Malaysia, MTV-savvy teens mimic their U.S. counterparts who hang out at shopping malls—although such so-called "loafing" in Kuala Lumpur is a crime punishable by two weeks in a rehabilitation center. And in India, traditionalists worry about the social impact of hours of American soap operas such as *The Bold and the Beautiful* and *Santa Barbara*—replete with scene after scene of infidelity—that Star TV beams each day into Hindu homes where arranged marriage is still the norm.

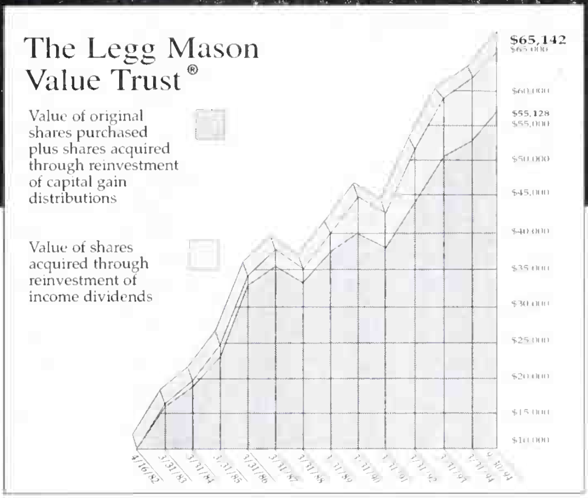
FAT FOOD. Moreover, many fast-growing countries are also experiencing the downside of the "good life" first hand. From 10% to 25% of Malaysian schoolchildren ages 7 to 12 are obese, according to Dr. Ismail Merican, who recently launched a study at the Kuala Lumpur General Hospital. He chalks up the weight increases to poor eating habits that stem from increasing affluence. One sign of the times: 110 Kentucky Fried Chicken outlets in Malaysia alone. And, although nowhere near the incidence in Western countries, drug addiction, divorce, and juvenile delinquency are inching up even in tightly controlled Singapore.

All this is causing a backlash. China's communist hard-liners, for one, frequently rail about "the lust for comfort and luxury" of the country's "excessive profit-seekers and businesses." Singapore's Lee Kuan Yew, the authoritarian leader who views "Asian values" of strong family ties, social cohesion, and respect for authority as superior to those in the West, is also a vocal critic. And, although his policies are strict, he has considerable support from well-off Singaporeans.

"It's not nice for girls to dress like Madonna, and a lot of teenagers are worshipping her," snaps Karen Chan, a Singapore teacher turned full-time homemaker, who says she worries about the "corrupting" influence of premarital sex, drugs, and immodest dressing. Adds Abdul Ghani Othman, Malaysia's Youth & Sports Minister: "The country wants to be a developed nation, but at the same time definitely wants to avoid all these social problems that the West has."

Accomplishing both is unlikely. Traditions aside, rising incomes and constant media exposure to foreign ways have already so changed the emerging middle classes that the momentum

If You Had Invested *$10,000* at the inception of our Legg Mason Value Trust, it would now be worth *$65,142.*



Average Annual Returns

ONE YEAR	FIVE YEAR	TEN YEAR	LIFE OF FUND
7.83%	6.09%	11.86%	16.23%
9/30/93–9/30/94	9/30/89–9/30/94	9/30/84–9/30/94	4/16/82–9/30/94

For thousands of investors, the ***Legg Mason Value Trust*** fund has provided a sensible way to take advantage of uncommon values in common stocks over the last twelve years. **If you had invested $10,000 on April 16, 1982, and reinvested dividends and capital gain distributions, your investment would have grown to $65,142 as of September 30, 1994.** There is no sales charge on purchases or redemptions of Trust shares. The Trust pays asset-based distribution and management fees and other expenses. The adviser absorbed a portion of Fund expenses during fiscal years 1983 and 1984. If you would like to know more about the Value Trust, call

1-800-577-8589

for a free prospectus containing more complete information, including charges and expenses. Please read it carefully before investing or sending money.

LEGG MASON
Funds

The investment return and principal value of an investment in the fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The returns shown are based on historical results and are not intended to indicate future performance. Calculations assume reinvestment of dividends and capital gain distributions, and are not adjusted for income taxes payable on those amounts by taxable accounts.

LEGG MASON WOOD WALKER, INC.
An Investment Tradition Since 1899 • Member NYSE • Member SIPC

INDIA / THE BHURKE FAMILY

DESIGNING INTERIORS —AND A NEW LIFE

TUNED IN: THE BHURKES JOIN SOME 150 MILLION UPSCALE INDIANS

Ask interior designer Nandkumar Bhurke about the Indian government's economic policies, and he won't have much to say. He's simply too busy handing clients dog-eared Ikea catalogs or other Western home-furnishings magazines to give politics much thought. Yet Bhurke, 31, is a beneficiary of India's recent reforms to deregulate the economy. As the economy surges, the *nouveaux riches* have money for such things as modern Murphy beds to save space in cramped bedrooms. "My clients," says Bhurke, "have a live-for-today attitude."

Bhurke joins an estimated 150 million Indians among the country's fast-growing middle class. With 5% economic growth continuing and further economic reforms expected, Indians such as Bhurke are quickly upgrading their standards of living. In his one-bedroom apartment in a Bombay suburb, for instance, he has a cordless phone, a color TV, and a compact-stereo system. Outside stands his Maruti 800, a Suzuki car that has become an icon of the nation's yuppies.

LUCKY HOUSE. Bhurke's apartment—and a lot of enterprise—led to his present success. After buying the unit four years ago, he remodeled it to make more space. Soon, neighbors were commissioning similar makeovers. The result: Bhurke's Akruti Interiors, which earned $5,000 in net profits last year. "This is a lucky house," Bhurke says—though his wife, Neelima, a clerk at Air India, wouldn't mind moving to a bigger one.

Life wasn't always so kind to Bhurke. Forced to drop out of high school to help support his widowed mother, he was also desperate to make money to marry Neelima—whose middle-class parents objected because he was dirt-poor. At first, Bhurke drove a pedicab, which only disgusted Neelima's family more. "They didn't want a son-in-law who drove a rickshaw," he says. He also worked sealing parcels for $80 a month.

Now, Bhurke is determined to ensure that his five-year-old daughter, Priyanka, has it better. He has bought her a Casio keyboard, a doll stroller, and an English-language encyclopedia. "While I'm not conversant in English, I want my daughter to be," he explains. "That's how you get ahead in life."

To be sure, Bhurke knows a bit about getting ahead. He now earns more than any member of his family—or Neelima's. As a reminder of his humble past, though, he keeps the pedicab—hiring it out to others aspiring to reach the middle class.

By Joyce Barnathan, with Shekhar Hattangadi, in Bombay

→ After a dirt-poor start, Bhurke now has a stereo, color TV, and snazzy car

probably cannot be reversed. "Instead of being a declaration of independence 'Asian values' is the last gasp of traditional Asia before the onset of modernization," argues Alfred Balitzer, a government professor at Claremont McKenna College and the former U.S. Ambassador to Brunei.

At best, nations giving rise to these emerging middle classes must strike a compromise. Japan is a classic example. Although heavily influenced by the West, the Japanese have managed to maintain an extremely distinct cultural identity. "People in Asia are used to living with contradictory philosophies and adopting only the parts they like," says Camille P. Schuster, professor of marketing at Xavier University in Cincinnati. "While Western values may become one layer of the onion, the other layers are still there."

SUN, NOT SMOG. One Western value that may find ready support among the global middle class is concern over quality of life. In Russia, where up to 30% of the population is estimated to be middle class, there is strong pressure to clean up the environment. "The people want to see the sun at midday and not have life expectancy cut short because of poisons in the air," says William Zimmerman, a University of Michigan professor who recently surveyed the attitudes of 1,243 Russians.

The transition from nascent environmentalism to full-blown political activism can be slow. When it's still small in number, "the middle class is not necessarily prodemocracy," argues Samuel P. Huntington, director of the John M. Olin Institute for Strategic Studies at Harvard University. In Latin America, for example, much of the middle class has for decades supported military coups during times of social chaos for fear of losing power to disgruntled peasants and workers.

In China and Vietnam, the relatively small middle classes are so money hungry after years of deprivation that the furthest thing from their minds is reforming their undemocratic and corrupt governments. "The essential thing is to get rich," notes Hoang Ngoc Hien, a lecturer at Nguyen Du Creative Writing School in Hanoi. "Corruption can help. Political reform will not."

Indeed, the political goal of many new middle-class members is simply to maintain stability. "If you consider that 40% of Mexicans live in poverty, then the middle classes are privileged groups," says Soledad Loaeza, a political science professor at El Colegio de México in Mexico City. "In a situation

PABLO BARTHOLOMEW/GAMMA LIAISON

of instability they react with defensive actions, not offensive ones."

But as wealth spreads, the middle class will undoubtedly become more vocal. In Taiwan and South Korea, where an educated middle class emerged after three decades of booming exports, budding democracies have taken root. While still basically a conservative group that prefers stability to drastic change, this first generation of middle-class Asians also wants reforms. "Once people have enough money so that they are no longer concerned with survival, they start to be concerned with liberty," says S. H. Michael Hsiao, research fellow at Academia Sinica in Taipei.

GENERALS OUT. Take Thailand. Disgusted with cronyism and corruption in the military, the country's middle class played a key role in preventing the generals from keeping political power in 1992. And in South Africa, expanding the tiny black middle class is key to building a stable democracy.

Yet a truly global middle class eager to exert both its social and political influence probably won't come into full blossom for at least 20 years, when members of a global Generation X move into positions of influence in their respective nations. This middle-class MTV generation, at home listening to rock music and familiar with computer jargon, will also benefit from the English-language instruction and improved educational systems being put in place in emerging nations. "Teenagers and people in their 20s [already] have a middle-class culture," says Rudolf Andorka, president of the Budapest University of Economic Sciences. "When they are the most important part of Hungarian society, a middle-class culture will dominate."

In fact, that may bring some surprising long-term benefits. Many analysts argue that the growing global middle class's demands for an economically dynamic—yet politically stable—world will reshape geopolitics for the better. When there's a strong middle class, "it's hard to get popular passions stirred for war," says Michael Novak, director of social and political studies at the American Enterprise Institute for Public Policy Research in Washington. "Commercial republics don't make war on one another. Rarely do democratic ones." If he's right, then the emergence of the global middle class could bring a more prosperous and peaceful 21st century.

By Joyce Barnathan in Bombay, with Margaret Dawson in Taipei, Teresa Albor in Manila, Lucinda Hahn in Prague, Michele Galen in New York, and bureau reports

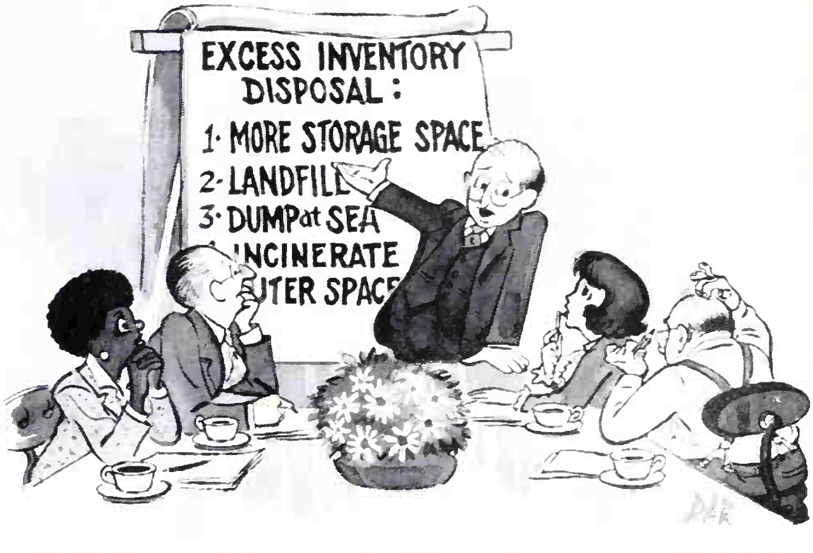
MASTER GLOBAL STRATEGIES

DEVELOP STRATEGIC THINKING IN YOUR ORGANIZATION. IN THE EXECUTIVE EDUCATION NON-DEGREE PROGRAMS AT DUKE UNIVERSITY'S FUQUA SCHOOL OF BUSINESS, EXECUTIVES LEARN TO POSITION THEIR ORGANIZATIONS FOR A SUCCESSFUL TRANSITION TO A GLOBAL ECONOMY. MAINTAIN A COMPETITIVE ADVANTAGE. CALL TODAY FOR OUR 1995 CATALOG.

DUKE
THE FUQUA SCHOOL OF BUSINESS

THE FUQUA SCHOOL OF BUSINESS
DUKE UNIVERSITY
R. DAVID THOMAS CENTER
BOX 90116
DURHAM, NC 27708-0116

919 660-8011
FAX:919 681-7761



"Surely...we have a better option than **these**!"

Yes, you do.

Turn your **excess inventory** into a tax break and help send needy **kids to college**.

Call for your **free guide** to learn how donating your slow moving inventory can mean a generous **TAX WRITE OFF** for your company.

Call (708) 690-0010

EAL

P. O. Box 3021
Glen Ellyn,IL 60138
Fax (708) 690-0565

Excess inventory today....student opportunity tomorrow

GRAPHIC BY LISA KNOUSE BRAIMAN/BW

GLOBAL MEDIA WARS

THINK GLOBALLY, PROGRAM LOCALLY

As fledgling world markets mature, Western media giants must customize their TV offerings to compete with increasingly sophisticated domestic broadcasters

No one symbolizes the promise and perils of global media better than Rupert Murdoch. Australian-born, British-educated, and an American citizen, Murdoch galvanized his rivals to the possibilities of a borderless media market in 1993 by buying control of Asian satellite-television service Star TV. With a footprint that encompasses mainland China, Taiwan, Southeast Asia, and the entire Indian subcontinent, Star can beam everything from the BBC to Bart Simpson to a staggering two-thirds of the world's population.

But Murdoch promptly shot himself in the foot by declaring that satellite-delivered programs could also be used to bypass the restrictions of totalitarian governments. Among those listening were the Chinese, who soon cracked down on private ownership of satellite dishes. Murdoch quickly made amends—dropping the British Broadcasting Corp. from Star, rivals say, partly to appease Beijing. He is also catering to local tastes by adding Mandarin and Hindi channels to Star's once English-only menu.

"OVERWHELMING." Now, as other media giants expand into Asia and Latin America, they are learning from Murdoch's misstep. With the development of strong local economies and media industries, U.S. entertainment exporters can no longer expect an unqualified welcome. Nor can they view these regions monolithically—a tabula rasa on which to project Western movies, news, and television shows. "There is no such thing as being globally suitable for Asia," says S. K. Fung, general manager of TVB International Ltd., a Hong Kong-based broadcaster that competes with Star by tailoring its programs for its ethnically and linguistically diverse audience.

WATCHING AMERICAN FARE IN NEW DELHI: STAR TV AND MTV ARE ADDING SERVICE IN HINDI

Make no mistake: Global expansion still excites Western media executives. Technology and the move to capitalist economies have uncorked vast new markets for electronic media, and viewers from Bangkok to Budapest use Western programming as their window on the new global economy. The Anglo-American media giants—Murdoch's News Corp., Time Warner, and Viacom—are racing to meet the demand with Schwarzenegger and *The Simpsons*. In Asia, Star and other satellite-TV services give cable networks such as MTV and ESPN instant access to 3 billion people. "God, the numbers are just overwhelming," marvels Viacom Inc. Chief Executive Frank J. Biondi Jr., who will start an Asian MTV service next February that includes a channel in Mandarin.

Yet a slew of unknowns remain for

→ People prefer local programs. So entertainment upsta

Western media giants who are investing billions to capture the hearts and TV screens of Asia and Latin America. New technology and ephemeral consumer tastes have a way of overturning the conventional wisdom in media. Who, just 20 years ago, could have imagined that Murdoch would turn a ragtag collection of UHF channels into the powerful Fox Broadcasting Co.? Or that Ted Turner would transform a poorly financed cable service into a global news source?

What is certain, though, is that the coming global competition will be lively. Western media companies bring some indisputable advantages to the global marketplace. But local media companies stand to gain more import as they master Western production techniques for their own purposes. With an insider's feel for their markets, these emerging-nation media players will not be pushovers.

Already, U. S. media exporters are grappling with a growing reality that complicates their task: People prefer local programs. The developing middle classes in countries such as Taiwan and Mexico are demanding—and getting—more regionally produced entertainment, usually in native languages. The days when a dubbed *Dallas* could profitably fill living rooms worldwide are long gone.

To make matters worse, U. S. companies must contend with governments that sometimes fear that opening their airwaves could destabilize existing regimes. As Murdoch discovered, "satellite feeding of programs makes Beijing nervous," says John T. Healy, president of international operations at Capital Cities/ABC Inc. Even advanced democracies such as Belgium and France have long fretted about what they regard as American media imperialism.

Media Barons from the West...

Key Western media exporters

Time Warner Operates in more than 70 countries. Draws 40% of its $14 billion in revenues from outside the U.S. Has alliances with Toshiba and Itochu.

News Corp. Owns 64% of Star TV in Asia, 50% of British Sky Broadcasting in Europe. Publishes newspapers in Australia, Britain, and the U.S.

Viacom MTV: Music Television reaches 239 million households in 63 countries. Expanding Nickelodeon and VH-1 channels to Europe.

...Face New Rivals Overseas

Key non-Western media companies

Televisa TV conglomerate controls 80% of Mexican broadcast market. Exports *telenovelas* to China and Cuba. Owns Hispanic channel in the U.S.

TVB Hong Kong-based broadcaster produces 6,000 hours of Mandarin and Cantonese programming a year, some for export. Starting an Asian satellite service.

DATA: COMPANY REPORTS

All this is forcing global media companies to reexamine the historical march of electronic media from Europe to Latin America to Asia. Julian Dickens, a London media consultant, calls this transition the "breaking wave." First, technology, privatization, and economic growth vastly expand the distribution channels for media. Then, because local economies are not yet big enough to finance homegrown programming, America rushes in to fill the void. But as these markets mature, says Dickens, local producers are able to make better and more ambitious shows. Typically, this coincides with greater demand on the part of viewers.

LEGAL TEETH. Evidence of this media cycle is widespread. A decade ago, Belgian broadcaster RTL spent the lion's share of its programming budget buying American shows. *Dallas*, *Dynasty*, and other imports became staples on newly privatized TV channels from Brussels to Berlin. By 1993, though, RTL was spending twice as much on local programming. The European Union gave teeth to this trend by mandating that 50% of broadcast programming be produced within the union.

U. S. media exporters can cling to one promising growth area in Europe: supplying programming for its burgeoning satellite-TV business, which faces less regulation. Still, powerful local players, such as France's Canal Plus and a German consortium including Bertelsmann, are teaming up to control access to European homes. The net effect is that Europe, site of the U. S. media industry's first overseas foray, is now its toughest market.

If the wave has fully broken in Europe, it's just now hitting the beach in Latin America. Cable and satellite technology have created a thriving pay-TV business, which is dominated by U. S. exporters. Home Box Office Inc., with its HBO Ole service, is the region's most widely distributed cable network. But the Time Warner Inc. subsidiary has been careful to take on partners, such as Venezuelan cable operator Omnivision, as it expands. "We intend to put HBO around the world," explains HBO President Jeffrey L. Bewkes, "but with local partners, local programming, and local staff."

NBC Inc. has followed a similar model in its partnership with TV Azteca, an upstart broadcaster that is challenging Mexican media titan Televisa. The network has an option to purchase 10% to 20% of Azteca for $120 million to $240 million. By supplying programming and marketing savvy, NBC is planning to help Azteca's new owner, Ricardo Salinas Pliego, bolster the network at home and expand it

h an insider's feel for their markets won't be pushovers

GRAPHIC BY LISA KNOUSE BRAMAN/BW

throughout Latin America. Salinas says he wants Azteca to carry a mix of local and foreign programming. "We're going to try to bring in what is good and positive," he says, "and leave out what is not."

REVERSAL. In Mexico, "positive" programming means local productions with an emphasis on family values and local traditions. Televisa operates one TV station with mostly U. S. programming and one with exclusively Mexican shows. The one with local content beats the import-laden one in ratings hands down. And in a reversal of cultural invasion via the airwaves, Televisa and its giant Brazilian counterpart, TV Globo, are exporting popular soap operas, called *telenovelas*, to dozens of countries from Cuba to China.

Recognizing the growing clout of foreign players such as Televisa, the Americans are looking to strike partnerships everywhere. NBC, which bought Europe's Super Channel cable network in 1993, recently announced an agreement with Britain's *Financial Times* to add its business news to the channel's daily news offerings, which include *Today* and *NBC Nightly News*. Thomas S. Rogers, president of NBC Cable and International, says the network also plans to dub Super Channel into German and offer German and Dutch subtitles.

MARY BETH CAMP/MATRIX

TVB INTERNATIONAL'S FUNG: "THERE IS NO SUCH THING AS BEING GLOBALLY SUITABLE FOR ASIA"

Even media companies that generally eschew partners are bolstering the local content of their overseas services. William H. Roedy, president of MTV International, is quick to note that MTV Europe imports fewer programs from the U. S. than does the BBC, France's TF-1, or Italian broadcaster Rai Uno.

as a serious business school,
we encourage you to
read the fine
print

We're proud of it. IMD's fine print lists the 116 leading companies who take an active part in the institute - our Partners and Business Associates. The osmosis that results from this unique partnership puts us at the forefront of international executive development. Together, we identify the current needs of business, carry out research projects, and design specific material for our executive development programs. These range in length from three days to ten weeks: 21 programs for executives at every stage in their career. Faculty and participants come to IMD from more than a hundred countries, making this overall the most international business school in the world.

IMD
INTERNATIONAL
LAUSANNE SWITZERLAND

IMD-INTERNATIONAL INSTITUTE FOR MANAGEMENT DEVELOPMENT

PARTNER COMPANIES
Andersen Consulting
Asea Brown Boveri
Astra AB
AT&T
Bank Leu Ltd
Baxter International Inc
British Gas Plc
British Petroleum Company Plc
British Telecommunications Plc
Caterpillar Inc
Ciba-Geigy Ltd
Citicorp
Credit Suisse
Deloitte Touche Tohmatsu Int'l
Dentsu Inc
Digital Equipment Corporation
Du Pont de Nemours Int'l SA
Exxon Corporation
Hoffmann-La Roche Ltd
Holderbank AG
IBM Europe
LEGO Group
Minit International
National Westminster Bank Plc
Nestle SA
Philips Internatinnal BV
Sony Europe
Sulzer Brothers Ltd
Swissair Ltd
Swiss Bank Corporation
Swiss Volksbank
Tetra Laval Group
Union Bank of Switzerland

BUSINESS ASSOCIATES
Acer Inc
Alcan Aluminium Ltd
Barlow Rand Ltd
N V Bekaert SA
BICC Plc
Bobst SA
Boehringer Mannheim Int'l
Booz Allen & Hamilton Inc
British Steel Plc
The Buhler Group
CAP SA
Ceat Ltd
Compagnie de St Gobain
Daimler-Benz AG
Dow Europe
DSM NV
Egon Zehnder Int'l Mgmt Cons
Enso-Gutzeit Oy
Telefonaktiebolaget LM Ericsson
Ernst & Young
Eskom
Fiat SpA
Firmenich SA
Gemini Consulting
General Motors Corporation
Gist-Brocades
Grace Europe Inc
Heineken NV
Hewlett-Packard SA
Hilti AG
The Hinduja Group of Companies
Hoogovens Groep BV
Huhtamaki Oy
ICI Plc
Incentive AB
Iskra-Holding, D D
KNP BT NV
Kone Oy
Kvaerner AS
Lafarge Coppee
Mecrastor Corporation

BUSINESS ASSOCIATES
Metallgesellschaft AG
NCC - Nordic Construction Co. AB
Nokia Corporation
Nordic Competence Circles
Nordvest Forum A/S
Norsk Hydro as
Northumbrian Water Group
Norwegian Institute of Int'l Trade
Orkla as
Parker Hannifin Corporation
Philip Morris
Price Waterhouse
Prombudbank
Proudfoot Plc
Publicitas Holding SA
Rabobank Nederland
Raychem Corporation
Rieter Holding AG
Rothmans Int'l Tobacco (UK) Ltd
Saga Petroleum A/S
Saudi Basic Industries Corp. (SABIC
Scandinavian Airlines System (SAS
Shell Int'l Petroleum Company Ltd
Singapore Airlines Limited
Skandia
Skandinaviska Enskilda Banken
AB SKF
Statoil
The St Paul Companies
Swedish Trade Council
Telecom Eireann
Televerket - The Norwegian Telecon
Telia AB
Thames Water Plc
Total
Transnet Ltd
Valmet Corporation
Vattenfall
Volkswagen AG
AB Volvo
Williamson Magor & Co Ltd
Zurich Insurance Company

If you want to find out mora about what a business school working in partnership with industry can offer you in EXECUTIVE DEVELOPMENT PROGRAMS, please call ..41 21/618 03 42 or fax ..41 21/618 07 15

→ Western players must grapple with totalitarian regimes that fear open airwaves as a destabilizing force. Murdoch found that out the hard way when the Chinese cracked down on satellite dishes

American media companies wouldn't seem to need to worry as much about local competition in Asia. After all, the media wave is still well offshore: A few global media companies can now reach such high-growth areas as China's Guangdong Province, which is dotted with satellite dishes. But with the exception of TVB, which cranks out 6,000 hours of Cantonese and Mandarin programs each year, few Asian media companies can approach the programming muscle of Time Warner, News Corp., or Viacom.

DEVELOPING TASTES. Still, there are signs that Asia's media will develop even more rapidly than Europe's or Latin America's. For one thing, print media is growing at a remarkable clip. From 1987 to 1994, the number of periodicals in South Korea soared from 2,412 to 7,867. In Vietnam, the number jumped from roughly 160 to 365. TV viewing habits are developing apace. TVB, which used to subsist on British and U. S. programming, hasn't aired an American program on weekdays during prime time for more than 10 years. "TVB dares not show *Dynasty* until 11 at night," notes Allan Ng, assistant director of S. G. Warburg Securities (Far East) Ltd. "The viewers aren't interested because it's something they can't relate to."

That's also why imports such as MTV are scrambling to offer Mandarin or Hindi versions of their services. ESPN and MTV are even building sophisticated production studios in Singapore. For now, the Chinese still delay satellite services such as Capital Cities' ESPN for 24 hours to inspect their content. Despite such obstacles, Cap Cities is plunging headlong into politically uncertain China—producing two children's-programming services that will pair locally produced Chinese programming with American fare. "I would not want to spend $1 billion on bricks and mortar there," says Healy, "but ours is not a capital-intensive business."

Such wary optimism is typical of U. S. media executives as they scan the foreign landscape. Even with shifting popular tastes and political restrictions, fast-growing Latin America and Asia remain a tantalizing new frontier for U. S. entertainment companies. Tapping these global markets, though, will require media executives to follow a principle that has so far been honored mostly in the breach: Think globally, act locally.

By Mark Landler in New York, with Joyce Barnathan in Hong Kong, Geri Smith in Mexico City, and Gail Edmondson in Paris

GRAPHIC BY LISA KNOUSE BRAITHWAITE

You Need More Than An MBA To Succeed In Global Business

THUNDERBIRD

teaches that success on an international level requires more than financial, marketing and operational skills.

THUNDERBIRD
the leader in global education, offers:

- The Master of International Management degree, which requires courses in international management, international business environments and foreign languages
- Executive Master of International Management degree
- A Post-MBA degree program

MASTER OF INTERNATIONAL MANAGEMENT DEGREE
INTERNATIONAL EXECUTIVE MASTERS PROGRAM
POST-MBA DEGREE PROGRAM

You will be able to:

- Use your business skills beyond your home country.
- Be flexible in changing global markets.
- Speak the language of your client and associates.
- Manage a culturally diverse team.

Join the network of over 27,000 alumni who hold leadership positions in business, industry and government in every state and more than 133 countries.

THUNDERBIRD
THE AMERICAN GRADUATE SCHOOL OF INTERNATIONAL MANAGEMENT

Office of Admissions • 15249 North 59th Avenue • Glendale, Arizona • 85306-6000 • 602-978-7210 • Fax: 602-439-5432 AACSB ACCREDITED

FRANK BIONDI

A MEDIA TYCOON'S TAKE ON THE 21st CENTURY

As CEO *of Viacom Inc.—owner of* MTV, *the Nickelodeon children's network, Paramount Pictures, and Blockbuster Entertainment—Frank J. Biondi Jr. oversees a $9 billion empire with operations in 142 countries.* BUSINESS WEEK *Media Editor Mark Landler discussed global media with Biondi at Viacom's New York headquarters:*

Q: *If you ask lay people what the phrase "global media" means, they're likely to talk about the spread of U. S. movies, news, and* TV *around the world. Do you see that continuing to be the driving force in the globalization of media?*

A: Yes, I do. The key to the export of American product is that it simply is the largest indigenous market for entertainment. And it has the advantage of being able to use that market as a test bed. There also seem to be some intangibles in the American psyche for writing and creating good stories. [Yet] clearly, markets like China and India are large enough to create indigenous television and movie businesses. The playing field is slowly leveling.

Q: *List the key developments that ushered in a truly global media market.*

A: The rollout of the VCR. What it does—in my mind—is to whet people's appetites. It's a great entrée to new markets for feature films and television programming. [Also], the emergence of capitalism in communist bloc countries led to a very rapid securing of better copyright protection in these markets. Piracy had been almost rampant in many of those territories.

Q: *Do you want television viewers in Europe, Asia, and Latin America to regard* MTV *as an American import or as a part of their local culture?*

VIACOM'S BIONDI: AMERICANS HAVE AN EDGE

A: I think it's a combination. MTV wouldn't be MTV if it wasn't American, any more than rock 'n' roll wouldn't be rock 'n' roll if it wasn't American. But we are culturally specific to Western Europe, Latin America, and North America. [MTV is relaunching in Asia next February.] We have local hosts. It's a mix we consciously set out to achieve.

Q: *In emerging markets, do you see media entrepreneurs or companies that may become strong competitors to the major American media exporters?*

A: There are clearly candidates. Televisa in Mexico, possibly TV Globo in Brazil. In China, I'm not sure we've seen one yet. You've got TVB in Hong Kong, which has a terrific franchise. But on the scale that we're talking about, it's still a small company.

Q: *When U.S. media companies expand overseas, they often take on local partners. Is that a model we'll see in many emerging markets?*

A: It varies. At MTV, we don't have partners for the most part. But with Nickelodeon, we've made a conscious decision to have local partners. It's harder to tell Europeans that they should have the same cultural underpinnings inherent in our children's programming. That doesn't mean kids can't watch programming from other countries. But there's a predisposition to show your own programs.

Q: *How would you characterize Latin America and Asia in terms of their openness to American media and entertainment?*

A: Latin America is relatively open but historically has not had a great ability to pay. A lot of the infrastructure that will make Latin America a very big market is being put in place. The problems in Asia have been a little more subtle: Politics, no doubt, is a big issue. Religion in some of those areas is also a big issue. You've now taken the first steps to mitigate these problems by moving into a capitalistic society. And the sheer size of the market, of course, has gotten everybody excited. It takes your breath away.

Q: *What will the global media marketplace look like in the year 2010 or 2020?*

A: The odds are that the major players will still be the major players, [although] they may be in different hands. I'd be very surprised if you don't see an Indian or a Chinese feature-film producer. The problem they're going to have to deal with is accessing the rest of the world. But when you're operating with a market of 900 million people in India and a billion-plus in China, you don't have to be global. That's a pretty good marketplace all by itself.

> → "The sheer size of the [Asian] market has gotten everybody excited. It takes your breath away."

JOHN S. ABBOTT

Rich Information.

McGRAW-HILL PUBLICATIONS ONLINE

Information-Rich!

The Full-text Database with McGraw-Hill Credibility

- Business Week
- Aerospace Daily
- Airports
- Architectural Record
- Aviation Daily
- Aviation Europe
- Aviation Week & Space Technology
- Biotechnology Newswatch
- Byte
- Chemical Engineering
- Coal Tech International
- Coal Week
- Data Communications
- Electrical World
- Electric Utility Week
- Engineering News-Record
- Federal Technology Report
- Hazardous Waste Business
- Independent Power Report
- Industrial Energy Bulletin
- Inside Energy/with Federal Lands
- Inside F.E.R.C.
- Inside N.R.C.
- Integrated Waste Management
- LAN Times
- Modern Plastics
- Nucleonics Week
- Open Computing (formerly UnixWorld)
- Platt's International Petrochemical Report
- Platt's Oilgram News
- Platt's Oilgram Price Report
- The Physician & Sportsmedicine
- Postgraduate Medicine
- S&P's Emerging & Special Situations
- S&P's Metals Week
- S&P's Review of Banking & Financial Services
- S&P's Review of Securities & Commodities Regulation
- Securities Week
- Telecom Strategy Letter
- Utility Environment Report
- The Weekly of Business Aviation

You have it all, word for word. You're connected to an unabridged electronic library containing the full text of articles exactly as published, except graphics, in McGraw-Hill magazines and newsletters. And, best of all, because it's from McGraw-Hill, a leading international multimedia publishing and information services company, you get unparalleled excellence and reliability of content.

You access it fast and easy. You can search the entire McGraw-Hill database (over 50 of our leading publications) faster with more user-friendly ease than any other text. There are no cumbersome preliminaries...you get right into your hunt for information about companies, people and products on any topic.

And now you can make the information-rich connection to McGraw-Hill Publications Online today. For more information and our latest, complete list of publications, contact Andrea Broadbent at (609) 426-5523. Or fax this coupon to (609) 426-7352. Or send it to the address on the coupon.

Available online through
- Dialog® • NewsNet® • Dow Jones News/Retrieval®
- Lexis/Nexis® • F.T. Profile (U.K.)

Now Available on CD-ROM
THE McGRAW-HILL ENERGY LIBRARY
PRODUCED BY
SILVERPLATTER INFORMATION

McGraw-Hill
Publications Online
Princeton-Hightstown Road
N-1
Hightstown, NJ 08520 U.S.A.

☐ Send me the complete list of your publications online.

☐ Send me details on The McGraw-Hill Energy Library produced by SilverPlatter Information.

Name

Title

Company

Address

City

State

Zip/Postal Code

Country

CITIES OF THE FUTURE

STEPPING INTO THE SPOTLIGHT

Rapid changes in the global economy will help thrust many second-tier cities into lead roles on the world stage

London, Hong Kong, Tokyo, and New York will remain world capitals, but other cities will grab more of the power as different regions realize their economic potential and achieve political stability. Here, BUSINESS WEEK*'s correspondents highlight eight such cities.*

TIANJIN This old treaty port, where 19th century European architecture shares the cityscape with modern towers, is taking shape as a gateway to northern China. With about 9 million people, it has the country's largest container port, well-managed industrial parks, and a financial district in planning. More than 140 American, European, and Asian multinationals have already pumped $2.5 billion into the city. A prosperous Tianjin would give Beijing, a 90-minute drive away, a counterbalance to the independent-minded cities of the south.

JERUSALEM Thanks to the peace process, this holy city could be the capital of a new Middle East economic bloc. The city of 560,000 will benefit from billions in Western aid, as well as private initiatives in trade and finance. Jerusalem also has some high-tech clout: Intel Corp. and Digital Equipment Corp. have major operations, and Hebrew University is among Israel's leading research institutions.

MIAMI As the major Latin American economies become mainstream world markets, this bilingual, bicultural city sits at their commercial fulcrum. Its 360,000 people includes a professional class with ample knowhow on Latin American business. Multinational business and tourism account for nearly half of the economy, and Colombian, Argentine, and Brazilian immigrants are changing the formerly Cuban-dominated mix.

BANGALORE It's the center of India's Silicon Valley and host to more multinational high-tech companies than any other Indian city. Its roster includes AT&T, IBM, Apple, DEC, Hewlett-Packard, Intel, Texas Instruments, and Motorola. With some of the country's finest technology institutes, the city of 4 million has a deep pool of talent. The temperate climate helps too, though pollution is worsening.

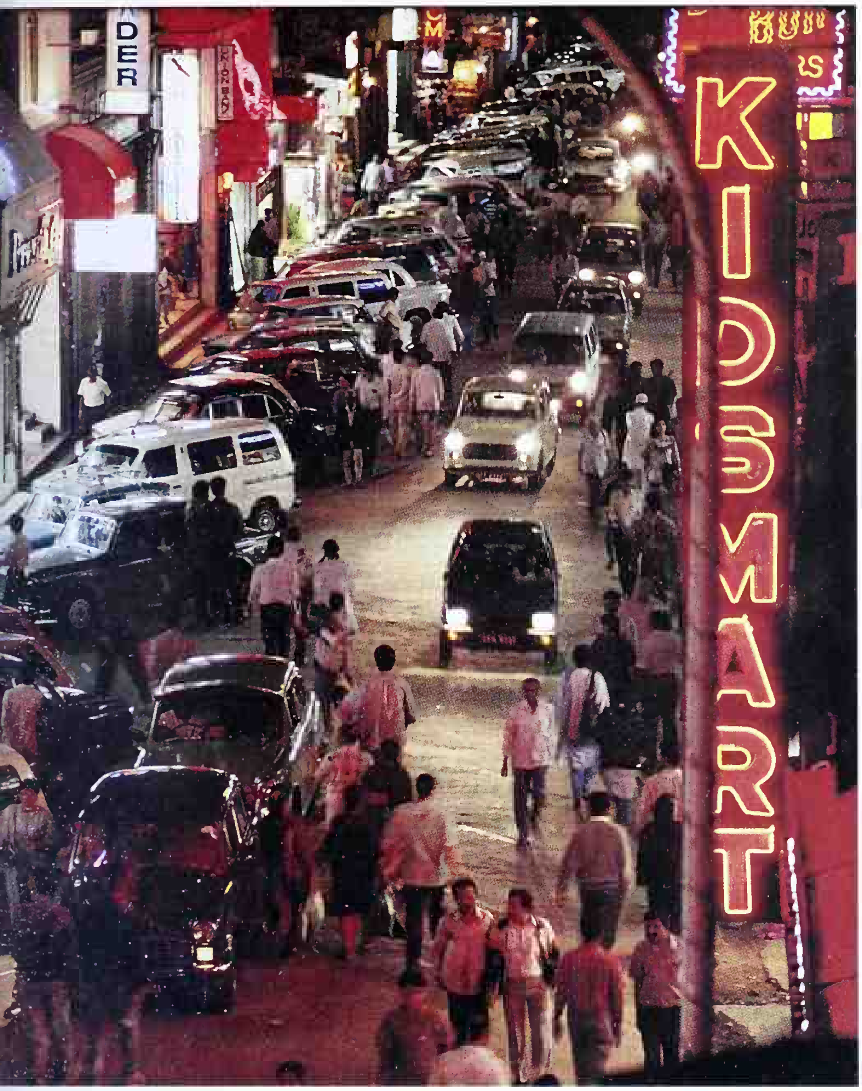
CAPE TOWN The seat of South Africa's parliament, this Mediterranean-style city of about 800,000 is bidding for the summer Olympic Games in 2004. If it wins, more businesses are likely to join its already substantial industrial base of apparel, textile, and oil companies. Its serene beauty, strong university, and racial mix are likely to make Cape Town a center for growth in post-apartheid South Africa.

BRATISLAVA Tucked against the Danube River, the capital of Slovakia is drawing on its strength as a transpor-

Cake Walk
ARCHIES
HILTON
POWER

INDIA: BANGALORE ITS 4 MILLION RESIDENTS FORM A DEEP POOL OF TALENT IN BIOTECH AND AVIATION—IN ADDITION TO COMPUTERS

SLOVAKIA: BRATISLAVA IT'S ALREADY A MAJOR TRANSPORTATION AND INDUSTRIAL CENTER, BUT ITS WORKFORCE DOESN'T GET PREMIUM PAY

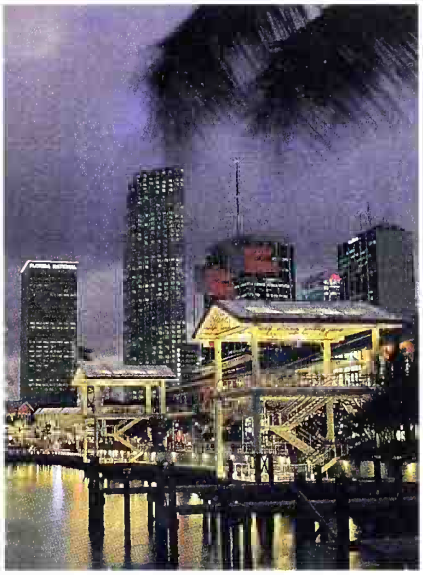


tation and industrial center. The old town center and Gothic churches remain, as do the scars of socialism. Volkswagen already operates there, and others are following. Drawing on 440,000 people, Bratislava's two universities turn out highly skilled workers who are still inexpensive. A German market researcher predicts that Bratislava and its surroundings will become Europe's most desirable production location.

NIZHNI NOVGOROD This city of 1.5 million is a leader in Russia's transformation. With help from international agencies, it privatized nearly all its state-owned enterprises before many other regions even started. Now, Nizhni is distributing collective farmland to private growers and launching securities markets. The city owes much of its progress to Boris Nemtsov, a 35-year-old regional governor, who could someday be Russia's President.

SAO PAULO Capital of Brazil's most affluent state, São Paulo is the booming hub of Latin America's newest free-trade zone—Mercosur, which links the 200 million inhabitants of Brazil, Argentina, Uruguay, and Paraguay. The city's outlying areas are where the action is, with more than 1,300 U.S. companies establishing factories and regional offices. Good communications, modern highways, and abundant office space make it Latin America's largest business center.

By Joan Warner in New York and bureau reports



U.S.: MIAMI A BASE FOR MULTINATIONALS, IT'S BILINGUAL, BICULTURAL—AND NEARLY AS MUCH A PART OF LATIN AMERICA AS IT IS OF THE U.S.

SPECIAL ICE CREAM
KOSHER
כשר

ISRAEL: JERUSALEM IF PEACE PREVAILS, THIS HOLY CITY COULD BECOME THE CAPITAL OF A TRADING BLOC RANGING FROM THE GULF STATES TO EGYPT

GRAPHIC BY LISA KNOUSE BRAVERMAN

Snapshot of the Next Century

How many people will be living on earth 10 years into the 21st century? How many miles will they fly? What will a buck be worth? Or a six-pack of Bud? Here are some very educated guesses

OUR PLANET

	1994	2010
World Economy	$26 TRILLION	$48 TRILLION
World Trade	$4 TRILLION	$16.6 TRILLION
Consumer Inflation	4.3%	2.5%
World Population	5.607 BILLION	7.32 BILLION
Number of Nations	192	202
Living in Poverty	3.7 BILLION	3.9 BILLION
Number of AIDS Cases	20 MILLION	38 MILLION
Average Children per Woman	3.2	2.7
Average Income per Capita: DEVELOPED COUNTRIES	$16,610	$22,802
Average Income per Capita: EMERGING MARKET NATIONS	$950	$2,563
Average Life Expectancy: MEN	63	67
Average Life Expectancy: WOMEN	67	71

WORK AND PLAY

	1994	2010
World Telephone Lines: WIRED	607 MILLION	1.4 BILLION
World Telephone Lines: WIRELESS	34 MILLION	1.3 BILLION
Number of PCs: WORLDWIDE	150 MILLION	278 MILLION
Number of PCs: DESKTOP	132 MILLION	230 MILLION
Number of PCs: MOBILE	18 MILLION	47 MILLION
Communications Satellites	1,100	2,260
Cars Produced Annually: DEVELOPED COUNTRIES	20 MILLION	30 MILLION
Cars Produced Annually: EMERGING MARKET NATIONS	8 MILLION	30 MILLION
McDonald's	14,000	30,000
Credit-Card Transactions	1.5 TRILLION	2 TRILLION
Air-Travel Miles	1.5 TRILLION	3 TRILLION
U.S. Golf Courses	14,648	16,800
Movie Screens: U.S.	25,105	74,114
Movie Screens: WORLDWIDE	86,902	162,766
U.S. Gambling Revenues	$39.5 BILLION	$125.6 BILLION

WHAT WE'LL PAY

	1994	2010
Dollar's Value Abroad	1.0	9.33
U.S. Single-Family Home	$153,000	$287,000
Mercedes E320 Sedan	$43,975	$70,600
Ford Contour	$13,310	$21,000
Wharton MBA	$84,200	$257,200
Six-Pack of Budweiser	$3.96	$7.82

DATA: POPULATION REFERENCE BUREAU INC. AND U.N. PROJECTIONS, FEDERAL AVIATION ADMINISTRATION, NATIONAL GOLF ASSN., *SCREEN DIGEST*, CENSUS BUREAU, TELEOGRAPHY INC., DATAQUEST; DRI/McGRAW-HILL; COMMUNICATIONS CENTER, WORLD HEALTH ORGANIZATION, R.S. WEINBERG & ASSOCIATES, CHRISTIANSEN/CUMMINGS ASSOCIATES INC. FOR *INTERNATIONAL GAMING & WAGERING MAGAZINE*; BUSINESS WEEK

H TECH SMALL BUSINESS GETS SMART | NAFTA PAYING OFF BIG-TIME | INVESTMENTS PAINEWEBBER'S PARTNERSHIP WOES

NESS WEEK
November 21

BusinessWeek

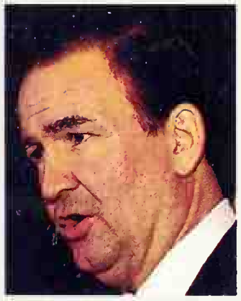
EMBER 21, 1994 A McGRAW-HILL PUBLICATION $2.75

BURLINGAME PUBLIC LIBRARY
3 9042 03747779 8

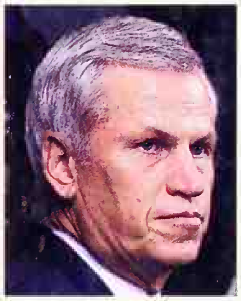
THE CONSERVATIVE AGENDA

Republicans and their allies now can shape national policy—especially if they avoid infighting. Here's what the election means for business and the economy.

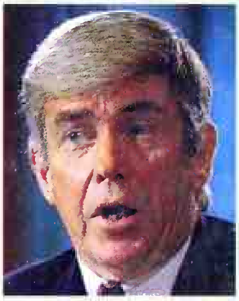
ewt Gingrich
upply Side Redux



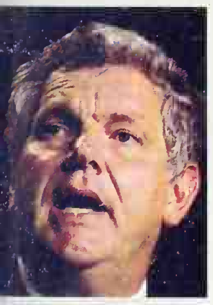
Pat Buchanan
America First



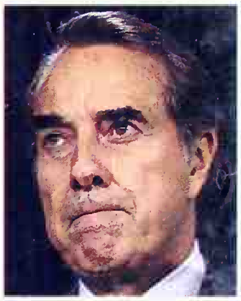
Charles Stenholm
"Boll Weevil" Democrat



Jack Kemp
Minority Outreach



ll Bennett
mily Values



Bob Dole
Old-Time Budget-Cutting

***********5-DIGIT 94010
0602 105811160 DEC94 TIM 0351
BURLINGAME PUBLIC LIBRARY
480 PRIMROSE RD
BURLINGAME CA 94010-4010

BURLINGAME
NOV 14 1994
LIBRARY

GRAPHIC BY LISA KNOUSE BRAKMANN/BW

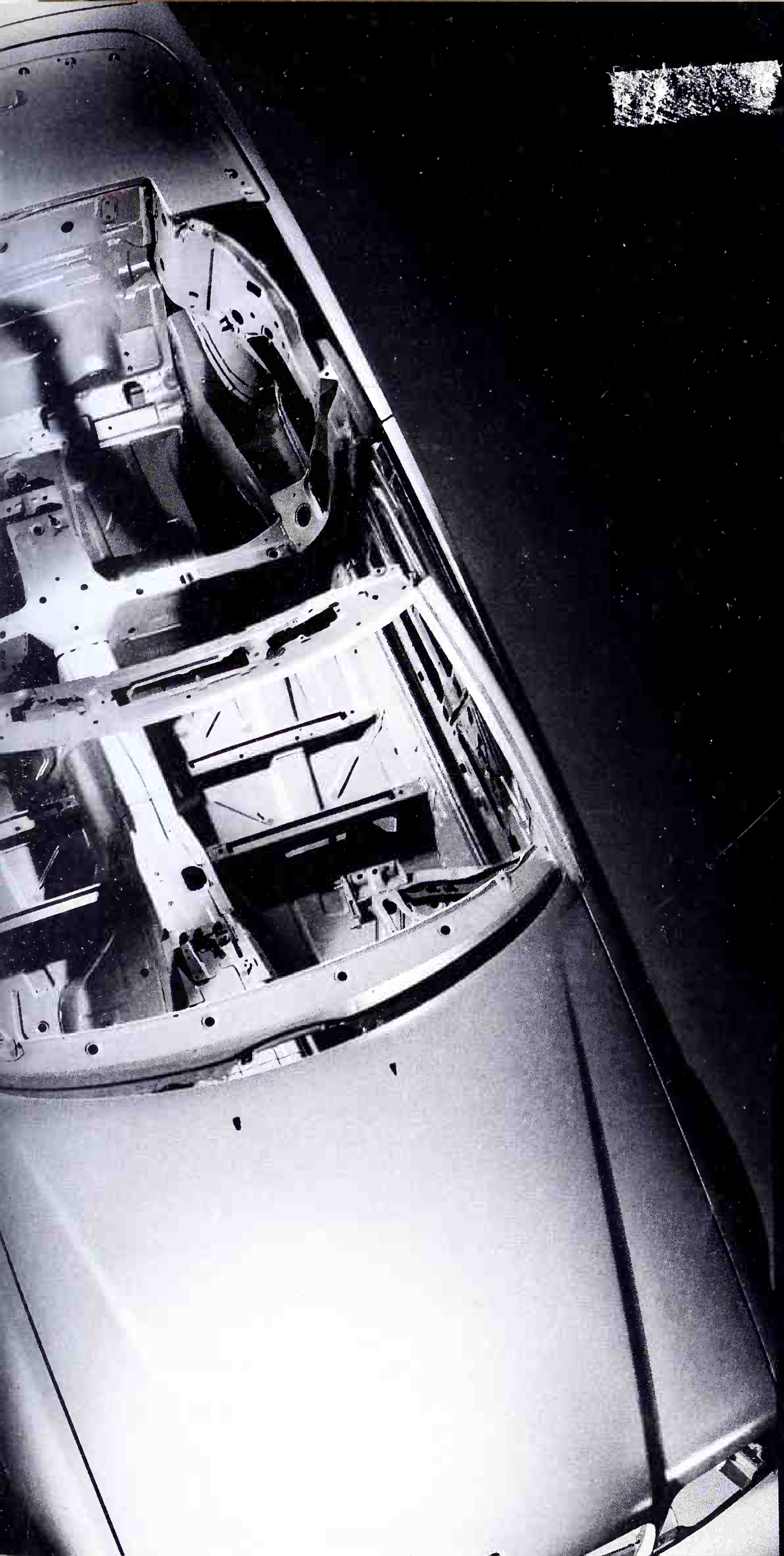
DOES YOUR AIR BAG COME WITH A CAR?

Lately it seems you can't open a magazine without running into an air bag ad. Not to burst anyone's bubble, but the fact is, an air bag is only as good as the car it's attached to. ¶ It's less effective if, in a severe head-on accident, the steering column becomes so deformed that the driver "misses" the bag, or hits it only glancingly. So all Mercedes-Benz cars have a rigid crossmember made of a special, high-strength steel alloy designed to help hold the steering column, and the air bag, in proper alignment. ¶ An air bag won't protect you as well if you aren't wearing your seat belt. Even if you are, it helps if the belt is snugged up tight. So Mercedes-Benz cars have Emergency Tensioning Retractors which automatically remove slack from the front seat belts in certain frontal impacts. ¶ And finally, if your air bag deploys when you hit a wooden fence, it can't protect you when you hit the brick building behind it. So every Mercedes-Benz has sensors that take such eventualities into account. They will deploy only the seat belt tensioners when only they are needed (provided, of course, seat belts are worn), saving the air bags for situations when air bags are called for.* ¶ Of course we're great believers in air bags—and have been ever since we helped pioneer the technology over 25 years ago. It's just that we're even greater believers in the car our air bags come in. ¶ If we can assist you in any way, please call 1-800-FOR-MERCEDES.

The Mercedes-Benz E 320 Wagon

---

*Air bags are supplemental restraints. Always wear your seat belt. ©1994 Mercedes-Benz of North America, Inc., Montvale, N.J., Member of the Daimler-Benz Group.



Mercedes-Benz

◀
An air bag won't protect you if the underlying structure of the car is not designed to absorb some of the energy of an impact. Mercedes-Benz patented the energy-absorbing car body in 1951, and has been perfecting it ever since.

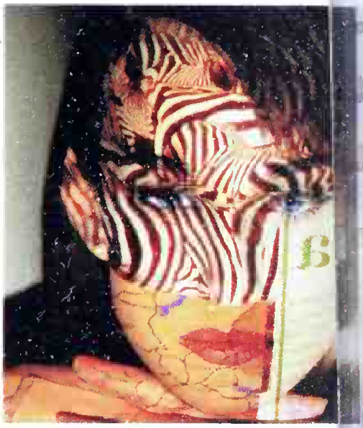
Watch the *Mercedes Championships* golf tournament on ESPN and ABC, Jan. 6–8.

IF YOU THINK MULTIMEDIA IS JUST A CD-ROM READER HOOKED UP TO YOUR COMPUTER, YOU'RE ONLY GETTING PART OF THE PICTURE.

No one will argue w h

fact that a CD-ROM rad

a perfect introduction t m



©1994 NEC Corporation. See, Hear and Feel the Difference is a trademark of NEC Technologies, Inc.

NEC is bringing the pow

multimedia to entire networks

media. But if you want t g

the most out of this burgeo

technology, you need to lo

well past your desktop.

that's where NEC comes i

We provide you with the

nology you need to access

multimedia information f

as many people in as many

as possible.

At the very heart of m

media networking

is a switching

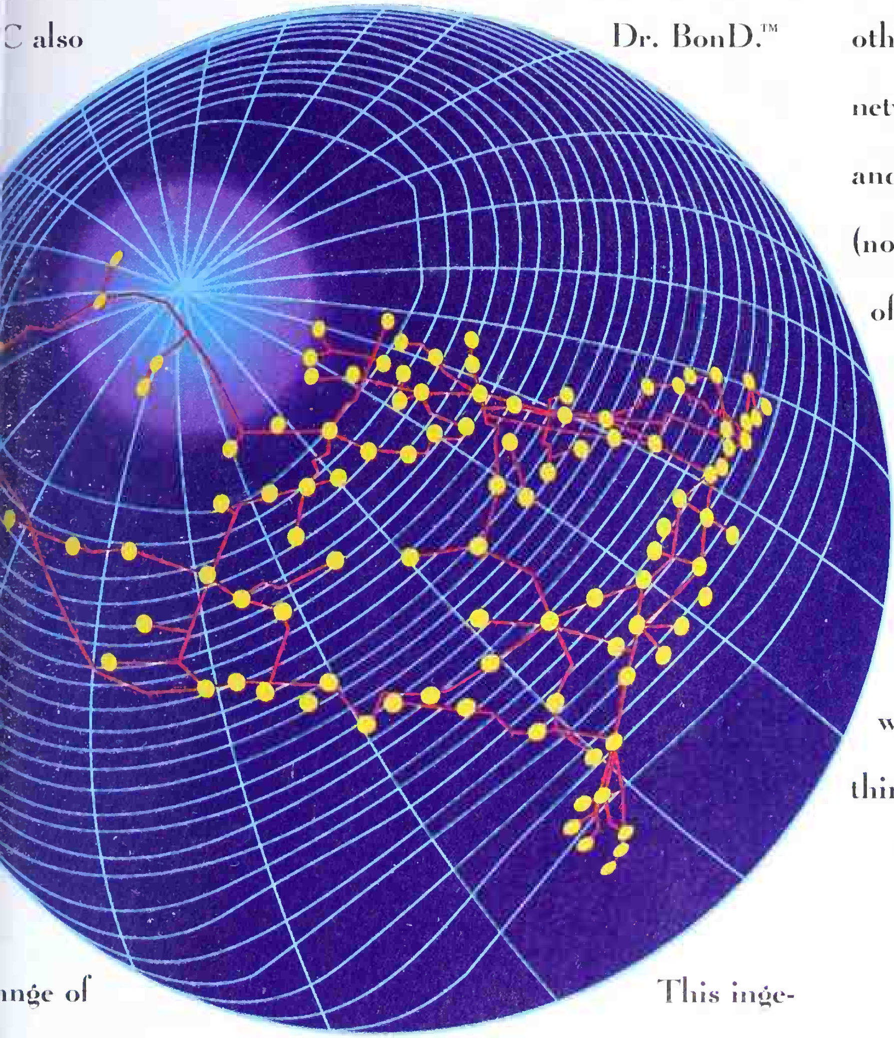
technology pioneered by NEC.

Namely,

Asynchronous

r Mode (ATM). Our vitches can process huge s of video, data, and formation simultaneously, allowing entire networks full advantage of multi- pplications.

C also



nge of onous Optical Network ET) products. Many of which provide fail-safe nkages for both Wide cal Area Networks. stated, these products keep multimedia information from being derailed due to any number of unforeseen interruptions.

For those who can't justify the expense of a dedicated line for multimedia, we've developed Dr. BonD.™ This ingenious device allows you to exchange video, voice, and data through the public network, and pay for only the bandwidth needed. The bottom line is that Dr. BonD overcomes one of the biggest obstacles to networking multimedia—the bottom line.

Dr. BonD.

Of course, there are many other ways NEC helps you network information with people and places around the world (not to mention around the office). All of which let you begin to realize multimedia's full potential. And even if you're just discovering multimedia with the help of a CD-ROM reader, we want to make sure there's one thing you never lose sight of.

The big picture.

SEE, HEAR AND FEEL THE DIFFERENCE.™

NEC

GRAPHIC BY LISA KNOUSE BRAIMAN/DW

HONK TO FIRE CLINTON
DONT TREAD ON
America's Storm Troopers

BusinessWeek
NOVEMBER 21, 1994

Election '94

26 THE CONSERVATIVE AGENDA
The bloodiest election in years produced the biggest GOP gains in a generation. If conservatives can avoid infighting, they could deliver dramatic change. The core of their agenda is "a radical devolution of power away from Washington"

32 NEW FACES OF 1994
Dozens of obscure outsiders and Beltway backbenchers are now on top

34 TODAY CALIFORNIA, TOMORROW...
Does Pete Wilson have his eyes on a bigger prize?

36 TWO CHEERS FROM BUSINESS
The GOP landslide heartened CEOs, but some fear gridlock as usual

40 COMMENTARY
A return to Gridlock City—or maybe, just maybe...

News: Analysis & Commentary

42 WHY THE FED MAY BRAKE HARDER
Its fractured influence on the economy means it will have to use both feet to get the effect it desires

44 THE LATEST MEDIA MOGUL: ALABAMA
Why its state pension fund supplied the cash to buy the prized media properties of Park Communications

46 CALLING 1-800-FOUL?
The FCC is looking into the MCI directory-assistance service that's giving marketers the willies

47 IN BUSINESS THIS WEEK
Santa Fe-Union Pacific, Dow Corning, Continental, Denny's, Microsoft's soap man, Tiny Rowland, Barnett Bank

International Business

48 NORTH AMERICA
One year later, NAFTA is knitting together the economies of the U.S., Canada, and Mexico

50 SOUTH AFRICA
The ANC dares to bust another taboo: Privatization

52 HONG KONG
Finally, the territory's massive airport project is getting off the ground

54 INTERNATIONAL OUTLOOK
Indonesia: Is President Suharto holding the lid on too tight?

Economic Analysis

19 ECONOMIC VIEWPOINT
Kuttner: The health-care time bo

22 ECONOMIC TRENDS
Labor's "fudge factor," a big-rig b
physical traits and pay, stubborn

23 BUSINESS OUTLOOK
Pay hikes may not lead to inflati

71 WHO GETS HURT BY HIGH RATES?
The middle class, shelling out mo
interest, takes the biggest hit

The Corporation

58 CIVIL WAR AT GENERAL NUTRITION
Many franchisees are angry—and they're banding together

62 A TIFF BETWEEN TEST TUTORS
The SAT-prep giants are dueling

66 POLISHING UP ZALE
The jewelry chain is finally rebou

Sports Business

70 OVER THE HILL—AND LOVING IT
Aging or retired stars are the hott
commodities in sports marketing

CLOCKWISE FROM TOP LEFT: COVER PHOTOGRAPHS BY LARRY DOWNING/SYGMA, JOHN NORDELL/JB PICTURES, ROBERT TRIPPETT/SIPA, DENNIS BRACK/BLACK STAR, ERIK FREELAND/MATRIX, SHEPARD SHERBELL/SABA. PHOTOGRAPH ABOVE BY AP/WORLD WIDE

ELECTION '94

THE PREZ, STUPID

Voters cast a stunning repudiation of the Clinton Presidency, but in the days ahead, New Democrats and conservatives could find common ground page 26

SPECIAL REPORT

Small business starts to tap into the Info Age page 82

PAINEWEBBER'S PAIN

Howard Clark is haunting his former employer page 108

GROWING GRIPES

Franchisees charge that GNC's expansion is coming at their expense page 58

OLD, YOU SAY?

Sports veterans pack a mean punch on Mad Ave page 70

JUICY FRUIT
CHEWING GUM

NAFTA MATH

The treaty delivers loads of trade page 48

dia

E WARNER, PHONE COMPANY
ivals bid for PCS rights, it wants you
ake your calls on cable

ecial Report*

I AND POP GO HIGH TECH
y automated offices allow small
nesses to take on bigger rivals and
n out better products and services

S COMPANY IS 100% VIRTUAL
ard lives and dies by networks

IIDE TO GETTING REVVED UP
ligital without burning your fingers

ence & Technology

ELOPMENTS TO WATCH
kel fridges, bouncy blacktop, a shark
on cancer, cheaper stoplights

JANTUM LEAP IN CHIPS?
l and HP aim for a breakthrough

E-TESTING: WAITING FOR THE BOOM
tups vanish, survivors languish

nation on reprints of this Special Report, call
eek Reprints at 609 426-5494, or write Busi-
Reprints, P.O. Box 457, Hightstown, N.J. 08520.

Marketing

106 TAG HEUER'S TRENDY WATCHES
So unchic they're ultrachic

Finance

108 BETRAYED BY PAINEWEBBER?
Broker Howard Clark says it led him to sell a disastrous investment to clients

112 COMMENTARY
The poor need digital banking, too

114 THOSE "SHRINKING" BOND FUNDS
The missing assets aren't really missing

116 TREASURIES WITH A TWIST
Can indexed bonds cut federal costs?

118 INSIDE WALL STREET
Five rising stars catch a pro's eye
A new rocket in Rockwell's pocket?
Target sees a face in your PC screen

137 INVESTMENT FIGURES OF THE WEEK

Information Processing

15 TECHNOLOGY & YOU
The word on Warp: Whoops

119 FEEDING FRENZY IN EUROPE
Aided by foreign partners, new telecom players are stalking the giants

Industries

126 TALK ABOUT PAPER PROFITS
Demand for paper products is white-hot, and prices are soaring

Personal Business

128 COMPUTERS: The power of Pentium
TELEPHONES: Phone-card fraud
SMART MONEY: Water stocks
SMALL BUSINESS: Pension options

Features

6 UP FRONT
12 READERS REPORT
14 CORRECTIONS AND CLARIFICATIONS
16 BOOKS
135 BUSINESS WEEK INDEX
136 INDEX TO COMPANIES
138 EDITORIALS

Business Week (ISSN 0007-7135) published weekly, except for one issue in January, by McGraw-Hill Inc. Executive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate $46.95/year; Canada: CDN $69/year. Second-class postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484. Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, N.J. 08520.

GRAPHIC BY LISA KNOUSE BRAITHWAITE/BW

Up Front

EDITED BY LARRY LIGHT & JULIE TILSNER

HONCHOS

BETWEEN TWA AND A HARD PLACE

CARL ICAHN'S TWA NIGHTMARE never ends. Now, with the St. Louis-based airline again flirting with bankruptcy, the financier stands to lose a bundle: There's a $190 million working capital loan he made the carrier. Plus, he's on the hook for hefty pension liabilities. Running low on cash, Trans World Airlines just suspended lease payments on its planes.

Icahn's continued financial connection to TWA is the aftermath of his ill-fated six-year tenure as its CEO and chief shareholder. As the price of getting out of the company in 1992, he extended the loan and agreed to pay a portion of the $1 billion underfunded pension liability. He owes $240 million over eight years if the pension plan is terminated. TWA, which, after nearly two years, emerged from Chapter 11 in late 1993, likely wouldn't survive another bankruptcy filing, say aviation consultants.

What are the odds of another filing? TWA says it will do that by yearend if creditors reject its plan to cut $800 million from its $1.8 billion debt load. TWA wants Icahn, who couldn't be reached for comment, to postpone repayment of the $190 million loan from January, 1995, to January, 1998. *Susan Chandler*

TW
HANGING THE BUS

ICAHN: *A chunk of his fortune is at risk*

TALK SHOW “Give ’em a day or so to enjoy their victory”

—President Clinton at a press conference the day after the midterm Republican sweep

GLASS CEILINGS

A HALF-MILESTONE FOR CORPORATE BOAR

WOMEN ARE NOW making slow but steady gains in U.S. boardrooms. Among the top 1,000 companies, 583 have at least one woman director, according to a survey by Catalyst. The women's research and advocacy organization, which used proxies filed by Mar. 31, says the number jumped 11% from 1993.

For the first time, more than half of the top 500 industrial companies, which have been slower than service companies to invite women on boards, now have women directors: 260 of the manufacturing companies, vs. 323 of the top 500 service companies. Catalyst says the number of women directors also grew—from 500 to 570—with half of the rookies having no previous service on big-company boards. And five companies, including Avon Products and U S W even boast o female direc

That's t “glass is half view of the vey. Catalyst reports that en make u mere 6.9% of board membe these compa leaving a l work to do at the many l companies that have to appoint women direc (table). *Judith H. Dobrzy*

NO (BOARD) ROOM FOR WOMEN HERE

A sampling of all-male boards:

- COMPAQ
- EMERSON ELECTRIC
- MICROSOFT
- PAINEWEBBER
- UNITED PARCEL SERVICE

DATA: CATALYST

WHEELER-DEALERS

THE TABLES TURN ON AN OLD RAIDER

VICTOR POSNER, FOR raider, is himself fighti takeover attempt. The M Beach financier finds on his remaining holdings, 4 owned Salem, a target at per share. Recovering fr near-fatal abdominal an rysm, Posner , 76, won't his stake to Harbour Investment Group in St. Louis.

The board of Pittsburgh-based Salem—a profitable maker of heavy equipment—is pondering Harbour's offer and is expected to resp by Nov. 15. Posner says may use his still-considera fortune to take Salem priva buying the other 51%. Sal closed at 16⅞ on Nov. 9.

A court order prohib Posner from controlling pu lic companies. Court rulin have forced Posner, wh disgruntled shareholde have complained mismanag many of his holdings, to s off a large portion of his hu empire. *Gail DeGeor*

POSNE *eye on*

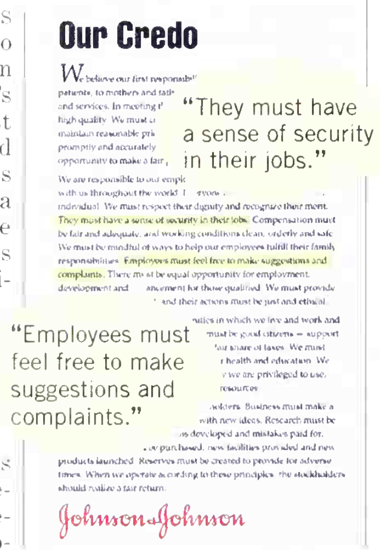
SLUGFESTS

J&J: TRIPPED BY ITS OWN CREDO?

LOFTY-SOUNDING STATEMENTS about corporate mission, so popular in recent years, can be risky. Johnson & Johnson's credo says employees must have a "sense of security" and "feel free to make suggestions and complaints." But now a fired employee is using the four-paragraph credo in his $3.2 million wrongful termination suit. Former R&D executive Daniel Tripodi says the credo is a contract and protects him after he faulted a supervisor's plans to send allegedly misleading test results to the feds for a medical device. In the trial, which began Nov. 7, J&J denies it submitted false information.

The 51-year-old credo serves as the "enduring guide to the way in which we try to run our business," declared J&J's 1993 annual report. J&J lawyers say the credo is a corporate philosophy, not a binding contract. The company says it axed Tripodi in 1989 because he was a bad manager who sowed dissension and missed deadlines. He rejects that assessment.

The larger questions: Will others follow Tripodi's example? And how vulnerable do these credos make companies? Many now have disclaimers to ensure the credos aren't legally binding. Vagueness helps: Nynex recently declared its core values are "quality, ethics, and caring for the individual." *Joseph Weber*



Our Credo

We believe our first responsib
patients, to mothers and fath
and services. In meeting t
high quality. We must c
maintain reasonable pri
promptly and accurately
opportunity to make a fair

We are responsible to our empl
with us throughout the world. E ryone
individual. We must respect their dignity and recognize their merit.
They must have a sense of security in their jobs. Compensation must
be fair and adequate, and working conditions clean, orderly and safe.
We must be mindful of ways to help our employees fulfill their family
responsibilities. Employees must feel free to make suggestions and
complaints. There must be equal opportunity for employment,
development and ancement for those qualified. We must provide
and their actions must be just and ethical.

nities in which we live and work and
must be good citizens — support
fair share of taxes. We must
r health and education. We
y we are privileged to use,
resources.

olders. Business must make a
with new ideas. Research must be
s developed and mistakes paid for.
w purchased, new facilities provided and new
products launched. Reserves must be created to provide for adverse
times. When we operate according to these principles, the stockholders
should realize a fair return.

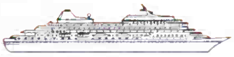
Johnson & Johnson

“They must have a sense of security in their jobs.”

“Employees must feel free to make suggestions and complaints.”

TOP TO BOTTOM: PHOTOGRAPHS BY AP/WIDE WORLD; GRAPHIC BY ROB BOYLE/BW

yal Viking Sun, Vistafjord and Sagafjord are registered in the Bahamas; Sea Goddess I & II in Norway
1994 Cunard.



"When people ask me what distinguishes the Royal Viking Sun from other ships, I tell them it's simply our attention to detail. Details like knowing what passengers need before they ask for it. Or recognizing that seasoned travelers such as ours appreciate more imaginative itineraries and the specialness of single-seating dining. Or having an impromptu entertainment program that literally lights up the skies. Perhaps this is why we've been rated the world's best ship four years running. Another detail. One that I happen to be particularly proud of."

You won't find people like Hotel Director Peter Einfeld on any other cruise line. Which is why no other cruise line can give you the experience of Cunard.

Experience the world's largest Five-Star-Plus fleet, Cunard Royal Viking. The Royal Viking Sun, Sagafjord, Vistafjord and Sea Goddess.

Cunard. We make all the difference.

There is a Cunard cruise for every lifestyle. For more information or reservations on any of Cunard's fine ships, see your travel agent or call Cunard for a complimentary brochure.

1-800-221-8200

CUNARD

ROYAL VIKING

GRAPHIC BY LISA KNOUSE BRAIMAN/BW

Up Front

AUTOMATION ANGST

RED-LETTER DAZE AT THE POST OFFICE

COLORED ENVELOPES ARE staying couriers from their appointed rounds. While the U.S. Postal Service's $5 billion automation push is now largely complete, its fancy new optical scanners that sort mail have a real downside: problems reading brightly colored envelopes. And that will make for major headaches this holiday season, when mail volume doubles.

WEAK LINK: *Color-blind machines*

Take bar codes, which the Postal Service prints on letters for the benefit of the optical recognition machines. When the scanner can't make out the black bar codes on red greeting-card envelopes, the cards get kicked out of the sorting process. White stickers with the bar code must then be affixed to the envelopes, a costly, slow process.

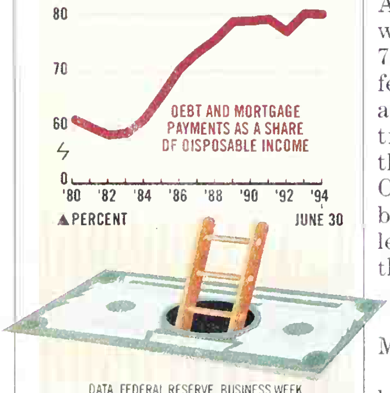
Another snafu: Some direct-mail and holiday envelopes use a heavy phosphorescent coating to give them extra zip, so to speak. That's similar to the coating on stamps, which Postal Service machines look for and then cancel. The upshot is cancellation marks all over the envelope.

Postal officials have asked manufacturers to tone down the colors and cool the phosphorescence. Envelope makers have complied to some extent. Yet since consumers like these features, they're still on the market. "I call this the growing pains of automation," says Maynard Benjamin, president of the Envelope Manufacturers Assn. of America. *Mark Lewyn*

THE BIG PICTURE

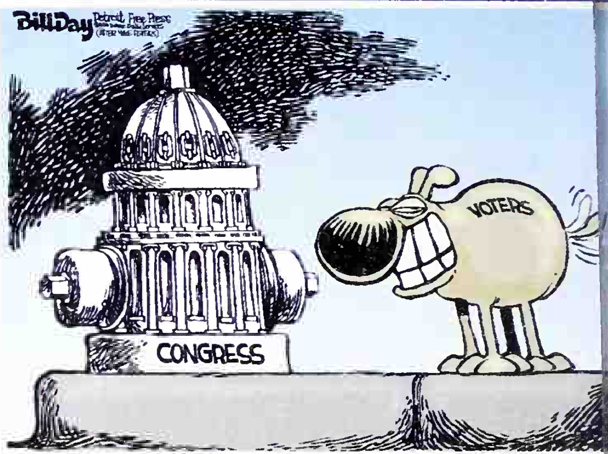
IN THE HOLE

Consumer credit in relation to income has reached record levels. So, over the long haul, households will be hard-pressed to purchase durable goods or other big-ticket items requiring borrowed funds.



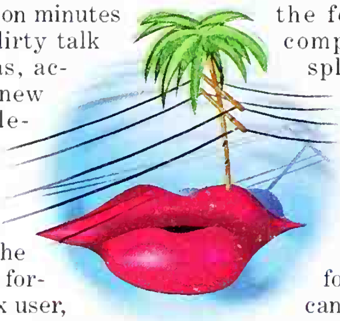
DATA: FEDERAL RESERVE, BUSINESS WEEK

DRAWN & QUARTERED


Bill Day Detroit Free Press
CONGRESS
VOTERS

TELETRASH

ONE BIG RANDY GLOBAL VILLAGE



EVEN PHONE SEX IS UP against cheaper foreign competition. Americans are dialing up 15 million minutes a month for dirty talk from overseas, according to a new study by TeleGeography, a Washington-based consulting group. That makes the U.S. the No. 2 foreign phone-sex user, behind Germany. About 1.5% of the world's international telephone calls now are placed to offshore phone-sex services.

Caribbean countries
as the Netherlands An
and the Dominican Rep
are big providers, rakin
millions in fees. So are
Kong and the Philippi
Long-distance carriers bil
caller but must pay a fe
the foreign ph
companies, w
split it with
sex servi
Unlike
costly
plus per
ute) 900 n
bers in
U.S., caller
foreign sex l
can pay less t
$1 per minute fo
international call. And th
calls aren't as conspicuou
phone bills to spouses
others. *Catherine A*

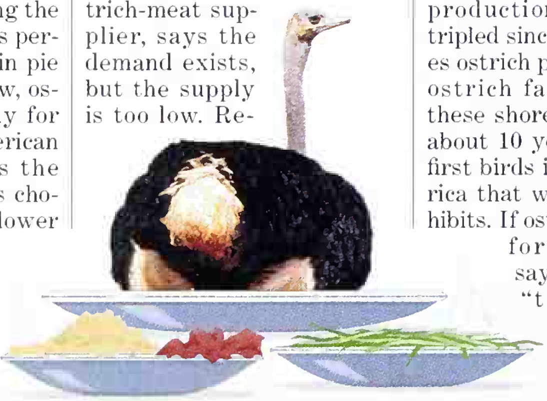
PRODUCT PEEK

TASTES FINE, BUT THE HEAD'S A BIT SANDY

OSTRICH FOR THANKSGIVING? That's the hope of many American ostrich farmers, who are busily promoting the 7-foot, 300-pound bird as perfect next to the pumpkin pie and sweet potatoes. Now, ostriches are used mainly for their feathers. The American Ostrich Assn. pushes the bird's health appeal: Its cholesterol count is even lower than turkey and chicken. And no, it doesn't taste like chicken. More like beef.

Thus far, ostrich can be found in only about three dozen restaurants nationwide. Wayne Bolan, head of TOPS, a Burleson (Tex.) ostrich-meat supplier, says the demand exists, but the supply is too low. Result: Ostrich meat costs a
more than $20 per pound.

The U.S. ostrich popula
is around 150,000, compa
to annual turkey product
of 291 million. Yet turke
growth in the marketplac
production has more th
tripled since 1960—encour
es ostrich promoters. Inde
ostrich farming is new
these shores, beginning o
about 10 years ago with
first birds imported from
rica that weren't for zoo
hibits. If ostriches do show
for Thanksgivi
says supplier Bol
"that would be
very large dru
stick." *Russ*
Pearlman



FOOTNOTE Personal computers shipped in 1994, worldwide: **45 million.** PCs retired, '94: **20 million**

MCI AND BRITISH TELECOMMUNICATIONS INVITE YOU TO PLUG INTO THE FIRST GLOBAL NETWORK.

nagine a communications network where very branch office of your company is in oice, data, and video contact with every ther branch office. And a network that rovides access to all of your clients, as well.

Now imagine having this global network nstalled, configured, customized, and ompletely functional without having to orry about a thing.

And imagine this entire network managed at a single point f contact so any questions can e answered at any time of the day or night by speaking with someone who knows your system intimately. What you're imagining is a reality. It's called Concert Virtual Network Service. And it's available today.

MCI® and British Telecommunications have joined forces to create the first truly global, seamless virtual network service that connects your offices throughout the globe.

So call us at 1-800-333-3939 and find out more about Concert VNS.

It's a communications breakthrough of global proportions.

CONCERT™

Global Communications from BT and MCI

1-800-333-3939

ncert is a mark of Concert Communications Company. BT is a registered trademark of British Telecommunications, plc. MCI is a registered service mark of MCI Communications Corporation.

GRAPHIC BY LISA KNOUSE BRAIMAN/BW

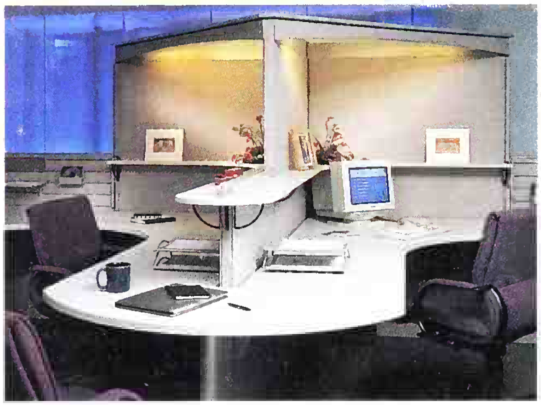
WHAT IF your employees work together but your office fu

t?

How do you design a functional office without furniture getting in the way? Haworth has the answer: PLACES.® A flexible furniture system that encourages teamwork without sacrificing privacy.

PLACES lets you integrate shared and individual spaces, allowing for a free flow of information and communication. Acoustic panels in a variety of shapes keep one team's brainstorming from becoming another team's headache. And an array of work surfaces and storage options create an environment that caters to individuals without isolating them.

The PLACES system offers you a world of choices for the workplace. Because today, if you can't work together, you can't work.



PLACES work stations

◆

Make sure nothing stands between your employees and the job at hand. For Haworth's "Productivity Through Teamwork" booklet, call 1-800-344-2600.

◆

HAWORTH®
FURNITURE THAT WORKS.™

GRAPHIC BY LISA KNOUSE BRAINARD/DW

BusinessWeek

EDITOR-IN-CHIEF: Stephen B. Shepard

MANAGING EDITOR: Mark Morrison

CHIEF ECONOMIST: William Wolman

ASSISTANT MANAGING EDITORS: Sarah Bartlett, Robert J Dowling, G. David Wallace

ART DIRECTOR: Malcolm Frouman

SENIOR EDITORS: Bob Arnold, Frank J. Comes, Deidre A. Depke, Judith H. Dobrzynski, Marc Frons, Geoff Lewis, Ciro Scotti, Mark N Vamos, Lee Walczak (Washington), Chris Welles, Seymour Zucker

EDITORIAL PAGE EDITOR: Bruce Nussbaum

CHIEF OF CORRESPONDENTS: Keith G. Felcyn

INTERNATIONAL EDITION: William J. Holstein (Editor); John E. Pluenneke, Elizabeth Weiner (Sr. Editors)

SENIOR WRITERS: John A. Byrne, James E. Ellis, William Glasgall, Jeffrey M. Laderman, Gene G Marcial, John Pearson, Karen Pennar, Otis Port

ASSOCIATE EDITORS: Duane E Anderson, Catherine Arnst, Amy Dunkin, William D. Marbach, John Meehan, Michael Oneal, Thane Peterson, Gary Weiss.

DIRECTOR, EDITORIAL OPERATIONS: Thomas J. Reed

PICTURE EDITOR: Lawrence Lippmann

SENIOR ART DIRECTOR: Laura Baer

ECONOMICS: James C. Cooper (Sr. Economist/Business Outlook editor), Kathleen Madigan (Assoc.). Christopher Farrell, Michael J Mandel (Economics editors) Gene Koretz (Economic Trends editor)

DEPARTMENT EDITORS: **Books**: Denise Demong **Computers**: Ira Sager **Corporate Finance**: Phillip L Zweig **Corporate Strategies**: Jane A. Sasseen. **Information Management**: John W Verity **International Finance**: Joan Warner. **International News**: Christopher Power. **International Outlook**: Stanley Reed. **Investment Banking**: Leah Nathans Spiro. **Legal Affairs**: Linda Himelstein. **Media**: Mark Landler **Money & Banking**: Kelley Holland **News**: Keith H Hammonds. **Personal Business**: Edward C. Baig. **Science**: Emily T. Smith. **Scoreboards**: Frederick F Jespersen **Social Issues**: Michele Galen. **Software**: Amy Cortese. **Technology**: Peter Coy, Neil Gross **Up Front**: Larry Light. **The Workplace**: Aaron Bernstein

STAFF EDITORS: Pam Black, Veronica Byrd, Bruce Einhorn, Paul M. Eng, Elizabeth Lesly, Ron Stodghill II, Amey Stone, Suzanne Woolley, Laura Zinn

ASSISTANT EDITORS: Lori Bongiorno, Julie Tilsner

COPY EDITORS: Harry Maurer, Michael Mercurio (Deputy chiefs); Prudence Crowther, Marc Miller (Asst. chiefs); Tim Belknap, Aleta Kaufman, Jack Robbins, Jim Taibi (Sr. copy editors); Carl Desens, Hardy Green, Cynthia McClean, Joseph Mandel, David Pengilly, Malka Percal, Doug Royalty, Maria Chapin, Gail Fowler, Jeneen Hobby, Aida Rosario (Researchers)

PRODUCTION COPY EDITORS: Donald Halsband (Chief), Lawrence Dark (Deputy), Hallberg Hallmundsson, Celine Keating, Robert S. Norman, Robert J Rosenberg, Eva Stettner

ART: Steven Taylor (Deputy director), Cynthia Friedman, Francesca Messina, Jay Petrow, Christine Silver (Assoc. directors), Alice Cheung (Asst. director) **Graphics**: Arthur Eves (Director), Joan Danaher (Deputy director), Rob Doyle (Sr Illustrator), Lisa Knouse Braiman, Alberto Mena, Ray Vella (Illustrators), Jaime Beauchamp (Computer artist). **Production**: Stephen J Romeo (Mgr.), Annette Kennedy (Asst manager), Alan Bomzer (Coordinator)

PHOTOS: Scott Mlyn (Deputy Picture editor); Todd James (Senior Picture editor), Anne Murray, Ronnie Weil (Assoc. Picture editors); Bettina Baudoin (Paris), Kathleen Moore (Asst. Picture editors); M Margarita Eiroa (Traffic manager) Lawrence Crowe (Librarian), Michael Hirsch (Researcher)

EDITORIAL OPERATIONS: Yvonne Rodriguez (Production chief). Richard Balestrino, A Peter Clem, Nicholas M White (Production managers) Karen Butcher, Thomas R Dowd, Fidel Lee, Jose L. Martin, Jane M Perkinson, Craig Sturgis, Edgardo Torres, Karen Turok, Ilse V Walton (Makeup editors) Bruce M. Arnold, Stephen R. Lebron (Asst Makeup editors) Donald C Pearson (Traffic manager)

CORRESPONDENTS: **Atlanta**: David Greising (Mgr.), Maria Mallory **Boston**: Mark Maremont (Mgr), Gary McWilliams, Geoffrey Smith. **Chicago**: Richard A Melcher (Mgr), Greg Burns, Susan Chandler, Kevin Kelly **Cleveland**: Zachary Schiller (Mgr) **Connecticut**: Tim Smart (Mgr.), Chris Roush **Dallas**: Wendy Zellner (Mgr), Peter Burrows, Stephanie Anderson Forest **Detroit**: Kathleen Kerwin (Mgr.), James B Treece (Sr Correspondent), David Woodruff **Los Angeles**: Ronald Grover (Mgr.), Larry Armstrong (Sr Correspondent), Eric Schine **Miami**: Gail DeGeorge (Mgr) **Philadelphia**: Joseph Weber (Mgr) **Pittsburgh**: Stephen Baker (Mgr), Keith L. Alexander. **San Francisco**: Russell Mitchell (Mgr), Richard Brandt, Joan O'C Hamilton, Robert Hof, Kathy Rebello. **Seattle**: Dori Jones Yang (Mgr) **Washington**: Stan Crock, Owen Ullmann (News Editors), Amy Barrett, Amy Borrus, John Carey (Sr correspondent), Christina Del Valle, Richard S Dunham, Dean Foust, Susan B. Garland, Howard Gleckman (Sr correspondent), Douglas Harbrecht, Mark Lewyn, Paul Magnusson, Mike McNamee, Mary Beth Regan, Michael Schroeder, Stephen H. Wildstrom (Technology & You), Catherine Yang. **Bonn**: John Templeman (Mgr), Karen Lowry Miller **Hong Kong**: Joyce Barnathan (Mgr), Pete Engardio **London**: Paula Dwyer (Mgr), Julia Flynn **Mexico City**: Geri Smith (Mgr) **Moscow**: Peter Galuszka (Mgr) **Paris**: Stewart Toy (Mgr), Gail Edmondson, Bill Javetski **Rome**: John Rossant (Mgr) **Tokyo**: Robert Neff (Mgr), Larry Holyoke **Toronto**: William C. Symonds (Mgr)

EDITORIAL SERVICES: **Broadcasting**: Ray Hoffman **Business Manager**: Barbara Boynton **Information Services**: Jamie B. Russell (Director), Judi Crowe (Asst editor), Heather Hartley, Fred Katzenberg, Maria Maronak, Karen Stevens **Office Manager**: Roselyn Kopit. **Public Relations**: Christine Summerson, Josephine Coppola. **Readers Report**: Yvette Hernandez **Reprint Permission**: Janet Gonzalez **Systems**: Ina L Kichen (Mgr), Andrew Bernardo, Marie Brown-Bryant, Marta Skrelja

PRESIDENT: John W Patten
PUBLISHER: David G Ferm
SR. VP, OPERATIONS: Gary B. Hopkins
VP, CONSUMER MARKETING/CIRCULATION: Robert Montemayor
VP, INTERNATIONAL: Gerd Hinske
VP, STRATEGIC PLANNING & DEVELOPMENT: Cara Erickson
VP, MARKETING: Harold K Somerdyk
VPs, SALES: Constance E. Bennett (Eastern Region), Dan Dunn (Midwestern Region), Louis R Mohn (Western Region)
VP, STRATEGIC PROGRAMS: James H McGraw IV
CONTROLLER: Gary M Singer
DIRECTOR, ADVERTISING BUSINESS: Linda F Carvalho
DIRECTOR, PRODUCTION: Mario J Talluto

Readers Report

ON JOBS AND WORK: ROBERT REICH REPLIES

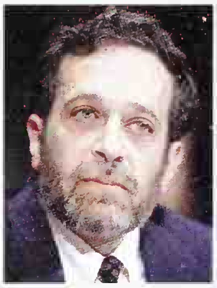
Aaron Bernstein points to a disturbing trend in his commentary "The U.S. is still cranking out lousy jobs" (The Workplace, Oct. 10). Over the past six years, job growth has been concentrated in high-wage occupations and in traditionally low-wage industries. So it is a misreading of the evidence to conclude that all employment growth is in lousy jobs. First, as Bernstein notes, there has been strong growth in managerial and professional jobs, which tend to pay high wages. Second, in the past two years high-wage industries have started to show stronger growth. Indeed, there have been more net jobs created in above-median-wage industries so far this year than in the previous five years combined.

Nevertheless, as your thoughtful article "Rethinking work" (Special Report, Oct. 17) highlights, underlying the trends in job growth has been a divergence in fortunes of American workers based on skills. While the nearly 5 million jobs added to the economy over the past two years pay better than average, most American workers still occupy the 110 million or so old jobs. Structural changes have led to more demand for skilled workers and less demand for the unskilled. Recent data show that the economy continues to generate well-paying jobs for workers with a high level of education and training. Changes in the U.S. economy mean there's an urgent need to improve the skills of the workforce.

In response to new realities, the Clinton Administration has pursued an agenda of lifelong learning for all Americans. For example, the School-to-Work Opportunities Act, signed by the President in May, is working to create and sustain jobs for young Americans by linking education to work experience. The Goals 2000 Act, signed into law in March, is not only setting educational standards but also putting in place a system of standards or "occupa
passports" to give workers obje
portable certification that they ha
skills to win and keep jobs. We ha
the foundation for a new reemplo
system to help workers who lose
jobs find new jobs and new caree
cluding one-stop career centers th
fer training and education, comp
ized jobs banks, and career couns

The surest way to bolster the m
class and produce prosperity is t
prove the skills of the workforce
public and private sectors, worki
gether, can help millions cross the
divide from old work to new.

Robert B.
Labor Secr
Washi



THE GREAT DIVIDE

"The surest way to bolster the middle class and produce prosperity is to improve the skills of the workforce."

—Labor Secretary Reich

YOUR PENSION FUNDS IN UNCLE SAM'S HANDS?

In response to Paul Craig Robe
suggestion that the Labor Dept. a
cates "economically targeted invest
in order to "divert" some of Ameri
pension funds into "politically usefu
vestments," let me assure your rea
that there is absolutely no such ef
under way ("Private nest eggs d
make public safety nets," Econo
Viewpoint, Oct. 31).

As Roberts notes, the Employee
tirement Income Security Act of 1
(ERISA) requires that pension-plan m
ey be invested solely in the interest
participants and beneficiaries. Both
Labor Secretary and I are commit
to enforcing ERISA vigorously.

Economically targeted investme
(ETIS) provide pension funds with co
petitive, risk-adjusted rates of return

BUSINESS WEEK
NOVEMBER 21, 1994 3400
ISSN 0007-7135 * * *

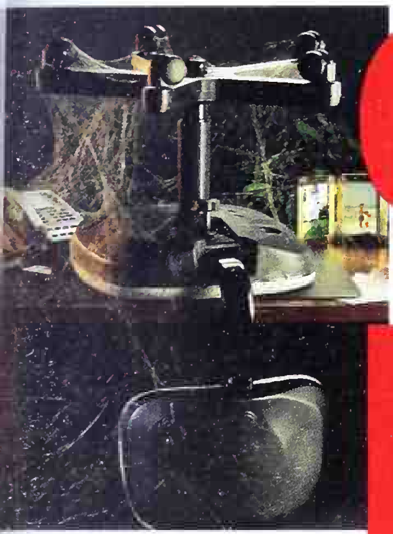
Published weekly, except for one issue in January, by McGraw-Hill, Inc Founder: James H. McGraw (1860-1948).

Executive, Editorial, Circulation, and Advertising Offices. McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127039, Intl. 2360127039. U.S. subscription rate $46.95 per year; 2 years, $78.95; 3 years, $104.95. Single copies, $2.75; back issues, $5. Write for rates in other countries. Subscriber Services: 1-800-635-1200. TDD 1-800-554-1579

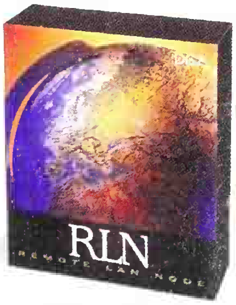
Postmaster: Send address changes to BUSINESS WEEK, P.O. Box
Hightstown, N.J. 08520. Second-class postage paid at New York, N.Y.
at additional mailing offices. Postage paid at Montreal, P.Q. Canada
International Publications Mail Product Sales Agreement No. 24
Registered for GST as McGraw-Hill, Inc. GST #R123075673. Copyright
by McGraw-Hill Inc. All rights reserved. Title registered in U.S. Pa
Office. European Circulation Center, McGraw-Hill House, Maiden
Berks, England. Telephone: 0628-23431; Telex: 848640.
Officers of McGraw-Hill, Inc.: Joseph L. Dionne, Chairman and Chief
ecutive Officer; Harold W. McGraw, III, President and Chief Operating
ficer; Robert N. Landes, Executive Vice President, General Counsel,
Secretary; Robert J Bahash, Executive Vice President and Chief Fi
cial Officer; Frank D. Penglase, Senior Vice President, Treasury Operat

PHOTOCOPY PERMISSION. Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance
ter (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy any article herein for the flat fee of $1.50 per copy of each article. Send paymen
the CCC Copying for other than personal or internal reference use without express permission of McGraw-Hill is prohibited. Address requests for
tomized bulk reprints to Business Week Reprints, P.O. Box 457, Hightstown, N.J. 08520, or call 609-426-5494. ISSN 0007-7135/94/$2.75
PRINTED IN THE U.S.A.

How can you improve employee productivity when they don't even show up at the office?



he office is quiet. Desks are clean. You haven't seen an mployee for weeks. And business has never been better. here's a perfectly good explanation for all this: RLN™ Remote LAN Node®). It provides your employees with ransparent access to all the resources on your LAN, no natter where they're working. Even on glamorous oad trips to places like Secaucus, New Jersey. Once onnected, they can access the mainframe, use groupvare applications, check E-mail and more, like any local ser. And since you won't be keeping your eye on every employee, every minute, we created superior management and security features. We also teamed up with Citrix® Corporation and their award-winning software to develop our optional Application Server. It can boost remote access performance of LAN-based applications by as much as 300%. So call today about RLN. And start improving the work ethic in your office. And out of it.



OR MORE INFORMATION ON **RLN** CALL 800.348.3221 X 76EE

DCA

1994 Digital Communications Associates, Inc. All rights reserved. DCA and Remote LAN Node are registered and RLN is trademarked by Digital Communications Associates, Inc. All other trademarks are property of their owners.
Outside the U.S., call 404.475.8380

Readers Report

CORRECTIONS & CLARIFICATIONS

"U-Haul: A truckful of dollars"(In Business This Week, Oct. 24), should have said a jury ordered U-Haul Chairman Joe Schoen to pay total punitive damages of $70 million to his father, U-Haul founder L. S. Schoen, and to six of his children. The damages were not paid only to L. S. Schoen.

---

an investment does not provide a competitive, risk-adjusted rate of return, it should not even be considered by a pension manager under ERISA. ETIs provide competitive returns as well as ancillary benefits such as affordable housing, infrastructure improvements, and job creation.

ERISA requires pension-plan officials to seek to maintain an investment portfolio that will maximize the plan's risk-adjusted rate of return. This means a plan may not, under any circumstances, make an investment that is expected to produce substandard financial returns, no matter how "socially useful."

Contrary to Roberts' suggestion, economically targeted investing was not created by the Clinton Administration. For more than a decade, under both Republican and Democratic Administrations, Labor has issued advisory opinions specifying that ETIs that provide a competitive risk-adjusted rate of return are consistent with both the spirit and the letter of ERISA. The Department's recent interpretive bulletin reiterated this longstanding position.

Finally, while Roberts cites the Kansas Public Employee Retirement System in order to conclude that ETIs do not earn competitive returns, he ignores many successes all over the country, such as the California Public Employees' Retirement System's single-family housing construction program, which achieved a 44% rate of return for its first project. Other successful ETI programs abound, including the AFL-CIO Housing Trust, Boilermaker Co-Generation Fund, and Excelsior Capital.

Olena Berg
Assistant Secretary for
Pension & Welfare Benefits
Labor Dept.
Washington

Roberts misstated both the policy of the Clinton Administration and my own views when he wrote of a supposed plan to tax pensions. Neither the Administration nor I has ever considered any such plan to "commandeer" the pensions of hard-working Americans.

Roberts bases his claims on an academic article I wrote prior to joining the Administration. The article has little relevance to my current position. The Treasury is committed to the serious business of developing policies that touch people's lives and is not engaged in academic research.

This Administration fully recognizes the importance of pension funds to the economic security of America's retirees. No plan such as the one mentioned in Roberts' column exists, and this Administration has no intention of considering one.

Alicia H. Munnell
Assistant Secretary
Treasury Dept.
Washington

Roberts described the efforts to direct pension funds into socially useful investments as "a scheme to divert pension money to economically targeted investments such as public housing." Roberts would have some believe that this is a "slick move" to plunder pension funds and dump them into risky investments.

PENSIONS AND POLITICS

The Labor Dept. "has an abysmal record in protecting employee rights under both pension and welfare plans."

—Leroy Gebhart

In demonizing housing authorities, Roberts overlooks two facts: The Clinton proposals never suggested limiting investments to housing. Even if that were the proposal, just because some authorities are mismanaged, it does not mean all are mismanaged. In my region, we have five authorities. None is in financial trouble.

More-typical beneficiaries of the Clinton proposal would be the hundreds of community-investment organizations that are building housing, creating jobs, and saving neighborhoods. The last time I looked, their record of financial success was much better than the banks'. They also look good compared with thrift institutions that—instead of housing—invested in unneeded golf courses that went under, taking pension money with them.

James Upchurch
Executive Director
Western Maryland Interfaith
Housing Development Corp.
Frederick, Md.

Reich's issuing interpretive regulations that "allow" pension funds o i vest in ETIs is designed to meet h p litical agenda, not to protect the we fare of millions of retirees—as the lab Secretary is required to do ude ERISA.

It follows that the Labor Dept wi soon mandate that pension fund ase be put into ETIs. Labor has an abysm record in protecting employee rih under both pension and welfare pla

Leroy P. Geba
Brookfield I

RISKY BUSINESS

Congratulations on your well r searched "Managing Risk" (Special R port, Oct. 31).

As someone who has worked wi number of multinationals in currec risk, I would offer two caveats for cm panies seeking to upgrade risk-mange ment efforts. First, while s management is best treate o a companywide basis, do o merely delegate responsibit for this to the treasurer's e partment. If you don't train p erating managers to understa and evaluate risk, they will cn tinue to develop strategies ta generate unwanted exposure.

Second, always think about risk a reward simultaneously. Most of your n terviewees had a lot to say about c trols and limits, but few mentioned bu ness opportunities.

Overzealous controls can destroy e entrepreneurial spirit of an organiz tion. Don't let the cure result in ov centralization and a "police state." Th would destroy more shareholder va than surprises or ill-understood risk

Stephen A. Allen, Professor
Management & Internatio
Busine
Babson Colle
Babson Park, Ma

HOW TO REACH BUSINESS WEEK

LETTERS FOR READERS REPORT

All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space.

Mail: Business Week, 1221 Avenue of the Americas,
39th floor, New York, NY 10020
Fax: (212) 512-4721
Internet: bwreader@mgh.com

SUBSCRIBER SERVICES

For individual subscriptions, corporate subscriptions, renewals, changes or problems, and single copies.
Phone: (800) 635-1200 or (609) 426-7500

COPYRIGHT PERMISSIONS

Before quoting or reproducing editorial material.
Phone: (212) 512-3396
Fax: (212) 512-4938

If you think the buildings are big in New York...

Wait until you see the size of a Manhattan East suite.

t Manhattan East Suite Hotels, you'll enjoy one of New York's greatest luxuries. Space. Our suites give you lenty of room to do almost anything, whether it's entertaining or holding a meeting, fixing a snack in your kitchen r simply relaxing – all for the price of an ordinary hotel room. You'll also enjoy the hospitality of our caring staff, oom service and business amenities like dataports for computer modem hookups. Most of our hotels feature fine estaurants and fully equipped fitness centers. So the next time you're in New York, stay at one of our nine distinctive locations throughout New York City. Charge your stay with the American Express® Card and if there's a chance you'll be checking in late, request an American Express Card Assured Reservation, which guarantees your room will be waiting until checkout time the next day.*

AMERICAN EXPRESS
3712
95006

MANHATTAN EAST SUITE HOTELS

Beekman Tower, Dumont Plaza, Eastgate Tower, Lyden Gardens, Lyden House,
Plaza Fifty, Shelburne Murray Hill, Southgate Tower, Surrey Hotel

Get the better of New York.℠

For reservations or a brochure, call your travel agent or 1-800-ME-SUITE, Ext. 20.

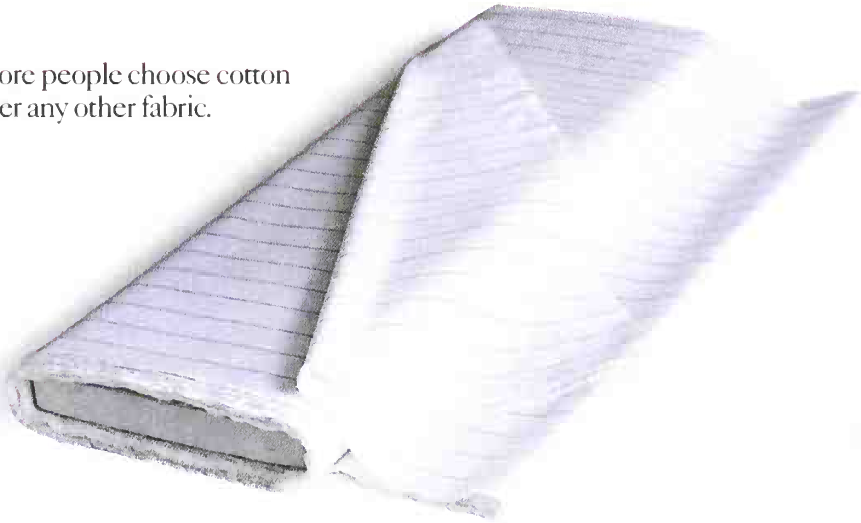
*Please call before 6:00 p.m. to cancel your Assured Reservation and avoid being billed for the first night.

© Manhattan East Suite Hotels

More people choose a dog
over any other pet.

More people choose blue
over any other color.

More people choose cotton
over any other fabric.



More people choose football
over any other televised sport

Why does a person favor one thing over another? When it comes to the Honda Accord, there are lots of reasons. The revolutionary 145-horsepower VTEC engine, for example. A model combination of performance and efficiency. And the quiet, comfortable interior that lets you feel in charge and pampered at the same time.

*R.L. Polk & Co., July 1994 Calendar Year to Date Retail Registrations. Accord EX Coupe model shown and described. ©1994 American Honda Motor Co., Inc.

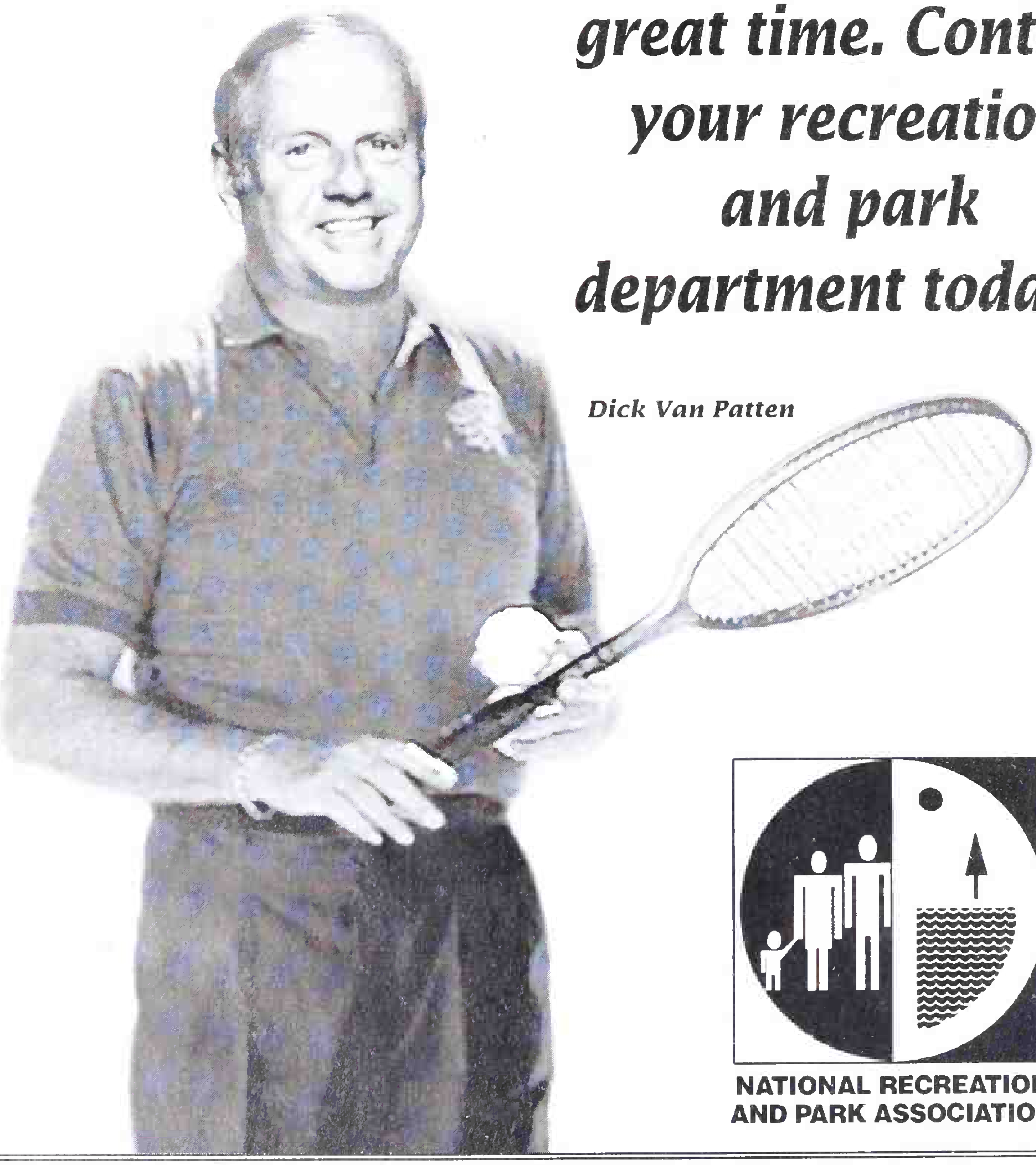
More people choose ice cream
over any other treat.

More people choose the Accord
over any other car.*

here is a lot to be said for one's personal style as well. And the Accord
oupe says it quite nicely. In fact, every Accord out there is making
statement. One which more and more people appear to agree with.

The Accord Coupe
HONDA A Car Ahead

GRAPHIC BY LISA KNOUSE BRAMAN/DW



"At any age, there are dozens of things you can do to stay healthy, active and have a great time. Contact your recreation and park department today."

Dick Van Patten

NATIONAL RECREATION
AND PARK ASSOCIATION

'ED BY STEPHEN H. WILDSTROM

HE WORD ON /ARP: WHOOPS

really wanted to like
Warp, the latest version
of IBM's OS/2 operating
em. Advance publicity
nised that it would offer
y of the advantages of
dows 95 a half-year or so
re the Microsoft product
le it to market.

las, Warp is a major dis-
ointment. Although it is
er to use and less crash-
ne than today's Windows,
rp shows signs of having
n rushed to market. The
t copies sent to retail-
were marred by a se-
us bug that would
e aborted the instal-
on process on most
nputers. Further-
re, Warp lacks the
cial software, called
vers, needed to use
ny popular accesso-
s, such as some NEC
-ROM drives. And
re's no built-in net-
rking software. The
l insult: Warp's set-
procedure is difficult
ugh that I had to
l technical support
each of the two installa-
ns I attempted.

ASS TACKS. IBM plans to
l networking by yearend.
d given time, it can pro-
e support for more hard-
re and fix the installation
ogram. But buyers of
rp, available at software
res for $75 or less, face a
ch more serious long-term
blem.

BM argues, with some
rit, that Warp is superior
he current Windows, and,
re dubiously, that is tech-
ally better than Windows
But users don't care about
technical superiority of
erating systems; they just
want the software they need to get the job done. When Windows 95 debuts next spring, it will unleash a flood of improved word processors, spreadsheets, database managers, and other programs. None of them will run on Warp.

All versions of OS/2, including Warp, have been short on applications. IBM's OS/2 software catalog contains only three obscure word processors, one of them in Japanese. OS/2 has been able to survive because most of its 6 million or so users run software designed for MS-DOS or Windows. But OS/2's ability to run Windows programs depended on a licensing agreement between IBM and Microsoft. That agreement does not extend to Windows 95, so software for that system won't work on Warp.

Warp users can use older Windows applications, but they will miss out on many advanced features of both Windows 95 and OS/2. For example, IBM boasts that Warp allows file names of up to 254 characters. But if you're using Microsoft Word 6.0, you're stuck with eight-character names no matter what operating system you choose.

IBM has worked to persuade developers to write OS/2 programs, providing them with both financial incentives and tools to help them convert Windows software. But there have only been a trickle of OS/2 product announcements.

OUT IN THE COLD? Lotus Development, which has long been committed to the IBM operating system, is overhauling its SmartSuite for OS/2 in tandem with its development of a Windows 95 version. But the attitude of Novell's WordPerfect unit, which last year ended an unprofitable venture into the OS/2 market, is more typical. "Warp is a little too late," says Mark Calkins, general manager for business applications. "We're making a major commitment to Windows 95 and have no current plans to move to OS/2."

That's grim news for Warp. Without the promise of new and better programs, consumers have no reason to switch to the new operating system. And without a mass market, publishers have no interest in developing the programs. IBM's only alternative may be to figure out a way to make Warp run Windows 95 programs—a task everyone agrees would be long and difficult.

Consumers have reason to hope for IBM's success. Competition in the computer industry has spurred innovation, but for the time being, Microsoft has the operating-system field to itself. IBM hopes Warp will change that. Unfortunately, the odds look long indeed. *S. W.*

BULLETIN BOARD

SCANNERS

USER-HOSTILE HARDWARE

It's time for manufacturers to learn that consumers are running out of patience with hardware that's difficult to get up and running. ScanFX by PlusTek (800 685-8088) would be a nifty addition to many systems if it were easier to install. The $600 unit is a color scanner that features a fax machine-style front panel. This allows you to use your computer's fax modem with the same ease as a stand-alone fax.

Using ScanFX is simple, but setting it up may require moving tiny clips, called "jumpers," on a circuit board installed in your computer. And getting the configuration right is a trial-and-error process. I had to remove the board to change the setting three times before I got it right. Easier-to-install hardware comes with programs that lead you through menus that configure without touching jumpers or switches. Buyers should demand no less.

COMMUNICATIONS

MINIMODEM SMALL TALK

Wireless communications for the executive on the go have come a step closer to reality with the announcement of L. M. Ericsson's credit-card-size radio modem. The device will be sold initially only to manufacturers of handheld communications devices, but versions for laptops and personal digital assistants are likely to become available.

QUESTIONS? COMMENTS? techandu@mgh.com on Internet or fax (202) 383-2125

ILLUSTRATION BY MACIEK ALBRECHT
GRAPHIC BY LISA KNOUSE BRAIMAN/BW

THE JURY
Trial and Error in the American Courtroom
By Stephen J. Adler
Times Books • 285pp • $25

A SYSTEM FOUND GUILTY AS CHARGED

As most of us learned in civics, the right to a jury trial was established in America well before Thomas Jefferson penned the Declaration of Independence. The premier case was the 1735 trial of John Peter Zenger for publishing articles critical of a corrupt New York governor. Although the law prohibited publishing such stories, even if true, the jury quickly found Zenger not guilty—proving that jurors know when to nullify bad law.

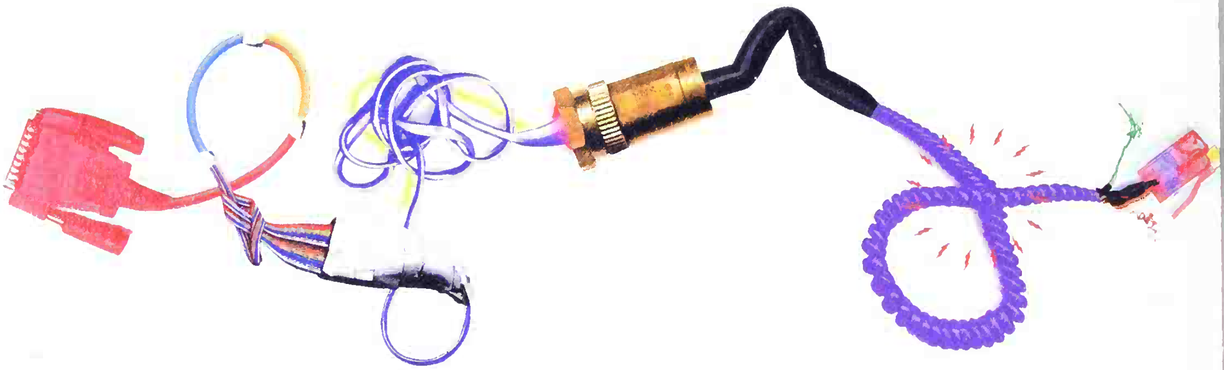
The Zenger case represents the jury system at its best. But much has changed in the ensuing 260 years. This year, American jurors will sit through some 150,000 trials. Many will find themselves confused by complex legal issues or simply bored by lawyers' diatribes. They may be poorly treated, languishing in dirty waiting rooms while judges and counsel argue about legal minutiae. And individuals who might make the most attentive arbiters will be struck from jury pools for reasons having little to do with their suitability to serve. No wonder roughly 55% of those called for jury service never bother to show up.

Few would deny that the state of the jury system is bleak. But understanding how one of the most enduring forms of democratic expression became such a deplored and burdensome civic duty is vital to rectifying the situation.

Stephen J. Adler tackles this issue in a remarkably readable and upbeat fashion in *The Jury: Trial and Error in the American Courtroom*. And though Adler, former law editor of *The Wall St*
Journal, says at one point that
“searched nearly in vain for evide
that . . . twelve heads were really be
than one,” in the end he decides the j
system is indispensable. On his way
that conclusion, he offers an illuminat
look at seven civil and criminal cas
The focus of his scrutiny: Why do l
yers prefer one juror over anoth
What causes even diligent jurors to
cus more on emotions than on fa
How have jury consultants and jud
contributed to the current mess?

In a chapter called “Lawyers' P
er,” Adler goes behind the scenes of
1990 case against Imelda Marcos. T
charge was fraud; essentially, the Phi
pines' former First Lady was accu
of looting her country to support h
lavish lifestyle. Adler examines the w
her lawyer, Gerry L. Spence, used t
selection process to stack the ju
Spence favored fat people over thin,
reports, on the theory that they lack
self-control and might interpret the l
less rigidly. He liked older jurors b
cause they understood human shortco
ings. Jews were desirable because th
might be moved by an argument abo
persecution.

Some companies say they're joining forces to make international network communications simple.



In the U.S., IBM Global Network services are provided by Advantis, a joint-venture of IBM and Sears, Roebuck and Co.

One global network
has all the advantages

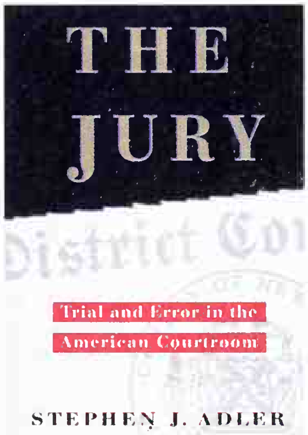
More local support
from 5,000 networking
specialists worldwide

Total outsourcing
and management of SNA, multi-protocol
and emerging ATM-based networks

THE BIGGEST OBSTACLE TO COMPETENT JURIES? PEREMPTORY CHALLENGES, ADLER CONTENDS

s Spence hoped, these carefully cho-
jurors felt sorry for the teary-eyed,
k-garbed widow—even though, says
er, prosecutors presented reams of
iminating evidence. Unable to fol-
the Marcoses' complex financial
ings, many jurors fo-
ed instead on topics
as wives' ignorance
heir husbands' doings.
er her acquittal, Mar-
treated the panel to a
nk affair complete
roast pig and a belly
cer.

dler also examines
1989 trial in which
gett & Myers charged
al cigarette maker
wn & Williamson with
datory price discrimi-
on. For seven months,
th Carolina jurors lis-
ed to esoteric economic and financial
ories. Even the judge's instructions
e incomprehensible, says Adler. One
r, asked during deliberations what
thought, replied: "How should I know?" Adler calls the verdict, which favored Liggett, "illogical" because jurors deemed perfectly legal and common business practices improper. In overturning it, the Supreme Court noted that "a reasonable jury" could not have ruled as this one had.



Adler uses a third trial to show how lawyers selling their case to jurors employ the same techniques marketers use to sell detergent. The 1991 trial involved an accident in which a drunk driver struck a teenager and left him brain-damaged. The boy's family sued both the driver and Pizza Hut, where she had been drinking. Before mock jurors, the family's lawyer tried out his argument—that Pizza Hut should not have served alcohol to a visibly intoxicated woman. When the jurors decided people are responsible for their own actions, he changed strategy. During the trial, he blamed Pizza Hut for not training employees to detect drunken customers. The case was settled for $350,000.

Disheartening though Adler's findings are, his prescriptions are not complicated: Give jurors better, more comprehensible instruction. Make the jury pool reflect society by eliminating the widespread exemption of such professionals as doctors, clergy, and firefighters. Improve courthouse conditions, and insist that personnel treat jurors courteously. And get rid of peremptory challenges—the biggest obstacle, in Adler's view, to seating competent juries.

While peremptory challenges are easily abused, they're not likely to be eliminated, since many legal advocates—not to mention existing case law—treat them as sacred. Moreover, tradition, cost concerns, and bureaucratic hurdles all stand in the way of real reform. But after interviewing dozens of jurors, Adler passionately argues for fixing the system. "Jury service remains one of our most precious birthrights and, for most of us, our greatest source of direct political power," he says. "It's a right we cannot

We'd like to set the record straight.

There's nothing simple about a communications network that's patched together by a collection of companies around the globe. Common sense suggests it would be better to have *one* global company responsible for managing your network. And that's exactly what you get with the IBM Global Network. Others may offer a "single point of contact"—but if you ask for something like global E-mail, they're likely to tell you some of their overseas affiliates aren't on line yet. The IBM Global Network provides access to more than 90 countries. Now. So you can get a head start on the high-speed global networking you need. Questions? In the U.S. and Canada call us at 1 800 455-5056 for some straight answers about international network communications.

The IBM Global Network

Advanced
LAN internetworking for
client/server computing

Efficient
global messaging with EDI,
E-Mail and the Internet

IBM®

GRAPHIC BY LISA KNOUSE BRAINARD/W

ingle ells,

ingle ells.

The holidays aren't the same without J&B

Justerini & Brooks since 1749.

J&B Blended Scotch Whisky, © 1993 Imported by The Paddington Corporation, Ft. Lee, NJ 40% Alc. by Vol.

afford to lose." Indeed, Adler's mos portant contribution may be to inspe readers a feeling of fierce protective toward this damaged institution.

BY LINDA HIMELS

Himelstein is BUSINESS WEEK's affairs editor.

BOOK BRIEF

GOLDBERG'S ANGEL
An Adventure in the Antiquities Trade
By Dan Hofstadter
Farrar Straus Giroux • 241pp • $22

PORTRAIT OF AN ART SWINDLE

This is a cautionary tale for pe who dream of breaking into the leagues of art dealing. In the late 19 Peg Goldberg, a small-time Indianap dealer, went to Amsterdam to bu Modigliani painting. She wound up be offered what she thought was a g deal on a group of early Christian m ics from Cyprus. A banker friend b home was happy to advance the million to buy them. Visions of a mu million dollar resale to the Getty some other well-heeled customer c ried Goldberg along.

Then things went sour. The mosa it turned out, had been looted after Turkish invasion of Cyprus in 19 They had even been the subject of article, which should have warned an astute buyer. The Greek Cypriot g ernment sued for recovery and won

Enter author Hofstadter, trying discern the truth of this notorious ca While he never nails it down comple ly, his investigations in Europe a Cyprus produce a portrait of the ant uities trade very different from wh one gets in tony art magazines. It' seamy world where the line betwe dealers and smugglers and other unsa ry operators is blurred. Governme wink at some deals and crack down others. Goldberg seems like an innoce dupe. Then again, it came out in co that there was a $120,000 difference b tween the purchase price and the bill sale she gave the bank—though she i sisted the bank knew of the discrepan

Hofstadter never makes up his mi about her and other characters, and h portraits of Balkan and Turkish pla ers verge on caricature. But it's ha to write off his point about the antiq ties business: It's a dangerous game f amateurs.

BY STANLEY REE

conomic Viewpoint

ROBERT KUTTNER

WHAT'S CAUSING THE DEFICIT DISEASE? HEALTH CARE

ELAPSE Rx:
or now, the
hortfall is
nder control.
ut to stave off
crisis,
ledicare and
ledicaid costs
ust be
urtailed by
otal reform

bert Kuttner is co-editor of *The*
erican Prospect and author of *The*
d of Laissez-Faire

President Clinton has made commendable progress in bringing down the budget deficit. This fiscal year (1995), the deficit is just 2.3% of gross domestic product, down from 4.8% in the FY 1993 budget that Clinton inherited from George Bush. But as deficit hawks note ominously, the deficit is projected to trend upward again after 1998.

The Congressional Budget Office forecasts a rise to 2.9% of GDP by the year 2000, and 3.6% by 2004—rebounding back by 1.3 percentage points to a level where the national debt grows faster than the economy. These projections have led to fresh fiscal alarm and a new round of proposed extreme remedies, ranging from constitutional amendments requiring a balanced budget to rigid spending caps to cuts in Social Security.

A closer look at the budget statistics, however, reveals that the entire deficit problem boils down to one area: health care. Medicare, all by itself, is slated to go up by 1.4 percentage points over the next decade—from 2.5% of GDP to 3.9%—or more than the entire deficit increase. Medicaid is projected to rise an additional 0.9% from 1.4% to 2.3% of GDP. If we could just hold Medicaid and Medicare at their present fraction of GDP, allowing their outlays to increase with economic growth, the federal deficit would actually fall to 1.3% of GDP, or roughly the deficit ratio of the 1950s. The great deficit crisis would be over.

Medicare and Medicaid costs are increasing because of a health-care system that is out of control. The budget crisis is the fiscal reflection of the larger health-care crisis. Other categories of government spending are coming down. Non-health-care outlays by the federal government will actually decline by 1.4% of GDP over the next 10 years, from 17.7% of GDP this year to 16.6% in the year 2004.

SHELL GAMES. Containing health-care costs without compromising care is achievable only in a universal system. In the fragmented system that we have, profits in the health industry are maximized by maximizing reimbursable costs, not by controlling them. In response, health-care providers, businesses, and insurance companies each try to cut their own costs by shifting them to other players in the system. Insurers spend billions on selective marketing and underwriting and case-reviewing—outlays that would not exist in a universal system. Doctors and hospitals spend needless billions filling out forms or taking the time to argue with case reviewers.

Until the health-care system is comprehensively reformed, it will continue to have the worst of all worlds: escalating costs, more insurance reviewers getting themselves between doctor and patient, more inappropriate medical procedures to maximize provider reimbursements, more premature discharges to minimize insurer costs, more underwriting to discriminate against patients who might have the effrontery to get sick, more people losing their insurance, and more—much more—red tape.

MUDDLING ALONG. After the collapse of efforts that were aimed at comprehensive reform, a closely divided Congress will now turn to piecemeal action. This agenda includes requiring greater standardization ("community rating") of insurance charges and prohibiting discrimination based on preexisting medical conditions.

In a universal system, standard rates and nondiscrimination are simply built in because everyone is covered automatically. But if we tack on community rating and nondiscrimination to the present, fragmented system, the reforms will backfire. If insurers were prohibited from discriminating against the sick, many people wouldn't buy insurance until they became ill. Premiums would have to rise because the insured population would be smaller and sicker. More healthy people would then drop their coverage because of the increased costs. Many employers, facing rate hikes, would likewise drop the coverage they now provide. Ever fewer insured people would pay ever higher rates.

We will succeed in controlling costs and eliminating waste only when everyone is in the same system. In the absence of reform, companies and private insurers will respond to their rising costs by whittling away at insurance coverage, thus passing along costs to the public sector. Meanwhile, Medicaid and Medicare will continue to ravage the federal budget.

In other words, health-care reform is budget reform. The longer we delay, the more serious the problem becomes. While Congress failed to enact universal coverage and cost-containment in 1994, the issue will not obligingly fade away. Look for it to resurface early next year, even in a deeply divided Congress. We might say: Health reform is dead, long live health reform.

RICHARD SCHULTZ
GRAPHIC BY LISA KNOUSE BRAITHWAITE

A T-bone steak i

We know. Driving a 4-door sedan is good for you. It's the right thing to do. But somehow it seems a little, well, bland. May we recommend you try the Chevy Impala SS? It has all the ingredients you've been missing in the standard 4-door fare: 260-horsepower V8, rear-wheel drive, de Carbon gas shocks, even meaty 17-inch tires mounted on custom 5-spoke aluminum wheels.

For a brochure call 1-800-950-2438. Chevrolet, the Chevrolet Emblem and Impala are registere

n era of oat bran.

rprisingly for a car this satisfying, Impala SS has absolutely zero cholesterol. And seeing as how
ving one is guaranteed to raise your heart rate on a regular basis, Impala SS may actually be good
you. So dig in. Indulge your appetite. Your Chevrolet dealer will be happy to take your order.

IMPALA SS GENUINE CHEVROLET™

Chevy is a trademark of the GM Corp. ©1994 GM Corp. All Rights Reserved. Buckle up, America!

BY GENE KORETZ

TOO MUCH FUDGE IN JOB NUMBERS?

Business startups may be slowing

Is the Labor Dept. overestimating the number of jobs being created each month? That's the question suggested by two seemingly contradictory reports.

Each month, Labor statisticians add a bias adjustment, or "fudge factor," to the payroll job count to correct for jobs created by new business startups that are missed by its survey. The department recently announced that it was raising the fudge factor to 165,000 jobs per month for the fourth quarter. And that means that its regular survey picked up only 29,000 new payroll jobs out of the 194,000 reported for October.

Labor Dept. technicians acted because new data indicate that they have been undercounting jobs for some time. They now believe, for example, that they missed about 760,000 jobs from March, 1993, to last March.

The problem is that the Commerce Dept. publishes another index, which reflects net business formations. And while this index rose through 1993 and early 1994, it has been trending down since March of this year—from 127.5 in that month to 123.5 in September.

"One of these series has to be wrong," says economist Douglas Lee of NatWest Securities Corp. "Either new startups and the jobs they produce are rising, or they are both slowing in tandem."

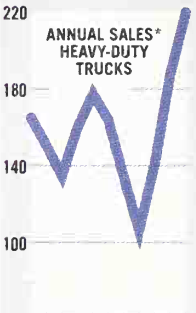
A MONSTER TRUCK BOOM

Record demand for the big rigs

Although auto sales are cruising nicely, the hottest movers in the motor-vehicle lineup, reports analyst Frank Prezelski of Ladenburg, Thalmann & Co., are the real heavyweights of the industry: heavy-duty trucks, whose prices run from $50,000 to $150,000. Producers of these 5-ton-plus rigs, which haul monster trailers on the interstates, are running flat-out. Sales in the U.S. and Canada should hit a record 220,000 units this year—up 56% from 1992.

Several factors lie behind the demand explosion. The most important, of course, are the booms in exports and in manufacturing generally, particularly in autos. The trend toward just-in-time manufacturing has also hyped demand for fast, efficient trucking service to deliver parts rapidly and reliably.

HEAVY TRUCKS ARE IN THE FAST LANE



*U.S. AND CANADA

DATA: AMERICAN AUTOMOBILE MANUFACTURERS ASSN.; LADENBURG, THALMANN & CO.

In the meantime, many truck operators entered the 1990s ill-equipped to handle the heightened demand for efficient service. Burned by deregulation and recessions in the early 1980s, truckers saddled with surplus capacity gave little thought to replacing an aging truck fleet.

Thus, the sales surge reflects normal replacement needs, plus demand for stronger, more reliable, and more efficient equipment. New emission standards and larger trailers have also catalyzed demand. But while order backlogs are running into 1996, truck makers haven't raised prices or boosted capacity much. "The industry," explains Prezelski, "can't believe the good times will last."

PHYSICAL TRAITS CAN HURT PAY

Fat women and short men suffer

Obesity and height can significantly affect how young adults fare in the job market. That's the finding of a recent study by researchers David G. Blanchflower and James D. Sargent of Dartmouth College, who traced the fortunes of a sample of all 18,000 people born in Britain in a single week in 1958.

Other things being equal, the study found that the 10% of women who weighed the most (relative to height) at age 16 averaged 7% lower earnings than their peers at age 23. But women who were less obese but still overweight at 16 suffered no penalty in earnings.

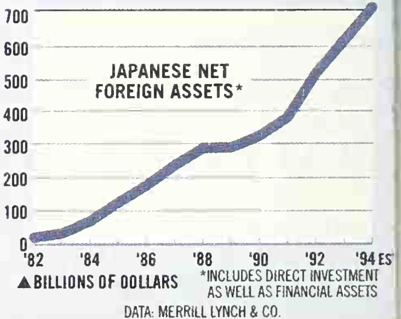
By contrast, height rather than obesity proved to be an important variable in predicting men's earnings. Specifically, those youths who were the shortest at age 16 earned the least at 23, and those who were tallest earned the most on average. The relation held up throughout the height distribution, with 4 inches of added height resulting in an average
2% in additional earnings at age
The findings suggest that physica
pearance plays a significant part in
evaluation young adults receive f
employers when they first start to w

WHY THE YEN MAY NOT TUMBL

Blame fast-growing foreign inco

Until recently, the conventional
dom was that the Japanese yen
so overvalued against the dollar t
both Japan's huge trade surplus and
yen itself would soon begin to dec
significantly. Now, opinion is divid
For one thing, after a sluggish per
Japanese exports have recently tur
up and seem likely to strengthen f
ther as global economic activity qu
ens. Further, even if the trade surp
declines, economist Michael R. Ros
berg of Merrill, Lynch & Co. thinks
yen could remain strong.
The reason is Japan's growing inve
ment stake overseas and the income i
throwing off. A dozen years ago, Japa
net foreign assets were a paltry $25
lion. But since then, as trade recei
have mounted, its overseas stake
soared to an estimated $700 billion-p
(chart). And the income earned on th
assets in the form of profits, dividen
and interest has jumped to $40 billi
For the yen to decline, notes Ros
berg, Japan must begin to reduce
current-account surplus, which is ba
cally composed of net trade receipts a
net foreign investment income. But c
rent trends suggest that Japan's r
overseas assets should exceed $1 t
lion by the year 2000, producing net
come of at least $70 billion a ye
The upshot is that unless Japan c
shrink its trade surplus faster than
net foreign income grows, its current-
count surplus will widen. And that spe
upward pressure on the yen.

JAPAN'S RISING STAKE OVERSEAS



*INCLUDES DIRECT INVESTMENT AS WELL AS FINANCIAL ASSETS

DATA: MERRILL LYNCH & CO.

ERIC HOFFMANN/BW

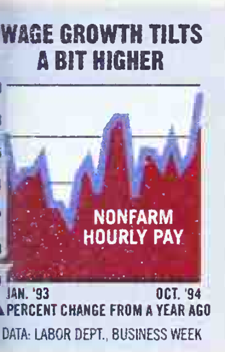
JAMES C. COOPER & KATHLEEN MADIGAN

HIGHER PAY, HIGHER INFLATION? NOT NECESSARILY

U.S. ECONOMY How strong is this expansion? Robust enough to last the eco-nic equivalent of the New York Marathon? Or is the nomy already starting to feel pooped as it runs against headwinds from higher interest rates?

Right now, the opinion that matters most is the one d by the Federal Reserve. And chances are the Fed will cide at its Nov. 15 policy meeting that the economy is nning too fast for its own good. That means higher erest rates to try to keep the expansion from over-ating, with more rate hikes likely to follow (page 42).

The October report from the labor markets certainly owed plenty of vigor, although it did contain signs that e pace of job growth was slowing. Likewise, the latest ws on home buying, car sales, and consumer credit also ggests that consumers haven't lost their stride.



WAGE GROWTH TILTS A BIT HIGHER

▲PERCENT CHANGE FROM A YEAR AGO

DATA: LABOR DEPT., BUSINESS WEEK

On the inflation front, the Fed is undoubtedly disturbed by last month's sharp pickup in hourly wages. That was easily the most worrisome feature of October's job report, especially since the unemployment rate dropped to 5.8% from 5.9% in September, a sign of increasing labor market tightness.

Average hourly earnings jumped 0.7% in October. Al-ough there has been a tendency for the wage data to ike up at the beginning of a quarter, last month's surge s the largest in more than 4½ years. And the yearly pace wage growth ticked up to 2.9%, the fastest 12-month in-ease in three years (chart).

WEVER, the third-quarter data on productivity ar-e that the economy's solid pace is not pumping up infla-nary pressures, since efficiency gains are offsetting me of the effect of rising wages on labor costs.

In fact, productivity gains continue to supply much of e growth in output during this upturn. In the third arter, output per hour worked in the nonfarm sector ew at a 2.7% annual rate. Since the beginning of this ex-nsion, productivity has grown at an annual rate of 2.1%, counting for 70% of the increase in real gross domestic oduct.

More important though, efficiency gains are holding ck the growth in unit labor costs, inflation's most basic el. Unit labor costs rose a scant 0.1% in the third quarter, and during the past year they are up a mere 0.9%. Unit costs in manufacturing dropped 3.8% from a year ago (chart).

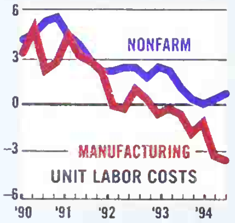
But costs at the factory are not the issue. Services are what's responsible for the recent wage acceleration. Every broad service category from utilities to retailing to finance posted exceptionally large pay increases in October, while factory wage hikes remained modest.

The trend of faster-rising service pay is disturbing for the inflation outlook because service productivity has not matched that of factories, meaning that service wages flow more fully into service-sector labor costs.

THE STRENGTH of the October job report was undeniable. Nonfarm industries added 194,000 workers to their payrolls on top of upwardly revised gains of 248,000 in September and 290,000 in August. In addition, the Labor Dept. said that payroll growth through March, 1994, was 760,000 higher than originally reported. Recent data, though, show a clear pattern of slower job growth during the past four months.

But what likely caught the eyes of the Fed—the financial markets certainly zeroed in on it—were the broad signs of pep below the headline numbers for employment. In particular, the workweek for all industry surged to 34.9 hours in October, the longest in seven years (chart, page 24). And the factory workweek climbed to 42.1 hours, close to the record high hit back in April.

The longer workweek and the payroll gains mean that overall hours worked began the fourth quarter by leaping at an annual rate of 5.6% above the third-quarter level. The gain suggests that output of goods and services showed few signs of moderating as the final quarter got under way.



COST PRESSURES AREN'T BUILDING

▲PERCENT CHANGE FROM A YEAR AGO

DATA: LABOR DEPT., BUSINESS WEEK

The month's job gains were fairly broad, led by manufacturing, services, and retail trade. Factory payrolls posted an especially sturdy 40,000 increase, one of the largest since manufacturing jobs began to turn up about this time last year. Moreover, the October factory gains were the broadest in six years.

The data mean that October industrial production rose solidly and that capacity utilization continued to increase—trends that the financial markets took as a warning of

ERIC HOFFMANN/BW
GRAPHIC BY LISA KNOUSE BRAIMAN/BW

price pressures. The wage pickup combined with the large advance in hours worked means that average weekly earnings also rose strongly. That gain suggests that personal income posted a hearty increase last month that will help to keep consumers spending as the holiday shopping season nears.

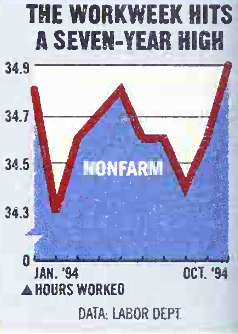
Job and income gains are a key reason why many consumers remain undaunted by higher interest rates as they go house-hunting. Sales of new single-family homes rose 2.6% in September to an annual rate of 703,000, the highest level since March, which was the high for 1994.

Still, higher rates are taking a toll. Most of the strength in new-home sales in August and September came from unusually robust activity in the Northeast, while sales in other regions looked weaker. Home mortgage applications fell in late October to the lowest level in almost two years.

Home sales in September were below their pace of a year ago when bargain-basement mortgage rates caused a rush of buying. In addition, the number of homes still available for sale hit a four-year high in September—suggesting less homebuilding ahead.

HEADING INTO the fourth quarter, consumers are still shopping, but not with the speed they exhibited a year ago. A good example is car buying, which is not showing the same kick that it did previously. Sales of U. S.-made cars and light trucks climbed 3.1% in October to an annual rate of 13.1 million. Sales peaked in the first quarter o 1994 and have dropped in each subsequent quarter.

Consumers are supporting the demand for durabl goods by relying more on borrowing. Installment credi jumped again in September, rising $10.6 billion. More telling was the huge upward revision to the August number Credit rose by $15.2 billion, instead of the $11.2 billion tha was first reported. Auto loans and revolving credit accounted for most of the increases in the past two months


THE WORKWEEK HITS A SEVEN-YEAR HIGH

DATA: LABOR DEPT.

Installment debt now stands at 17.6% of disposable income, and more borrowing seems to be in the cards. The recent pattern of credit suggests that consumers may be inclined to use plastic for their holiday shopping. That means buying this quarter will rise faster than income growth. This spending surge could become a purge in the first quarter, however, when those Visa and MasterCard bills suddenly pop up in mailboxes

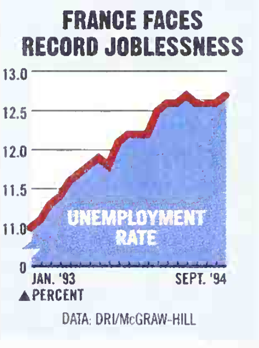
In addition, if consumers become overextended, the will be more vulnerable to the impact of the Fed's rat hikes. And given the vibrancy of the October labor repor more hikes are clearly on the way.

EUROPE

WHO'S LEFT OUT OF FRANCE'S RECOVERY

As with other European economies, the growth outlook for France is being revised upward. But the healthier economy may do little to alleviate France's high unemployment until at least 1995.

An influx of first-time job seekers pushed the unemployment rate in September back up to its postwar record of 12.7% set in May (chart). The number of job offers dropped 4.7%, and the proportion of long-term unemployed stayed at a steep 36% of all those out of work. The jobless rate had been expected to decline in September, and government officials rushed to downplay the rise.


FRANCE FACES RECORD JOBLESSNESS

DATA: DRI/McGRAW-HILL

Despite the uptick in unemployment, other signs point to a recovering French economy. New-car sales in October increased 9.7% from a year ago. Business confidence is at an 18-year high. And the latest survey of French industrial companies shows that demand is expected to continue growing in the fourth quarter, with foreign orders particularly robust. The construction industry also sees conditions improving.

It will take some time for job seekers to benefit from the recovery, though. The surveyed business executives are still not optimistic enough to anticipate much hiring anytime soon. In fact, it is generally agreed that France's gross domestic product must rise by at least 3% to produce any jobs. But in the first half of 1994, GDP grew at a 1.2% annual rate. And a consensus of private forecasters doesn't see growth above 3% until 1995.

The rising number of unemployed complicates the government's task of bringing down its huge deficit, now 5.5% of GDP. On Nov. 7, the government projected a deficit of 28.1 billion francs ($5.4 billion) in its social security accounts in 1996 unless it raises taxes.

Moreover, the Bank of France is unlikely to help by cutting interest rates, despite inflation of just 1.6%. If anything, the spread of global monetary tightening may exert pressure on the central bank to lift rates—if only to defend the franc. What helps the French currency, though, is sure to be a hindrance to the French unemployed.

ERIC HOFFMANN/BW

NOW
Revolutionize the way you work.
Print, copy, and fax without leaving your desk.
Optimize productivity and performance.
YOU
CAN
Canon
GP55

Canon has created a totally new concept in digital office equipment systems that redefines productivity and performance. The Digital Imaging System GP55 Series. It's the culmination of Canon's technological vision that is designed to meet your needs now and in the future. It functions on your network as a 30-ppm, 400 dpi laser printer that can staple, sort, and duplex. It's also a digital copier and can serve as a Group 3 Fax. All this without ever having to leave your desk.

The GP55 Series does it all — with a unique, optional Multi-Device Controller (MDC) that gives you the flexibility to configure function boards to suit your needs. And since the GP55 Series utilizes parallel processing technology, it can perform more than one function at a time. But best of all, the GP55 Series interfaces with standard network protocols and page description languages. So now everyone on your LAN can sit behind their desk and benefit from the power of Total Document Management. Which makes this a true instrument of efficiency and productivity — with the reliability you've come to expect from Canon.

As usual, Canon's advanced technology moves you further ahead. When the rest say you can't, Canon says you can.

For more information, call **1-800 OK CANON.**

©1994 Canon U.S.A., Inc.

Canon

GRAPHIC BY LISA KNOUSE BRAITHWAITE

THE CONSERV AGENDA

America's stinging rebuke to Clinton signals a shift right. But how far?

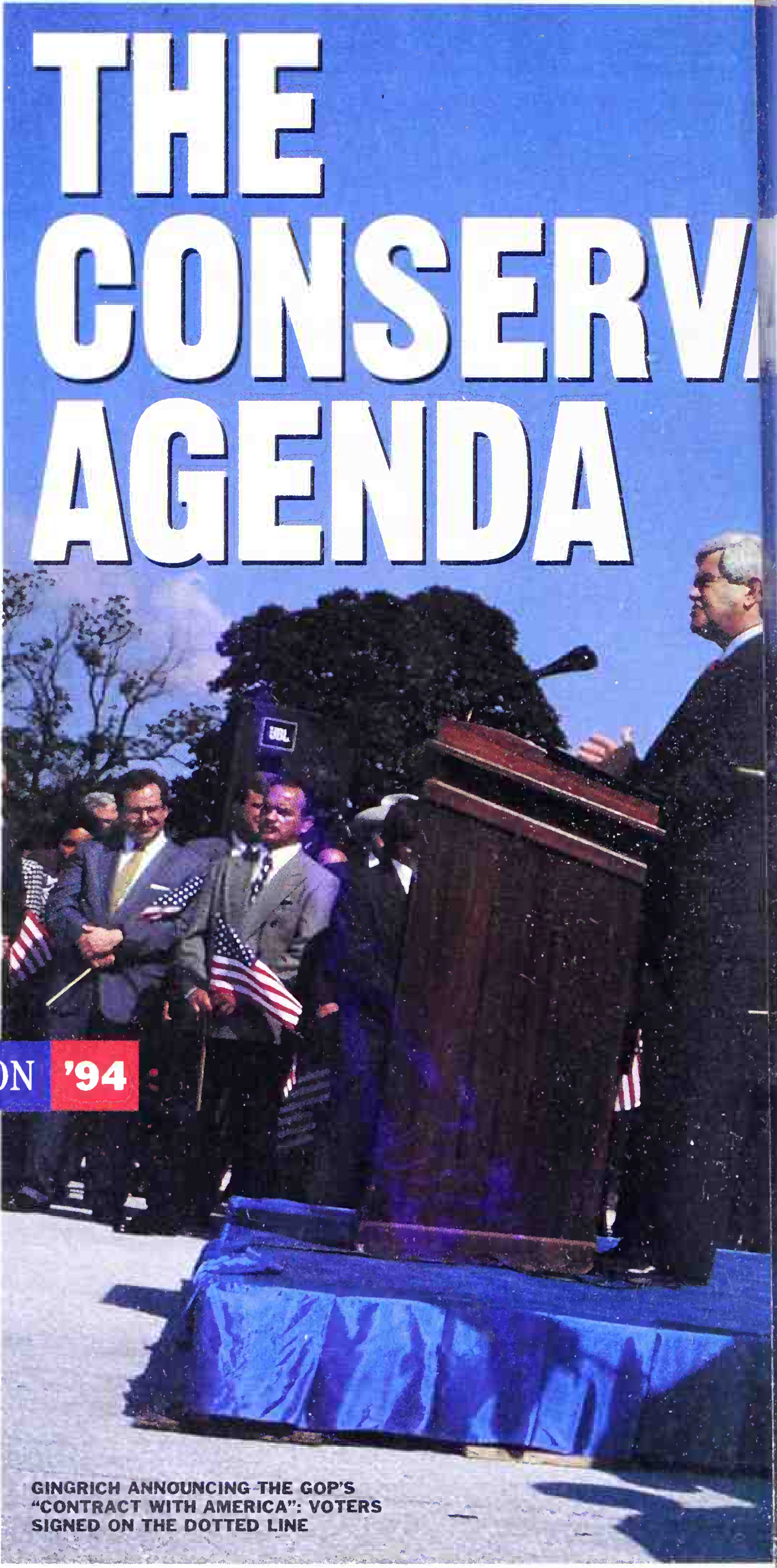
ELECTION '94

When Bill Clinton and the Democrats stormed to power in 1992, their anthem was the 1970s rock ditty *Don't Stop Thinking About Tomorrow*. In the aftermath of their crushing defeat on Nov. 8, Democrats are humming a different tune, the 1960s surf classic *Wipeout*. And you have to go back even further than that—to 1952, to be exact—to truly understand the magnitude of the catastrophe that befell the Democrats. That was the last time Republicans, sporting big grins and "I like Ike" buttons, won the House and Senate.

When the 104th Congress convenes next year, Republicans will again be kings of the Hill, thanks to angry voters who turned the election into a search-and-destroy mission aimed at zapping hapless Democrats. The GOP easily won the Senate and seized control of the House by grabbing a mind-boggling 52 seats. Sputters a despondent White House adviser: "It's . . . a disaster."

ECCE CUOMO. Many of the President's key allies went down to defeat. Among the fallen: Senators Harris Wofford (Pa.) and Jim Sasser (Tenn.), House Speaker Tom Foley (Wash.), House Judiciary Committee Chairman Jack Brooks (Tex.), and Representative Dan Rostenkowski (Ill.). Giants toppled in state capitals, as well. New York Governor Mario M. Cuomo and Texas Governor Ann Richards were ousted. Republicans captured at least 11 gubernatorial races, giving them a majority of statehouses for the first time in a quarter century.

The losses were a stinging rebuke to Clinton. After two years of watching him struggle, voters bellowed "Time's up," opting en masse for divided government. The next day, Clinton acknowledged the rebuke: "I accept my share of the responsibility in the result of the elections," a visibly shaken President said during press conference in the afternoon. Trying to sound an upbeat note, Clinton promised to search out compromise. But the president's ability to be a catalyst for change is gone, trapped in the permafrost of partisan gridlock and


GINGRICH ANNOUNCING THE GOP'S "CONTRACT WITH AMERICA": VOTERS SIGNED ON THE DOTTED LINE

PHOTOGRAPHS BY [illegible] (INSET) LARRY DOWNING—SYGMA

IVE

WHAT CLINTON IS UP AGAINST

HOUSE SEATS			
MAJORITY: 218	OLD	NEW	CHANGE
DEMOCRATS	256	204	–52
REPUBLICANS	178	230	+52
INDEPENDENTS	1	1	0
SENATE SEATS			
MAJORITY: 51			
DEMOCRATS	56	47	–9
REPUBLICANS	44	53	+9
STATEHOUSES			
DEMOCRATS	29	18	–11
REPUBLICANS	20	31	+11
INDEPENDENTS	1	1	0

NOTE: AS OF 11/9

GRAPHIC BY LISA KNOUSE BRAIMAN/BW

CONGRESS
WHO'S IN CHARGE

SENATE COMMITTEES

BANKING
ALFONSE D'AMATO (R-N.Y.)
Primed for nasty Whitewater hearings

BUDGET
PETE DOMENICI (R-N.M.)
Consensus-building deficit hawk

FINANCE
BOB PACKWOOD (R-Ore.)
Moderate business supporter

FOREIGN RELATIONS
JESSE HELMS (R-N.C.)
Sayonara, Clinton policy

JUDICIARY
ORRIN HATCH (R-Utah)
Liberal judges need not apply

LABOR
NANCY KASSEBAUM (R-Kan.)
Centrist to succeed Kennedy

HOUSE COMMITTEES

BANKING
JAMES LEACH (R-Iowa)
Social moderate but Whitewater critic

BUDGET
JOHN KASICH (R-Ohio)
Vows to slash spending

ENERGY & COMMERCE
CARLOS MOORHEAD (R-Calif.)
Heir apparent faces GOP challenge

WAYS & MEANS
BILL ARCHER (R-Tex.)
Ex-exec favors business tax cuts

irreconcilable ideological differences.

The ascendant Republicans and their Sunbelt Democratic allies can now supplant Clinton-style activism with their conservative agenda—a hard-edged vision of limited government. "We will not only be able to kill bad legislation, we'll be able to dictate the flow of legislation," crows Representative L. William Paxon (R-N.Y.), chairman of the National Republican Congressional Committee.

The prospect has the Right elated—and edgy. "We're like the little dog that chases the school bus and finally catches it," says Representative Charles Stenholm (D-Tex.), chairman of the Conservative Democratic Forum. "What do we do now?"

While conservatives huddle, Clinton is contemplating sharing power with some of his least favorite people: Senate Majority Leader Bob Dole (R-Kan.), a dour critic, and Speaker Newt Gingrich (R-Ga.), who wants to torch the last vestiges of the Welfare State. Arrayed behind them: a Republican Party that has veered sharply to the right.

The bottom line for business? Dicey, if it ends up caught in the crossfire of partisan bickering. Nonetheless, many top executives—an overwhelming 85% of whom rated Clinton's performance only fair or poor in a BUSINESS WEEK/Harris Poll in late September—were mainly pleased. "This [election] offers hope. It may slow the avalanche of regulation that continues to be placed on businesses," says John V. Roach, CEO of Tandy Corp. Adds Joseph B. Costello, CEO of Cadence Design Systems Inc., a San Jose (Calif.) software company: "The genetic code of the Republican party is to create an environment that is more conducive to business."

Clintonites gamely maintain that the President can turn the big blowout to his advantage. Clinton "is disappointed, but he's also liberated," says White House pollster Stanley B. Greenberg. "Now he can run against Congress—and some of us think that more will happen, not less." But privately, Clinton loyalists are glum. "It just got very difficult for Bill Clinton to get anything done," says one adviser. Adds a top White House aide: "Either Clinton is a consistent New Democrat next year, or he's going to have a very hard row to hoe in '96."

QUICK RESULTS. For Republicans, the immediate goal now is magnifying their breakthrough into a massive mandate. "This is a national tide," insists William Kristol, chairman of the Project for a Republican Future. "The public is sending a conservative message to cut taxes, restrain spending, and be more innovative in delivering services."

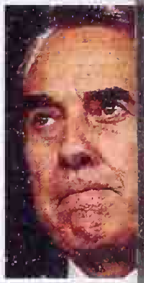
Republicans plan to strike on the first day of the new Congress. They'll uncork dramatic initiatives, among them a call for a balanced budget amendment to the Constitution, a new attack on discretionary spending, and tax relief for the middle class. They'll try to slash welfare rolls, stiffen criminal penalties, and limit lawmakers' terms and perks. And they'll promote new regulatory rel for business. "The core of the new age da," says former Minnesota GOP Repi sentative Vin Weber, "is a radical dev lution of power away from Washingto If conservatives take that approach instead of just hacking away at gover ment—they'll do fine."

But chopping away with machet may be just what the Armies of t Right will have to do. With Clinton cupying the White House, vetoes a Democratic filibusters could thw many GOP thrusts. "Remember that ve pen Clinton held up during the State the Union message?" says Fred Greenstein, a Princeton University p litical scientist. "Next year, it may n be so imaginary."

To complicate matters, conservativ disagree on elements of a new doctrin During the campaign, some modera big-city mayors broke GOP ranks to bac Democrats they felt had a better a proach to urban woes. Other party po bahs have problems, as well. Form Housing & Urban Development Secr

AGENDA ITEM:
THE ECONOMY

CONSERVATIVES


DOLE: IT'S PUT-UP TIME

ERIK FREELAND/MATRIX

Expect a push for deep domestic spending cuts and a cap on entitlements other than Social Security. Conservatives would give parents a $500-per-child tax credit while cutting taxes on capital gains, business investment, and savings. ority for Bob Dole: Sending a bala budget amendment to the states fo vote. On trade, a yes on GATT but strictions on the President's right clude labor and environmental pro tions in future trade accords. An initiative that will play to business servatives want more risk-assessm and cost-benefit analysis before re tions are imposed on companies.

"We're like the little dog that chases the school bus a ry Jack F. Kemp gripes that the ouse Republicans' Contract With nerica "has no urban policy. We need reach out to the underclass." Kemp l ex-Education Secretary William J. nnett also have blasted California Re- blicans for pushing a ballot initiative at cuts aid to illegal immigrants. "We n't just stand for small government d big prisons," says Kemp. "We have be an inclusive party."

The Christian Right, led by evangel- Pat Robertson, played a big role in e election. His followers want more ention paid to issues such as federal l to religious academies and restric- ons on abortion. Some Republicans, flecting the views of "America First" usader Patrick J. Buchanan and inde- endent Ross Perot, are skeptical of ultilateral trade pacts.

GOP moderates—there are still a few ft—worry that the party may aban- on its emphasis on deficit-fighting. And nservative Sunbelt Democrats are un- sy about providing the margin of vic- ry for Gingrich & Co.'s crusades. Nei- er faction trusts the other.

If it hangs together, the new conser- ative axis can exert an ideological hammerlock on Clinton by ensuring that any legislation that moves reflects rightist views. Political strategist Kevin P. Phillips dubs the ensuing scenario "dynamic gridlock." On a few issues, such as welfare and trade, Democrats and Republicans might forge a consensus. Everything in between—including bills to rewrite the Superfund cleanup law, reform product liability, and speed telecommunications deregulation—could become casualties of increasing acrimony as the two parties position for '96. "The GOP game is to make Clinton look ineffectual," Phillips says. "His game is to veto one bill after another, making his opponents out to be crazies."

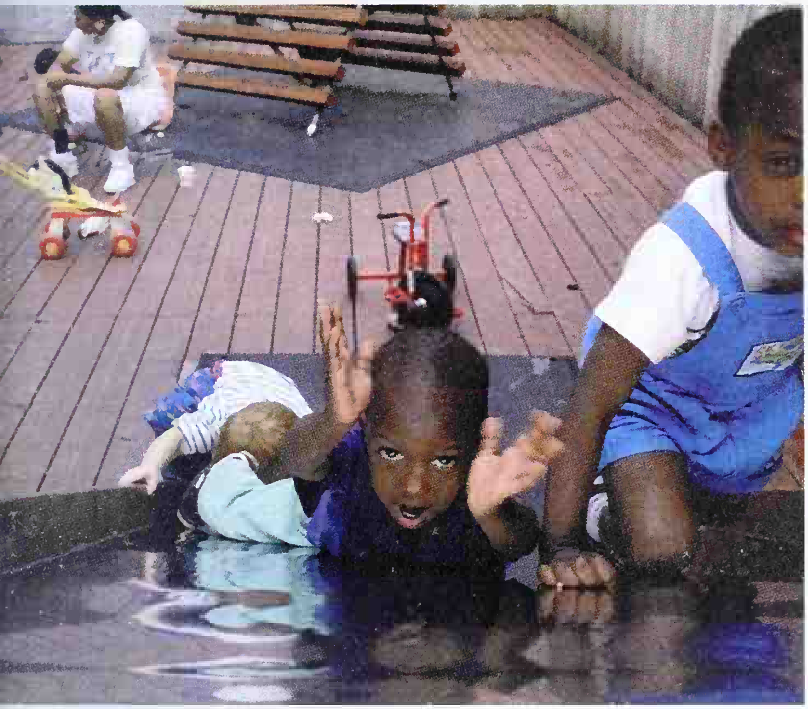
While Capitol Hill could turn into a legislative Sarajevo, there is a faint hope that Clinton and the Right can come to terms. Says White House policy deputy George R. Stephanopoulos: "There is going to be pressure on Republicans to share responsibility for governing." But the White House must make concessions as well. "The President really has no option," says Democratic theorist Ted Van Dyk. "He's got to govern up the middle and seek Republican support."

Administration aides pledge that, with the fiasco of health reform behind him, Clinton will reposition himself as a centrist next year. He'll stress implementation of the new crime bill, executive orders to shake up the bureaucracy, and foreign policy. On the legislative front, Clinton will concentrate on New Democratic themes. Welfare reform will be his top priority. He'll intensify the campaign to "reinvent" government. He will shrink his grand health plan into a modest exercise in cost control. And Clinton hasn't slammed the door on GOP calls for a middle-class tax cut, though he's worried about the cost—$50 billion to $100 billion over five years.

After the election, "The Administration will approach the Republicans and try to develop a bipartisan policy," vows Treasury Secretary Lloyd M. Bentsen. Notes the GOP's Bennett: "It's put-up time for Republicans. If you want to be a big, grown-up party, you've got to show the public you can govern."

Things could start off on a positive note. In a lame-duck session that begins Nov. 30, lawmakers will try to pass a new General Agreement on Tariffs & Trade. Administration officials hope that a bipartisan vote on GATT will promote

rvatives will promote a program to slash taxes and cut spending while restricting the lent's ability to impose new regulations on business. Clinton may counter by proposing modest ts, some new spending programs, and a major effort on GATT and other trade initiatives.



AID: *A $500-per-child tax credit looks like a winner*

THE ADMINISTRATION

PANETTA: HE MAY CUT FIRST

The White House likely will counter with a plan for modest deficit reduction, calling for new budget cuts of around $100 billion over five years. Clinton will back a small-scale "public investment" package, including new funds for job training and education. Top White House aides such as Leon Panetta intend to resist deep spending cuts and a cap on entitlements but will seek medical cost curbs as a part of health-care reform. Under political pressure, Clinton also may be forced to accept a middle-class tax cut, most likely in the form of child-care credit. He will push GATT and new trade pacts with Chile and Latin America.

ally catches it. What do we do now?"

(LEFT TO RIGHT) PHOTOGRAPHS BY STEVEN RUBIN/JB PICTURES, MARTIN SIMON/SABA
GRAPHIC BY LISA KNOUSE BRAUN/BW

future compromises on welfare and health care. Beyond GATT, which is expected to eventually squeak to passage, the road looks rocky for Clinton:

■ **THE BUDGET.** Conservatives plan an early vote on a balanced budget amendment. Since it mandates no specific spending cuts or new taxes—and would not take effect for years—the measure wouldn't lower the deficit in the short run. But it is a powerful symbol for anti-Washington lawmakers. Administration sources consider 1995 passage of Stenholm's version of the amendment "a done deal," says one economic official.

Even rightwingers admit that the amendment ducks tough choices. "I don't know if Republicans have the fortitude to follow through with specific spending cuts," says Daniel Mitchell, an analyst with the conservative Heritage Foundation. "There'll be an exemption for everything from national emergencies to dandelion infestations."

To deflect charges that the GOP has no immediate plan to downsize government, Representative John R. Kasich (R-Ohio) is readying legislation that would slash billions from domestic pr grams. Another line of attack: legislatic reducing ceilings on overall domest spending.

White House Chief of Staff Leon I Panetta has convened a series of higl level strategy sessions to weigh the Ac ministration's options. That's triggere a debate over fiscal 1996 budget strat gy. A small band of hawks, led by Bu get Director Alice M. Rivlin, argues th the President can co-opt the conserv tives by proposing a dramatic defici reduction plan of up to $200 billion ov

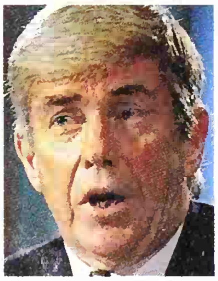
AGENDA ITEM: SOCIAL ISSUES

Clinton plans a revamped welfare program and limited health-care reform. Conservatives want tougher versions of both, plus a clampdown on crime. GOP governors will push for school choice.

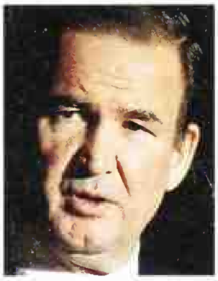
CRACKING DOWN: *Crime remains a defining issue for both parties*

CONSERVATIVES

Big priority: A "put 'em behind bars" amendment to the 1994 crime bill that would beef up mandatory penalties and strip out prevention programs. The conservative version of welfare reform would bump people off the rolls after two years and deny benefits to welfare mothers who continue to have children. Some Republicans might push for a modest health-care plan that makes coverage more portable, expands insurance access for small businesses, and limits malpractice judgments. To the dismay of Jack Kemp and others, hardliners such as Pat Buchanan would curb benefits to illegal immigrants. GOP governors will stress school vouchers and privatization.



KEMP: FOCUSING ON URBAN WOES



BUCHANAN: A HARD LINE ON ILLEGALS

THE ADMINISTRATION

A plan to "end welfare as we know it" will be a centerpiece of the President's domestic agenda. He backs a two-year cutoff of benefits but will resist the punitive GOP approach and urge that recipients who can't find work be placed in jobs programs. Chastened on health care, Administration officials such as Donna Shalala will work for limited reform built around cost containment and a gradual expansion of benefits to children and pregnant women. The Administration may give states more latitude to test new solutions to social ills.

SHALALA: *Scaling down reform*

(CLOCKWISE FROM TOP) PHOTOGRAPHS BY STEVE MCCURRY/MAGNUM, BRAD MARKEL/GAMMA-LIAISON, BOB MCNEELY/SIPA, DENNIS BRACK/BLACK STAR

e years. That would spare Clinton the
barrassment of submitting a spend-
blueprint that shows red ink spread-
as he seeks reelection. "If we come
with a budget that shows a rising
icit, we get written out of the game,"
ts an Administration hard-liner.
But where are the budget hawks of
steryear? Many have become this
ar's pragmatists: Bentsen, Panetta,
l National Economic Council Chief
bert E. Rubin lean toward trimming
more than $10 billion to $20 billion
m next year's expected deficit of
und $180 billion. "The key," says a
economic official, "is to keep the def-
as a percentage of GDP near the cur-
t level—then show it stabilizing in
future."
Why no appetite for another deficit
ault? Clinton aides don't feel that he
received any credit for the $433 bil-
n deficit-reduction he won in 1993.
th Congress brimming with Republi-
s, even Rivlin, who believes you can't
ack the deficit without raising reve-
es, is leery of tax hikes.
n the end, breast-beating about run-
ay spending will lead Congress to
ke some modest spending cuts—
ile sending the symbolic blimp of a
anced budget amendment floating to-
rd the states. "Taxes and defense cuts
off the table, and it'll be hard to
ve a serious discussion of entitlement
orm because of demagoguery on both
es," says Representative Timothy J.
nny (D-Minn.). "That leaves nickel-
l-dime cuts." Adds John F. Spisak,
o of Lakewood (Colo.) environmental
nsultants Industrial Compliance Co.:
e see no evidence there will be much
a change from business as usual."
TAXES. Another Republican goal is
cing Clinton to deliver on his promise
a middle-class tax cut. The GOP's pro-
sal for a $500-per-child tax credit
ks a political winner. But the politics
tricky because Republicans will
ckage it with breaks on capital gains
l business investment. The more the
n looks like a giveaway to the rich,
easier it will be for Clinton to peel
Democratic moderates.
Ultimately, lobbyists predict the
ite House will accept a modest tax
for families. That measure might be
upled with indexation of capital gains,
ich would permit investors to pay tax
y on inflation-adjusted gains.
POLITICAL REFORM. Thanks to their
w majority, Republicans will make
adway pushing a raft of institutional
forms. Democrats will have a hard
ne sidetracking an early vote on term
nits. In addition, House Republicans
l press a bill to cut congressional staff
l perks—steps most Democrats are
w loath to oppose.

AGENDA ITEM: GOVERNMENT REFORM

The GOP will push for downsizing government and a further shift of power to the states. From Clinton, more emphasis on "Reinventing Government."

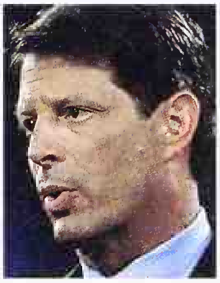
HONOR THY FATHERS: *Government was meant to be small, conservatives say*

CONSERVATIVES

GINGRICH: AN AX, NOT A SCALPEL

There will be lots of agitation for an early vote on term limits and line-item veto authority for the President. The GOP will be pushing a "Big Swap" plan that shifts responsibility for many government programs to the states. Newt Gingrich also will urge deep cuts in congressional staff, internal reforms that make it easier for controversial measures to reach the floor, and a requirement that Congress abide by the same statutes it imposes on business.

THE ADMINISTRATION



GORE: SPOTLIGHT ON DOWNSIZING

The President may try to co-opt the conservative agenda by embracing a Democratic reform package. Elements include a line-item veto, lobbying restrictions, and limited campaign reforms meant to curb the role of political-action committees. Al Gore's "Reinventing Government" drive will be given more visibility, with a new emphasis on trimming the federal payroll. Clinton opposes term limits but likely will accept other GOP congressional reforms.

To hop aboard the reform wave, the White House may repackage plans for tighter controls on lobbyists with campaign-finance reforms and a requirement that Congress abide by the same laws it passes. Coupled with a renewed drive for line-item veto authority, Clinton hopes to show he's in tune with the populist clamor for reining in Washington. " 'I feel your anger' just became Clinton's catch-phrase for '95," says GOP pollster Frank I. Luntz.

■ **DOWNSIZING GOVERNMENT.** Vice-President Al Gore's "Reinventing Government" drive will be expanded. The Veep's "ReGo" guerrillas want to amend Civil Service rules to make it easier to shed an additional 40,000 federal employees, on top of the 71,000 who have left the payroll so far. The Administra-

(CLOCKWISE FROM TOP) PHOTOGRAPHS BY DENNIS BRACK/BLACK STAR, ALEX QUESADA/MATRIX, LARRY DOWNING/SYGMA
GRAPHIC BY LISA KNOUSE BRAIMAN/BW

tion will also back legislation to give states more freedom to experiment with delivering services.

But conservatives argue that ReGo is a no-go that misses the point. "The Clintonites are still tinkering with the bureaucracy," says Kristol. "We want a major transfer of power to the states on everything from crime to welfare."

■ **SOCIAL ISSUES.** Look for intense jockeying between Clinton and conservatives over social policy. Republicans should have no difficulty cutting $3 billion in crime-prevention funds and toughening penalties for violent offenders. Immigration sanctions are dicier, due to intraparty feuds.

Welfare reform may be a defining issue for both parties. Clinton backs a $10 billion plan that ends payments after
two years but shifts recipients wh
haven't found a job into training pr
grams. The GOP wants a true "two yea
and out" feature and reduced benefi
for welfare mothers who continue t
have children. "This is a case of th
cushion vs. the fire," says business lo
byist Wayne Valis. "Liberals see refor
as giving people a prop; Republica
want to burn them into getting a job

NEW YORK'S GOVERNOR PATAKI: *The low-tax man goeth to Albany*

MAINE'S SENATOR SNOWE: *A mode*

NEW KINGS OF THE HILL—AND THE STATEHOUSE

College football star J. C. Watts is an Oklahoma energy regulator. Former Charlotte (N. C.) Mayor Sue Myrick hawks Amway products. Sonny Bono is a pop-music throwback. And Nashville heart surgeon Bill Frist hadn't voted in a Republican primary until this year. They seem to have little in common, save this: All are conservative, antigovernment Republicans who—thanks to the Great Landslide of 1994—are part of the first GOP congressional majority in 42 years.

ELECTION '94

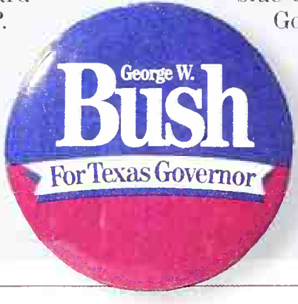
The seismic midterm shakeup propelled dozens of similarly obscure outsiders to office. And it answered the prayers of dozens of GOP Beltway insiders who have occupied political Siberia for decades. Now, the former backbenchers are seizing leadership posts. Together, the Republican veterans and neophytes will shove Congress to the right. Their first order of business: "to be fairer to business and lessen the government burden of taxes and regulation," says GOP pollster Glen Bolger.

Aside from their business-friendly leanings, the new Capitol Hill barons are a stunning contrast in style, seniority, and substance. There's 91-year-old Strom Thurmond (R-S. C.), the new chairman of the Senate Armed Services Committee who has been a lawmaker for 40 years, and baby-faced House Budget Committee boss John R. Kasich (R-Ohio), born in 1952—fittingly, the last year his party captured the House.

GIANT KILLER. Joining the far-right wing of the party will be hard-line conservative Michael P. Flanagan, a Chicago attorney who knocked off Democratic giant Dan Rostenkowski, and Pennsylvania populist Richard J. Santorum, a crusading House reformer elected to the Senate. "I'm very much for the principle that the government
governs least governs best," Santo
says. The partisan shock troops wi
countered by moderates such as in
ing Senator Olympia J. Snowe (R-
Maine), who will work to forge bip
san consensus.

Republican insiders expect Ten-
nessee's Fred D. Thompson, an act
and former GOP counsel to the Sena
Watergate committee, to become a
freshman leader. Other likely Sena
standouts: Spencer Abraham (R-M
an aide to former Vice-President D
Quayle with strong support among
blue-collar voters, and forme
Governor John Ashcroft (
Mo.), an expert on man
ment and budget matt

The GOP's New Wa
will lap at shores fa
yond the Potomac. F
George E. Pataki in
New York to George
Bush in Texas, incom



(LEFT TO RIGHT) PHOTOGRAPHS BY RICHARD B. LEVINE, DAN HABIB/IMPACT VISUAL, DAN DRY, CAMPAIGN BUTTON PHOTOGRAPHS BY TED MORRISON

HEALTH CARE. Don't look now, but it's
ack. Clinton and Health & Human Ser-
ces Secretary Donna Shalala will push
ı incremental plan that limits insur-
s' right to deny coverage for preexist-
ıg conditions and assures that job-
witchers don't lose benefits. "If
ɔmething like this gets to the floor,"
ets Heritage's Mitchell, "Republicans
ɔuld just be dumb enough to pass it."

REGULATION. Next year, business
ıterests plan to enlist conservatives in
major drive to slap limits on Administration regulators. According to National Association of Manufacturers President Jerry J. Jasinowski, Republicans will back legislation that requires more risk-assessment and cost-benefit analysis before new rules are issued. "We will get a significant number of moderate Democrats to come aboard this campaign," he predicts.

There is a sliver of room for Clintonites and Newtoids to cut deals on these issues. But the Administration fears that the GOP will replay this year's health-care strategy, which was a variant of the old "wallet on a string" stunt: every time Clinton reached down to compromise, Republicans jerked the prize a little more to the right. "All these smart guys are advising the President to move to the center," says Barry Rogstad, president of the American Business Conference. "The center may not be there." But, replies a top Republican strategist: "Gingrich and Dole cannot merely be guardians of gridlock. If the two sides pass GATT, welfare, and

Olympia
MAINE HAS SPOKEN

ɘrbalance the archconservatives

TENNESSEE'S SENATOR THOMPSON: *The onetime actor will tread a new stage*

nors captured Democratic state-
s by pledging to reduce taxes and
r services in a more business-
ıanner.
l, come January, the
ermers will just be
ng the ropes. In the
term, at least, the
Republican Revolu-
ʋill be led by old faces
v places. The dramat-
ft is symbolized by the
dancy of an archconser-
ɘ pitbull, Jesse A. Helms
rth Carolina, replacing an
iberal dandy, Claiborne Pell of
e Island, as the chairman of the
e Foreign Relations Committee.
hough sharp-elbowed critics such
ɘlms and Thurmond are sure to
President Clinton foreign policy
hey probably will be less influen-
ı shaping policy than the younger
ɘnterprise boosters poised to con-
he committees that oversee busi-
issues. Says University of Dela-
political scientist James Soles:
Clinton might look back fondly at
ɔck when compared to the return
ɘ Ice Age in Washington."

SONNY
BONO
U.S. CONGRESS
PAID FOR BY FRIENDS OF SONNY BONO, P.O. BOX 3007, PALM SPRINGS, CALIFORNIA 92263

Nowhere will the shift be more radical than at the House Energy & Commerce Committee, where Chairman "Big John" Dingell's influential reign will come to a screeching halt. The most likely successors are two probusiness conservatives, Carlos J. Moorhead (R-Calif.) or Thomas J. Bliley Jr. (R-Va.). "Business should be dancing in the streets—John Dingell, the Great Regulator, is gone," crows Republican consultant Eddie Mahe Jr.

Another big House change: The new chairman of the Ways & Means Committee will be Bill Archer (R-Tex.), a strong advocate of capital-gains tax cuts and tax breaks for oil companies and entrepreneurs. Unlike Rostenkowski, the quintessential deal-cutting pol, Archer is a dour ex-banker and business executive who doesn't compromise easily.

In contrast, new Senate Budget Committee Chairman Pete V. Domenici (R-N. M.) is a pragmatist admired by Democrats. He may be willing to work with Clintonites, particularly his old friend, Chief of Staff Leon E. Panetta. But House Republicans, frozen out by the White House for two years, are less accommodating. "I don't have any intention of consulting with Bill Clinton on the budget," snarls Kasich.

Republican leaders have promised to restrain their combative troops. Incoming House Speaker Newt Gingrich (R-Ga.) recently called Bill Clinton the enemy of "normal Americans." But on election night, he promised to trade in his GOP sword for the mantle of statesman. Likewise, as Kansan Bob Dole ascends to Senate Majority Leader, the biting Clinton critic says he's ready to discuss bipartisanship—and even to smile some more. So far, both men are talking a good game. Now, the question is whether they can deliver.

U.S. SENATE
SANTORUM
Join the Fight!

By Richard S. Dunham in Washington

PHIC BY LISA KNOUSE BRAINARD/BW

health reform by fall, pundits may be reassessing Clinton."

Can the Comeback Kid recover from his latest catastrophe? Not if your sole gauge of effectiveness is a legislative scoresheet. When it comes to passing bills, the sun has set on Bill Clinton's excellent Presidential adventure. But Presidents operate on a larger stage than Congress, as Clinton has proven with his recent sureness in foreign policy. "He may have more resiliency than people think," says David A. Jones, chairman and CEO of Humana Inc. in Louisville. "Reports of his unelectability are premature."

Indeed, even the most ebullient conservative would pause from postelection revels to confide a private fear: If Clinton hijacks parts of the Nouveau Right's agenda, he could still thw dreams of a GOP majority come 19 Today, that sounds wildly improbab But then, so did predictions of a R publican revival after the GOP's 1992 scent into chaos.

By Lee Walczak, with Richard Dunham and Howard Gleckman Washington, Susan B. Garland in Fl Mich., and bureau reports

DOES PETE WILSON HAVE EYES ON A BIGGER PRIZE?

ELECTION '94

In Bellflower, Calif., hundreds of the Republican Party faithful cram a dingy storefront campaign stop to behold their political miracle worker. Just months ago, trailing by as much as 22 points in his bid for reelection to the state's governorship, Pete Wilson seemed condemned to the Home for Also-Ran Incumbents. Now, on the eve of the election he will win handily over State Treasurer Kathleen Brown, the 61-year-old Wilson sounds very much like a man with one more campaign left in him.

But which campaign, exactly? Wilson's rhetoric tonight is aimed squarely at Washington—and at Bill Clinton. The President's charge that racism is behind the Wilson-backed California initiative that would deny health and education funds to illegal immigrants, the governor tells his legions, "is just another reason for California to distrust him." For weeks, Wilson has lambasted the Administration for the state's ills—defense cutbacks, rising crime, and a shortfall in funding for dealing with immigration.

THE RIGHT ISSUES. Meet Pete Wilson, stealth Presidential candidate. Impressed by his dramatic showing over Brown, political analysts and GOP heavies now see 1996 White House potential. "He could certainly be a credible, fist-tier candidate," says Republican consultant Charlie Black, a 1992 George Bush adviser.

Wilson says he isn't interested. "Take me off your lists," he avers flatly. "I have a job." Yet the chief executive of the nation's most populous state, with access to 22 million potential voters and big corporate bucks, remains an object of intense speculation in Washington. Many pols see the middle-of-the-road Wilson as a viable compromise if the party splits between conservatives Dan Quayle and Phil Gramm and social moderates such as Jack Kemp. His stated reluctance now, says analyst and Wilson confidant Kenneth L. Khachigian, doesn't mean "Pete might not change his mind."

OVER
Wil
Wilson

WILSON: *For now, chief executive of just California*

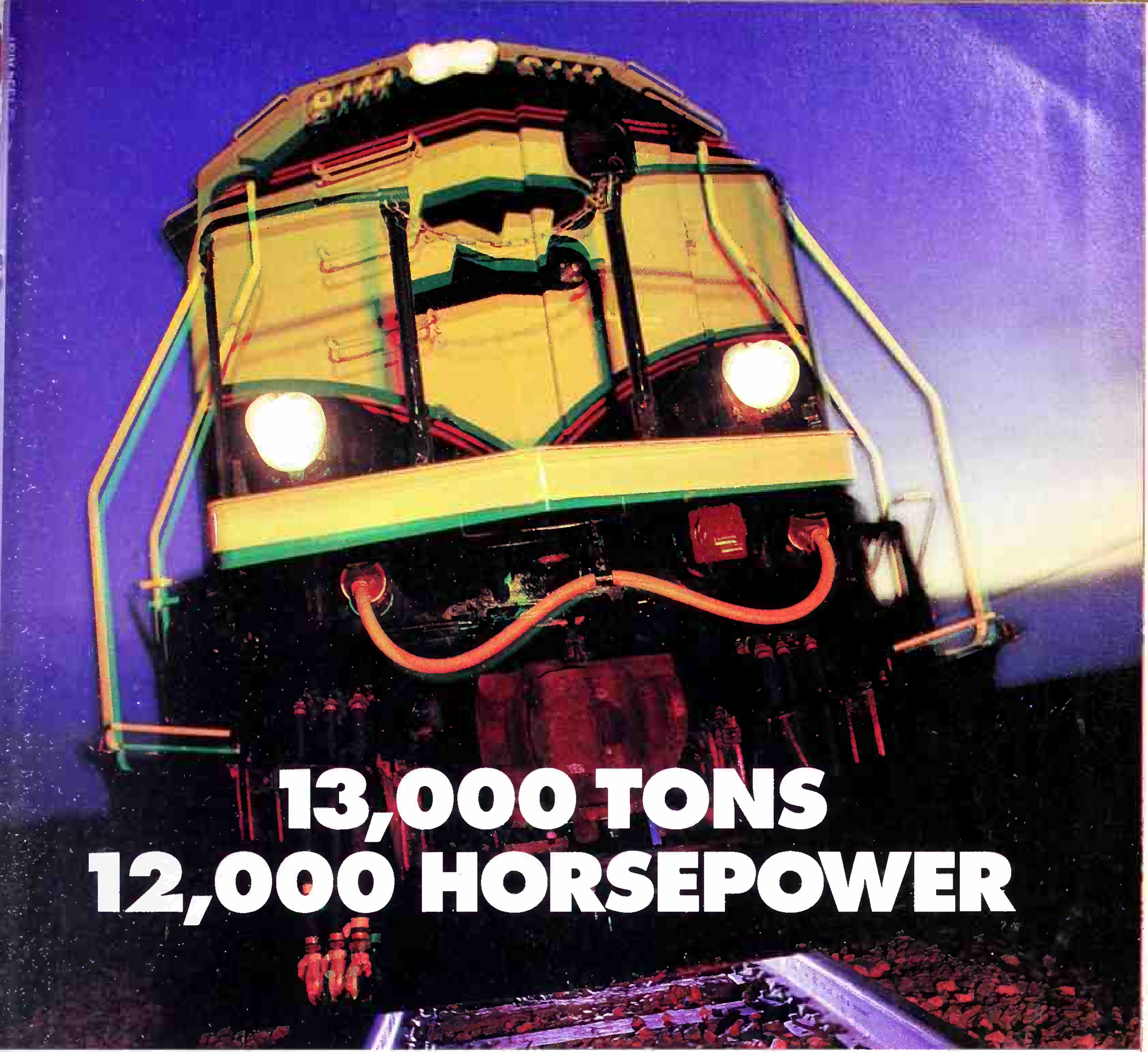
Although short on charisma and a dreary speaker, Wilson has a genius for riding the right issues. His stand on the anti-illegal-immigration Proposition 187, some analysts believe, could be a powerful calling card in a Presidential bid two years from now. The measure, capitalizing on deep-seated concerns about economic security, passed by a 3-2 margin. And many analysts believe that widespread resentment of immigrants could spark similar measures elsewhere. Wilson's support could help him move "perceptually to the right" of fellow moderate Bob Dole, says GOP pollster Tony Fabrizio.

But hardcore right-wingers will never accept Wilson as one of their own. They still resent his approval of $7.5 billion in tax hikes to balance the state budget in 1991—a move that prompted a challenge in this year's primary from right-wing businessman Ron Unz. And Wilson openly defied conservatives by pledging to keep abortion out of the GOP's 1996 platform.

Lacking solid conservative support, Wilson's path is unclear. He could follow the Ronald Reagan model: Continue to govern the state, as he promises, until his term ends in 1998 and then run in 2000. Or he could test the waters in the hugely important California primary, moved up in 1996 to March from June, hoping to play power broker. "With 20% of the delegate votes, that puts him at the table," says David Keene, chairman of the American Conservative Union.

His draw within the GOP's Bush wing and among Westerners makes Wilson an attractive Vice-Presidential choice on a ticket headed by Dole or General Colin L. Powell, some insiders say. But they doubt that the head of a state with the world's seventh-largest economy would take the No. 2 job. All that Clinton-bashing may be so much rehearsal for a run at the Oval Office.

By Ronald Grover in Bellflower, Calif., with Richard S. Dunham in Washington



All it takes to stop it is one unreliable data circuit.

Which is precisely why Burlington Northern Railroad relies on AT&T Data Communications Services.

After all, BN's entire business rides on being able to deliver freight. On time. Damage-free. Over some 24,000 miles of track through 25 states and two Canadian provinces.

That means their AT&T data network has to carry a critical load. Processing shipment orders. Controlling trains. Ensuring customer deadlines are met. If BN's data network goes down, even for a fraction of a second, their entire business stops in its tracks.

Which is why BN trusts AT&T as their data network provider. AT&T gives them the technical expertise, servicing support and reliability performance they need. Delivered by advanced systems like FASTAR®, which immediately identifies cable cuts and automatically begins rerouting data. All within seconds. So BN's data stays onboard.

To keep your business on track, call 1 800 332-7FAX, **Ext. 100.** You can speak to a knowledgeable representative or receive faxed information on AT&T's private line and frame-relay data services.

AT&T. For the life of your business.SM

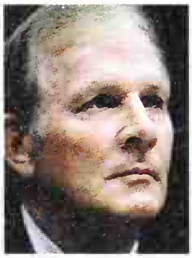
AT&T

HOW THE ELECTION LOOKS FROM THE CORNER OFFICE

The Republicans' election sweep has business cheering. Many CEO*s expect a Conservative Congress to get down to business fast on issues close to their hearts: deficit reduction and trade, to name two. And they predict a friendlier reception on Capitol Hill. But some execs worry that the* GOP *will neglect social problems. The other big fear? That the bitter election will mean business as usual: divisiveness and gridlock.*

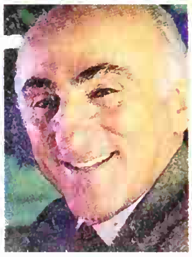
—Michele Galen and bureau reports

ELECTION '94



JONES OF HUMANA:
Doesn't matter who's elected

As chief executive of a major health insurer, Humana Inc.'s David A. Jones believes the GOP's gains could lead to some progress in cutting entitlements. But because moderates and conservatives have dominated Capitol Hill for some time, he doesn't expect great changes. "I don't think it matters a whole lot who gets elected," Jones says. He believes that market forces already have pared private health-insurance costs and that states are reforming health insurance. But federal Medicare and Medicaid spending is soaring. With the medical budget growing so rapidly, says Jones, "even the dimmest member of Congress is bound to notice."

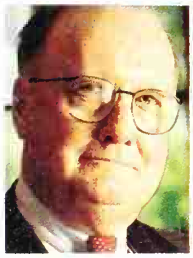


SCHWARTZ OF LORAL:
Time to put partisanship aside

A lifelong Democrat with close ties to the Clinton Administration, Bernard L. Schwartz fears the GOP victories portend a divided government. "This is not a time for either the country or American business to have an uncertain or indecisive leadership," the chief executive says. Schwartz faults the Democrats for pushing "a comprehensive social-change agenda without a bipartisan consensus." He urges the Administration to "take Republicans into consultation earlier." Schwartz isn't expecting the election's outcome to have much of an impact on Loral Corp., a defense electronics company. "Most of the hard work of pruning defense has already been done," he says.

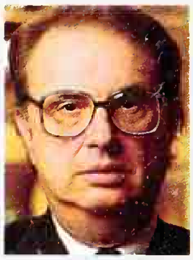
HUDSON OF W.H. BRADY:
Frets about GOP*ers' social views*

The caliber of the new Congress is just one thing worrying the chief executive of industrial-products maker W.H. Brady Co. Katherine M. Hudson is a Republican, but she's disturbed by the social views of many incoming GOPers. "To the extent it's part of a Republican platform to deny women their own destiny, I won't vote for them. It's easier to teach economics to Democrats than abortion [rights] to Republicans," she says. Hudson urges more deficit cuts. But she fears Congress may be hobbled by infighting. "The question is what can go forward," she says. "Just as the Democrats aren't together on issues, I'm not sure the Republicans are either."



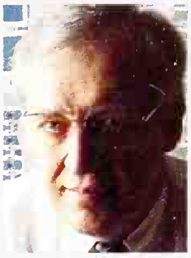
ONG OF GOODRICH:
Sees less onerous regs ahead

The ardent Republican predicts the GOP will move to pass a slew of legislation, including term limits and a balanced-budget amendment. "I'd expect that to happen fast," says John D. Ong of B.F. Goodrich Co. Ong is relieved that the Republican-controlled Congress will blunt some of Clinton's regulatory initiatives in the labor area. But he gives Clinton high marks for his efforts to address Superfund problems and hopes to see effective reauthorization of a bill, now that the Republicans aren't as likely to use it as a political weapon. Ong also thinks that with the GOP in the driver's seat, that long-sought business goal, product-liability reform, finally will pass.



RAAB OF GENENTECH:
Very positive for biotech

The chief executive of biotechnology pioneer Genentech Inc. was among the cadre of California high-tech executives who backed Bill Clinton in 1992, only to be deeply disappointed by his attacks on the drug industry during the health-reform debate. G. Kirk Raab expects more help from the incoming Congress. "The new leadership will see biotech as the kind of industry that's the future of America." Raab also sees benefits from the overhaul of congressional staffers who play a key role in drafting legislation. "It's a very positive thing for business," Raab says. "The Republican staff will be more oriented to free enterprise."



JUNKINS OF TI:
A chance to deal with welfare

A Republican who votes independently, Jerry R. Junkins of Texas Instruments Inc. wants the newly empowered GOP to quickly start dealing with such longstanding issues as welfare and taxes. "Many of the areas that the Republicans have been talking about are things the country would welcome," Junkins says. His biggest concern is trade. As chairman of the Alliance for GATT Now, he's hopeful Congress this year will pass the Uruguay Round of the GATT treaty. If the vote slides, he fears the deal could unravel. "That would be a tragedy," says Junkins, "because increased international trade is what's going to pay for a lot of what the Republicans have been talking about."

(CLOCKWISE FROM TOP LEFT) PHOTOGRAPHS BY BRAD MARKEL/GAMMA-LIAISON, DAVE SCHLABOWSKE, NINA BARNETT, DOUG MILNER, DANIEL LEVIN, STEVE BOLIONIS

EVERY YEAR THESE GUYS COME UP WITH 500 MORE REASONS FOR YOU TO HIRE US.

Yikes! They're busy passing over 500 legislative changes a year that can affect your business. But for the 250,000 employers (both large and small) who count on us, keeping up with this frantic pace is a breeze.

Because we're ADP, the people who stay on top of these regulatory changes for you. So you don't have to waste time doing it yourself. And you never have to worry about whether you're meeting the latest laws. From FICA rate changes to the taxability of benefits to keeping payroll updated for year-end reporting, if a new law impacts payroll, employee recordkeeping or human resource management, ADP makes it easier on you. No recalculating, no reprogramming, no risk.

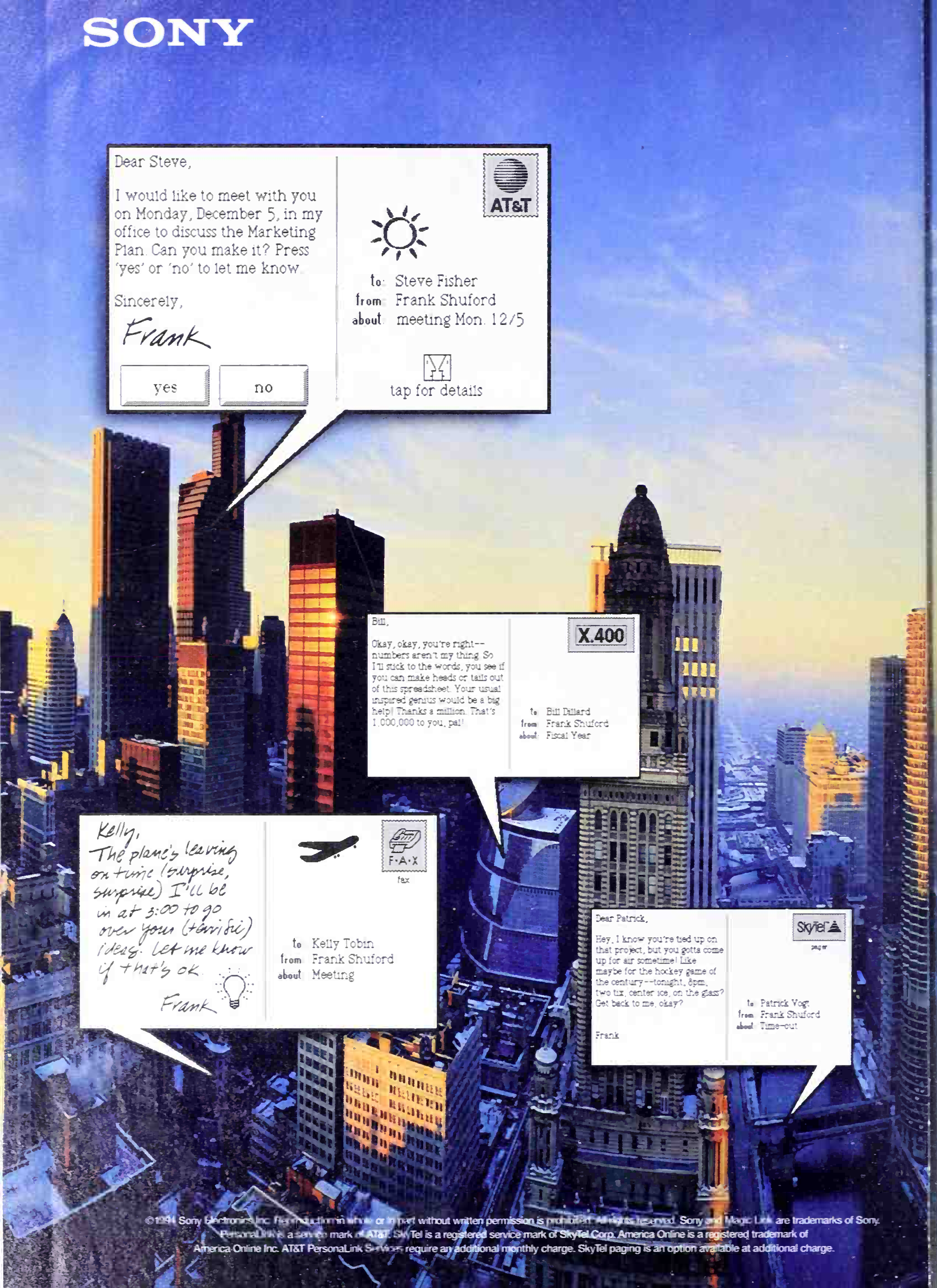
So call for a free subscription to our newsletter and to see how we can help you manage change. Because while you're reading this, they're writing more laws.

1 800 CALL ADP ext. 327

T PAYS TO HIRE US ADP

AYROLL SOLUTIONS • TAX & REGULATION MANAGEMENT • HUMAN RESOURCE SYSTEMS • BENEFIT PLAN ADMINISTRATION

SONY



Dear Steve,

I would like to meet with you on Monday, December 5, in my office to discuss the Marketing Plan. Can you make it? Press 'yes' or 'no' to let me know.

Sincerely,

Frank

to: Steve Fisher
from: Frank Shuford
about: meeting Mon. 12/5

Bill,

Okay, okay, you're right--numbers aren't my thing. So I'll stick to the words, you see if you can make heads or tails out of this spreadsheet. Your usual inspired genius would be a big help! Thanks a million. That's 1,000,000 to you, pal!

to: Bill Dillard
from: Frank Shuford
about: Fiscal Year

Kelly,
The plane's leaving on time (surprise, surprise) I'll be in at 3:00 to go over your (terrific) ideas. Let me know if that's ok.

Frank

to: Kelly Tobin
from: Frank Shuford
about: Meeting

Dear Patrick,

Hey, I know you're tied up on that project, but you gotta come up for air sometime! Like maybe for the hockey game of the century--tonight, 8pm, two tix, center ice, on the glass? Get back to me, okay?

Frank

to: Patrick Vogt
from: Frank Shuford
about: Time-out

©1994 Sony Electronics Inc. Reproduction in whole or in part without written permission is prohibited. All rights reserved. Sony and Magic Link are trademarks of Sony. PersonaLink is a service mark of AT&T. SkyTel is a registered service mark of SkyTel Corp. America Online is a registered trademark of America Online Inc. AT&T PersonaLink Services require an additional monthly charge. SkyTel paging is an option available at additional charge.

Gotta reach people all over town?

Done.

Even in a city of 8 million, you can reach just about anyone, anywhere, no problem. It's called the Sony gic Link™ communicator, and it makes messaging intuitive, intelligent and easy to use. From scheduling neeting for you to picking the best way—AT&T PersonaLink® Services, fax, e-mail, pager—to invite them. hanges the way you communicate. To find out how, simply call 1-800-55-MAGIC, see the Magic Link kiosk at participating Sony dealers, or visit the Sony Magic Link Information Center on America Online®

To Project Team,

Speak now or forever hold your peace, everybody, because the presentation is on for December 6 from 1:00 to 3:00, our place. If you can't make it, let me know as soon as possible. Otherwise, see you there. Minus the Hula shirt, Joe

Thanks,
Frank

to: Project Team
from: Frank Shuford
about: Presentation

Internet
SONY
OPTION
Saturday February 19
Hallway
Desk
In
Out
SONY
Magic Link
MIC

GRAPHIC BY LISA KNOUSE BRAIMAN/BW

COMMENTARY

By Lee Walczak and Susan B. Garland

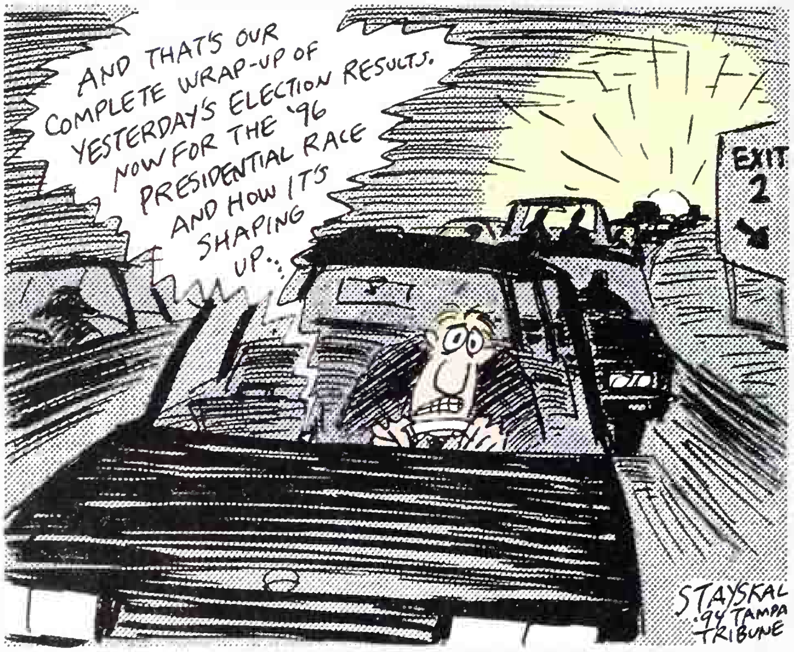
RETURN TO GRIDLOCK CITY—OR MAYBE, JUST MAYBE...

ELECTION '94

A philosophical inquiry: Why haven't deprived sports fans griped more about the demise of the hockey season? Answer: Given the untamed spectacle of the midterm elections, who needs hockey?

Campaign '94 was the Stanley Cup playoffs of political mayhem. Republicans charged that Democrats coddled criminals, undermined families, and had a "secret plan" to gut Social Security. Democrats accused Republicans of racism, a return to trickle-down economics, and—you guessed it—of readying a secret plan that would gut Social Security.

When the whistle sounded on the election brawl, casualties were everywhere. Perhaps the biggest was the nation's two-party system. Assuming Democrats and Republicans spend the next two years banging heads, little of substance will get done. A brief quiz on whom this benefits most: Republican National Committee Chairman Haley R. Barbour, Democratic Party Senior Adviser Tony Coelho—or a certain pint-sized populist residing in Dallas.


AND THAT'S OUR COMPLETE WRAP-UP OF YESTERDAY'S ELECTION RESULTS. NOW FOR THE '96 PRESIDENTIAL RACE AND HOW IT'S SHAPING UP..
EXIT 2
STAYSKAL '94 TAMPA TRIBUNE

WAYNE STAYSKAL/TAMPA TRIBUNE/TRIBUNE MEDIA SERVICES

THIRD FORCE. Hard-liners such as Texas Senator Phil Gramm reckon voters will be thrilled if they tie Washington in knots. "I only plan to compromise with President Clinton when he's moving in the right direction," Gramm says. Swell. Meantime, Clinton's political advisers are itching to recast him as a Trumanesque figure who blasts the "know-nothing 104th" Congress—a combative stance that would doom any chance of compromise.

The prime beneficiary of a return to gridlock would be the "third force" protest movement that spawned the likes of Ross Perot—and could yet spark an independent Presidential bid by ex-General Colin L. Powell or someone else riding in on a white tank. "Clinton took advantage of this huge disgust with government in '92, now Republicans are benefiting from it," notes Presidential historian and author Michael Beschloss. "It could come back to haunt everyone in '96." A few Republicans seem to sense this. "We've got a two-year shot at restoring faith in our party," says GOP pollster Frank I. Luntz. "If we fail, we'll see another Perot figure rising."

Perot, typically, has turned cute about his intentions. He initially urged supporters to give the Republicans a chance to rein in government. Then, he ignored the preference of the Texas chapter of his United We Stand organization to endorse Democratic Governor Ann Richards for reelection. Now, Perot says his movement will know "in 100 days" if the Republicans are serious about ushering in change. If that doesn't happen, he may form a new political party.

That could wipe the grin off of GOP chief Barbour's face. Since two-thirds of the 19 million people who voted for Perot in '92 are nominal Republicans, the GOP would be the big loser from another Perot lunge for the Presidency.

Of course, Democrats and Republicans don't have to slit their wrists—or turn off voters with mudslinging campaigns that drive millions more toward the ranks of the unaligned. Let's just imagine that Frank Capra has returned from Tinsel Heaven to shoot a remake of *Mr. Smith Goes To Washington* and Washington pols all suddenly start listening to the people again. A chastened President and his GOP foes could easily sit down and agree on a bipartisan agenda.

The elements: A new deficit assault that focuses on the real problem (middle-class entitlements) rather than a fake problem (funding for the Rural Electrification Administration); trade expansion; welfare reform that provides work incentives but doesn't throw unemployed mothers onto park benches; and a health plan built upon the modest insurance reforms that Senate Republicans advocated a few years back.

To discourage further massive spending on negative ads, Clinton and the GOP could agree on limited campaign-finance reform that reduces special-interest money. They also could agree to curb congressional perks and adopt stricter lobbying rules. Finally, the parties could sponsor a series of national town meetings to give tuned-out voters a chance to sound off on the issues that concern them most—issues, to the surprise of President Clinton, that may have nothing to do with such arcana as the expansion of the Earned Income Tax Credit.

The stuff of fantasy, of course. And yet. And yet....

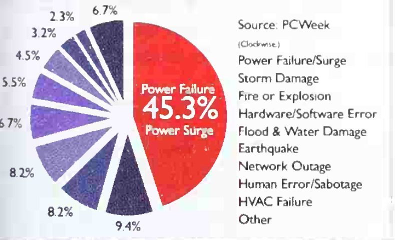
Walczak and Garland cover the White House.

It's not if your PC will be hit by power problems, it's when...

ust don't have the time for power problems on your PC? Don't worry. They'll always ke the time for you.

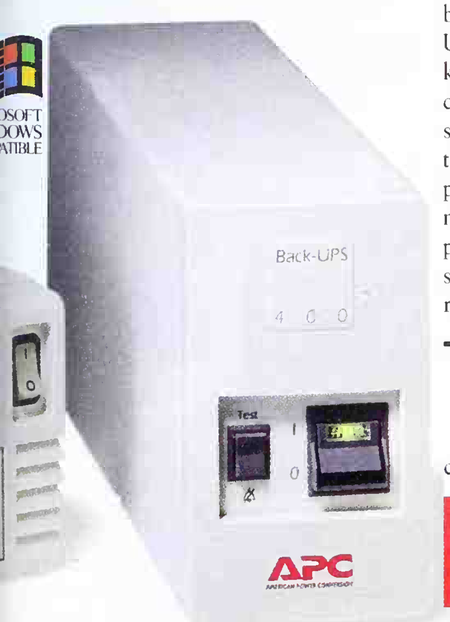
The question is not if a power problem l occur, but when. Whether due to household appliances, local construction, poor wiring, bad weather or even other office equipment, power problems are as inevitable as death and taxes.

ad power is the largest preventable cause of computer data loss



Source: PCWeek

C Uninterruptible Power Supplies provide instant battery cup to protect your data from loss and your hard drive from age. Units are backed by up to $25,000 in surge protection rance, so you can rest easy and stay productive even during worst storm.



In the next three months, more than 30,000,000 PCs will be hit by power problems...

In fact, one study discovered a typical PC is hit over 100 times a month, causing keyboard lockups, hard drive damage, and worse. And a study by Bell Labs, found that undervoltages and blackouts represent more than 85% of power problems likely to hit your computer, a fact which leaves standard surge suppressors powerless to protect you.

More than 2,000,000 satisfied APC users won't...

That's why you need instantaneous battery backup power from an APC Uninterruptible Power Supply to prevent keyboard lockups, data loss, hard disk crashes, and hardware damage. It's even been said that there are three types of PC users: those who have lost data due to a power problem, those who are going to, and the more than 2,000,000 satisfied users who have protected themselves against the inevitable surge, blackout or brownout with the most reliable UPS they can buy... APC.

$25,000 worth of peace of mind starting at just $119...

Not only can APC protect your data. We can protect the investment you've made in your hardware as well, whether it be 386 or 486, Pentimum or PowerMac. In fact, surge protection performance is even backed by up to a $25,000 Lifetime Equipment Protection Repair/Replacement Guarantee.

Ask for APC at your computer reseller today, or call for a free handbook. Starting at just $119, an APC UPS is serious protection no serious computer user should be without.

PC World Top 20 Upgrade

"Don't take chances...get the ultimate protection... from APC."--*PCWorld*

FREE 50-pg. PC protection guide

Solutions '94

What are the causes and effects of power problems? The most common power protection mistakes? Fax for your free handbook today! Please reference Dept R3.

Name: ____________________

Company: ____________________

Address: ____________________

____

Phone: ____________________

Brand of UPS used: ____________________

Number of PCs/Servers to be protected: ________

800-800-4APC

401-788-2797 fax

PowerFax Info (800)347-FAXX

APC™

AMERICAN POWER CONVERSION

GRAPHIC BY LISA KNOUSE BRAIMAN/BW

t 1994 APC. Trademarks are the property of their owners.

A publicly-traded company (NASDAQ: APCC)

THE ECONOMY

IT'S HARDER TO HIT THE BRAKES

To have an impact, the Fed is now forced to use both feet

FEDERAL
THE UNITED
THIS NOTE IS LEGAL TENDER
ALL DEBTS, PUBLIC AND PRIVATE
B
100
B 9
34092 A

It's coming, and there's nothing you—or even the Clinton Administration—can do to stop it. There's an economic slowdown in your future. That's what the Federal Reserve wants, and the Fed almost always gets its way.

But the dynamics of braking the economy have changed, and it's going to take a much tighter policy to bring growth down to the 2½% or less that the Fed believes is cool enough to keep inflation from boiling over. A new set of structural forces is conspiring against the central bank's efforts: the shrinking share of the U. S. economy influenced by short-term interest rates, the explosion of nonbank credit, and the growing role of global financial markets and foreign demand are prying loose the Fed's once-absolute grip on the economy (charts).

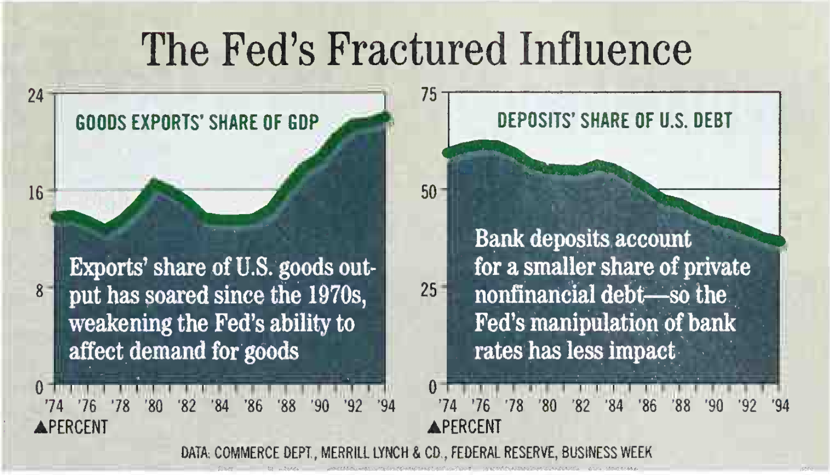
The Fed already has hiked short-term rates by an aggressive 1¾ percentage points since Feb. 4, and another move at its Nov. 15 policy meeting is now a foregone conclusion. "Market pressures already demand at least a half-point increase," says economist L. Douglas Lee at NatWest Securities Corp., and many Fed watchers believe an even bigger hike is possible. After all, third-quarter real gross domestic product rose a surprisingly sturdy 3.4%, lifting growth in the past year to 4.3%.

INFLATION FEARS. That hike won't be the last. Less than a year ago, a 5% federal funds rate—set by the Fed on overnight interbank borrowings—seemed wildly unlikely. Now, economists are talking about fed funds at 7.5% by yearend 1995. One immediate reason: signs of inflation. The vibrancy of the October employment report suggests that wage pressures are starting to build (page 23). That alarming trend echoed the Fed's Nov. 2 Beige Book, a report prepared for each policy meeting. So even if Fed Chairman Alan Greenspan's ever-cautious style limits the increase to a half-point, chances are rising that he won't oppose another half-point boost at the Dec. 20 meeting.

Beyond the monthly data, though, is a more fundamental economic shift that may force Greenspan & Co. to lean harder on the rudder. Nowhere is that clearer than in the credit markets, where increased borrowing from nonbank sources have struck at the heart of the Fed's loss of control. Corporations are going directly to the markets, both at hom and abroad, thumbing their noses at the Fed's attempts t choke off credit supplies. Since 1989, commercial and industrial loans from banks have fallen by $23 billion, while commercial paper has surged by $60 billion. On th whole, bank credit will account for only 36% c private nonfinancial debt in 1994, down fro 50% in the mid-1980s.

As much as two years ago, Greenspa himself admitted that credit wasn flowing through the banking system the way it used to do. As result, he said, the link between th economy and the money supply ha

RICO LINS STUDIO



DATA: COMMERCE DEPT., MERRILL LYNCH & CO., FEDERAL RESERVE, BUSINESS WEEK

anged. That's evi- nt from the record gh velocity—or turn- ver rate—of the oad M2 money sup- y. Because dollars w more efficiently om consumers to sinesses to banks, a ven amount of mon- can support about % more output that used to. So the Fed as to squeeze M2 uch harder now to ach its policy goals.

That's especially ue since the econo- y's interest-rate-sensitive goods-producing sector is slow- shrinking. The growing service sector is relatively insulat- from rates: Consumers generally don't forgo medical exams postpone car tune-ups because rates are rising. This shift another reason why the Fed will have to clamp down espe- ally hard on goods producers to slow the economy overall.

But perhaps the biggest structural change challenging the ed is the loss of national boundaries. Global markets for erything from home computers to corporate equities to vernment bonds mean "the Fed just doesn't have the con- ol over the economy it once thought it had," says Donald H. raszheim at Merrill Lynch & Co.

Fed policy affects domestic demand—but foreigners w buy a massive chunk of U.S. output. This year, the U.S. will export a record 22% of its output of goods, up from only 13% eight years ago. And as the recovery jells in Europe, traditionally the U.S.' biggest export market, that share is sure to hit another peak next year. "Trade will offset any dampening that the Fed has built into domestic demand," says Charles Lieberman at Chemical Securities Inc.

The Fed has to fight the global economy on another front, too. America's ever-growing appetite for imports has created a structural trade deficit that is sinking the dollar, a decline compounded by the growing demand by American investors for higher-yielding foreign assets. Don't like the price-earnings ratios on New York's Big Board? Park your money in the Hong Kong exchange or the Paris bourse.

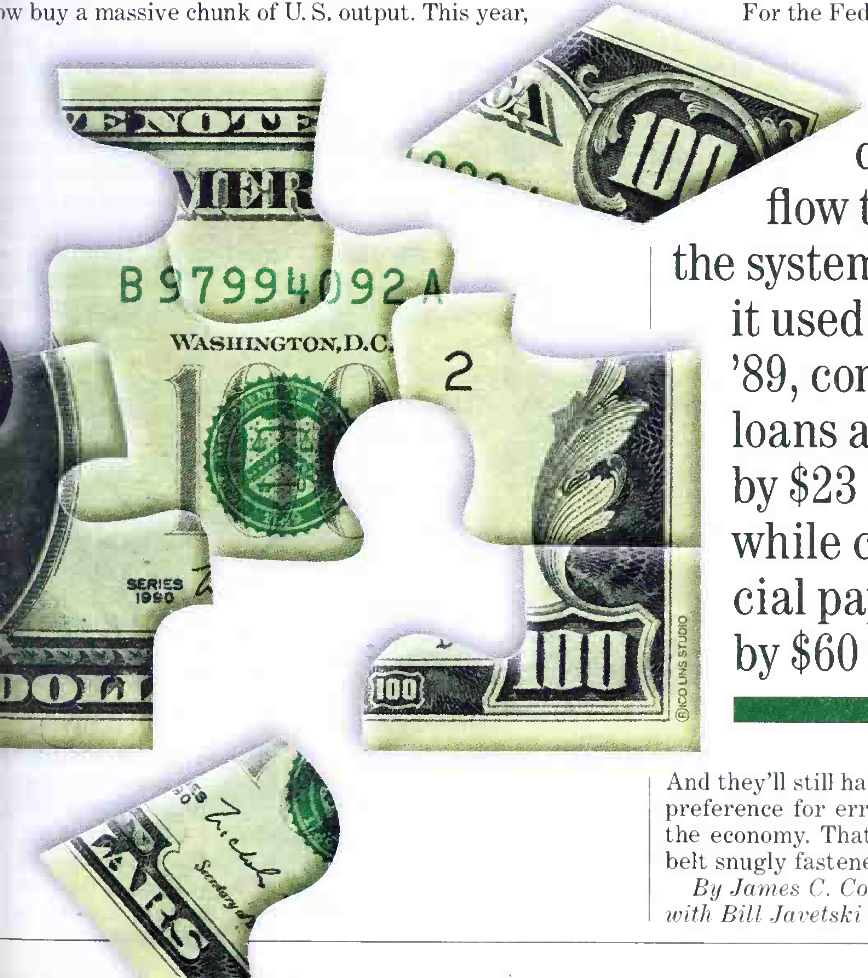
WORLD TRAVELERS. The resulting net outflow of capital from the U.S. means that America is not generating the funds necessary to finance its trade gap. "Last year, we transferred financial resources abroad equal to 3% of GDP," says William Sterling, an international researcher at Merrill. "That's nearly twice the size of the Marshall Plan after World War II."

For the Fed, the only option to achieve a real strengthening of the dollar is to lift U.S. interest rates high enough so that the prices of dollar-denominated assets become more attractive.

The new world financial order, along with the supplanting of services for goods in the U.S. economy, means that the Fed can't be as certain about the ultimate impact of its policy moves. That raises the odds that the Fed could touch off a recession. At the very least, it will be a bumpy ride. As one European central banker puts it: "Even if the one pair of brakes the Fed has hasn't seemed to be working that effectively, it's still the only pair of brakes they have. And they'll still have to use them." Greenspan has stated his preference for erring on the side of restraint as he steers the economy. That said, it's a good idea to keep your seat belt snugly fastened for the trip ahead.

By James C. Cooper and Kathleen Madigan in New York, with Bill Javetski in Paris

Credit doesn't flow through the system the way it used to: Since '89, commercial loans are down by $23 billion, while commercial paper is up by $60 billion



GRAPHIC BY LISA KNOUSE BRAIMAN/BW

DEALS

THE LATEST MEDIA MOGUL: ALABAMA

Why its pension fund backed the Park Communications buy

NEWSCHANNEL 6

TIM V[illegible]

PARK VIEW: *The company will be highly leveraged, with razor-thin margins*

Talk about media frenzy. By the end of the recent auction for Park Communications Inc., at least seven bidders were vying for Park's nine TV stations, 22 radio stations, and 106 small newspapers. When the winning offer of $711.4 million was announced on Oct. 26, some losers were actually relieved. "The price had gotten so high, we're glad we didn't win," says Bert Ellis, CEO of Atlanta media company Ellis Communications.

Even more surprising than the steep price was the identity of the winning bidders: two small-time financial operators who are borrowing almost every penny from Alabama's state pension fund. Their success has set tongues wagging among both media and pension-fund watchers. Among the questions: Who are Donald R. Tomlin Jr. and Gary B. Knapp, the deal's listed principals? Why is Retirement Systems of Alabama putting over 4% of its assets, or $573 million, into a single, highly leveraged transaction? And does the deal make any sense? Asks one losing bidder: "How could a couple of guys with virtually no media background and no capital outbid a bunch of very experienced, well-capitalized media groups?"

The answers start with David G. Bronner, chief executive of the Alabama pension fund. An iconoclastic populist who has crusaded against corruption in Alabama government, Bronner is far from the typical cautious pension-fund chief. His $14 billion fund has become the biggest office developer in downtown Montgomery, and has built a string of seven golf courses across Alabama. While the golf courses have struggled, Bronner's overall investment record has been good. His equity portfolio, for example, has handily beaten the market over the past decade.

When the Park Communications deal came along, Bronner says he was intrigued by the company's "unique mosaic" of media properties. Started in 1962 by Roy H. Park, who died last October, the Ithaca (N. Y.) company had assembled a network of small-town newspapers and broadcast stations—including a Birmingham (Ala.) CBS Inc. affiliate.

But after meeting stiff local opposition to a 1989 bid for the largest TV station in Montgomery, Bronner says: "I didn't want to do the equity side of the thing.... There were licensing problems. I had to find somebody to hold the license." Bronner turned to
two longtime personal friends and bu
ness associates, Tomlin and Knapp. T
deal: They would get the license a
provide the management while Bronn
supplied the cash. Because their fundi
was coming from a tax-free, long-te
investor, the two could afford to outb
the field.

From the terms of their agreeme
it's clear that Bronner is the real pow
behind the bid. Of the $711 million pu
chase price, Tomlin and Knapp will ch
in just a few million dollars for lawye
fees and the like. About $140 million w
come from cash already on Park's b
ance sheet. Bronner's fund is supplyi
the rest in the form of a 20-year seni
secured note, which carries an annu
interest rate of 10.5%, with principal r
payments starting in three years.

PROTECTED PLAY. Bronner also exac
ed some very favorable terms from h
partners. One provision: If Knapp a
Tomlin fail by 1998 to meet what Bro
ner calls very ambitious targets, Bro
ner's fund can exercise a warrant to ta
an 80% nonvoting equity stake in Par
If they do meet the targets, they mu
pay Bronner a higher interest rate—u
to 13%. That, says Bronner, is why
teamed up with Tomlin and Knapp rat
er than a professional broadcasting co
pany: A big partner "wouldn't ha
agreed to all the things in the transa
tion to protect me."

The deal will leave Park a highly le
eraged company with a razor-thin ma
gin for error. According to internal Pa
figures, the company is projected to ge
erate $58.3 million in cash flow this yea
up from $47.5 million last year. But eve
that wouldn't cover th
$60.4 million a year in inte
est payments due Bronne
fund. Not to worry, sa
Bronner, who figures th
cash flow can be boosted t
$70 million a year. Add
Tomlin: "The company ha
an extremely good outloo
for the next three years."

Other bidders for Park
among them Paxson Com
munications Corp. and He
itage Media Corp., als
hoped to boost cash flow t
$70 million or higher. Bu
Park, long run with an iro
grip on costs, is one of th
leanest media companie
around. Corporate expens
es should amount to just
million this year, 2.4% o
revenues. "The only way t
grow the cash flow is t
grow the revenues," say

ALABAMA'S PRIZE

PARK COMMUNICATIONS

BROADCAST PROPERTIES
9 TV stations,
22 radio stations

PUBLISHING
59 newspapers,
47 other publications

OWNERSHIP
Dorothy Park, widow of
founder Roy H. Park,
owns 89.6%

1994 REVENUE*
$166.4 million

1994 CASH FLOW*
$58.3 million

ACQUISITION PRICE
$711.4 million

*ESTIMATED

DATA: COMPANY REPORTS, BUSINESS WEEK

Mita copiers can help any office get out of the stone age.

Still working with prehistoric office equipment? Get a Mita. Every Mita copier Buyers Lab tested earned their highest rating for uptime. For personal to high-speed copiers, call 1-800-ABC-MITA. The times demand

mita™

©1994 MITA COPYSTAR AMERICA, INC.

GRAPHIC BY LISA KNOUSE BRAIMAN/BW

one bidder. "You've got to put more into infrastructure and marketing."

Whether Tomlin and Knapp can make the most of Park isn't clear from their track records. Knapp, who struck up a friendship with Bronner while both attended Mankato State University in Minnesota in the mid-1960s, is a former University of Houston business school professor turned financial broker. Operating as a one-man firm in Lexington, Ky., Knapp says he specializes in selling mortgage-backed securities to institutions. His media experience: none.

A native and resident of Columbia, S. C., Tomlin's main experience is in real estate development and finance. In the 1980s, he was CEO of U. S. Capital Corp., a developer of low-cost condominiums and time-share units. Described by associates from back then as a shrewd, cigar-smoking dealmaker who drove a Rolls-Royce, Tomlin often came under fire from those who viewed his buildings as ugly blots on the landscape. "We called 'em stack-a-shacks," says one banker.

MEMORIES. By early 1986, though, U. S. Capital was in trouble. Arthur Andersen & Co. qualified its opinion for the year ended Apr. 30, 1986, citing "severe liquidity problems." That didn't stop Tomlin from attempting his biggest deal ever. In February, 1986, he signed a pact to pay $300 million for the Resorts International Casino Hotel in Atlantic City. The deal never went through. Tomlin says he had the financing, but the deal collapsed after the April, 1986, death of Resorts' founder, James M. Crosby. But two former Resorts executives, including former Executive Vice-President H. Steven Norton, recall that Tomlin couldn't get the money together.

Tomlin essentially liquidated his real estate business by 1989 and has since dabbled on the fringes of broadcasting. He took over a tiny, struggling chain of radio stations based in Charlotte, N. C., and sold off the stations. Then Chemical Bank hired him to run a small TV station in Dothan, Ala., that it acquired in a loan default. "We feel he has done a good job," says a Chemical spokesman.

But it's a long way from Dothan, Ala., to the big leagues of Park Communications. If Tomlin and Knapp can learn to hit major-league pitches in a hurry, they could get very rich from their friendship with Bronner. If not, David Bronner will end up controlling a bunch of media properties—which may suit him just fine.

By Mark Maremont in Boston

MARKETING

IS MCI PLAYING FAST AND LOOSE WITH 800 NUMBERS?

Its directory-assistance line gives marketers the willies

Have you seen the TV ads for MCI's new 1-800-CALL-INFO service offering nationwide telephone directory assistance? You don't need to know the area code of the number you're looking for, and it costs just 75¢, the same rate AT&T charges for its 555-1212 long-distance directory assistance.

Sounds great, except that the whole idea of a pay-per-call 800 service is giving marketers the willies. "800 is supposed to be synonymous with free," says Dianne Wynne, telecommunications vice-president at Charles Schwab Corp., which receives 76 million 800 calls a year. Schwab and other heavy 800 users worry that MCI Communications Corp.'s scheme will confuse their customers, who may make fewer 800 calls as a result. "If some are charging for 800 numbers and some not, customers will have a hard time identifying which 800 numbers they'll have to pay for," says Joan Conlin, director of customer services at catalog retailer Lands' End Inc.

MCI notes that it is not charging for the 800 call itself, but rather for the service it is providing—a subtle distinction, but technically correct. "The 800 number is toll-free, and it should remain toll-free," says Patricia K. Proferes, who heads the new service for MCI. Operators and print and TV ads inform callers that the service itself costs 75¢.

But some students of consumer behavior doubt callers will get the idea. Clay Timon, who as chief executive of Landor Associates in San Francisco advises corporations on creating and managing brand images, argues that customers will simply assume they were charged for the call itself. "All you need to do is to be burned once or twice on something that should be free, and it will make you reluctant to use 800 numbers again," Timon says.

Federal legislation in 1992 sought to make a clearer distinction between 800 numbers and 900 pay calls by setting strict guidelines on what services could be sold over an 800 line. Basically, they require a "preexisting agreement" between the caller and the company. The phone industry and the Federal Communications Commission are trying to stop operators of phone-porn lines who are exploiting loopholes in that law to use 800 numbers and bypass restrictions on 900 services.

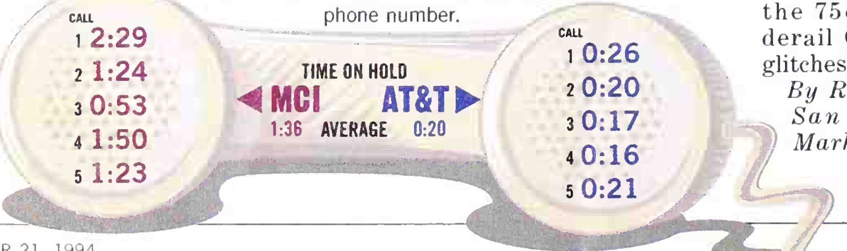
UNDER REVIEW. MCI says the language in the 1992 law does not prohibit its new service. AT&T begs to differ. It recently filed a complaint with the FCC seeking to strip the 800 number from the MCI service. That's not surprising. MCI says the long-distance directory-assistance business is $1 billion a year and growing 10% a year—and a big chunk of it belongs to AT&T. The FCC agreed to review the MCI service. "We want to protect the integrity of the 800 number," an FCC spokeswoman says.

MCI also hopes to boost its own long-distance business. Its directory-assistance customers are asked if they'd like to have their calls automatically dialed for them for free—calls that are routed through MCI lines at "MCI's low rates." The rate that was quoted to a BUSINESS WEEK reporter, though, was 29% higher than it would have cost to dial the call through his personal MCI long-distance plan. And in a BUSINESS WEEK test, MCI operators took almost five times as long as AT&T's to locate a residential listing (table). If the 75¢ charge doesn't derail CALL-INFO, the glitches might.

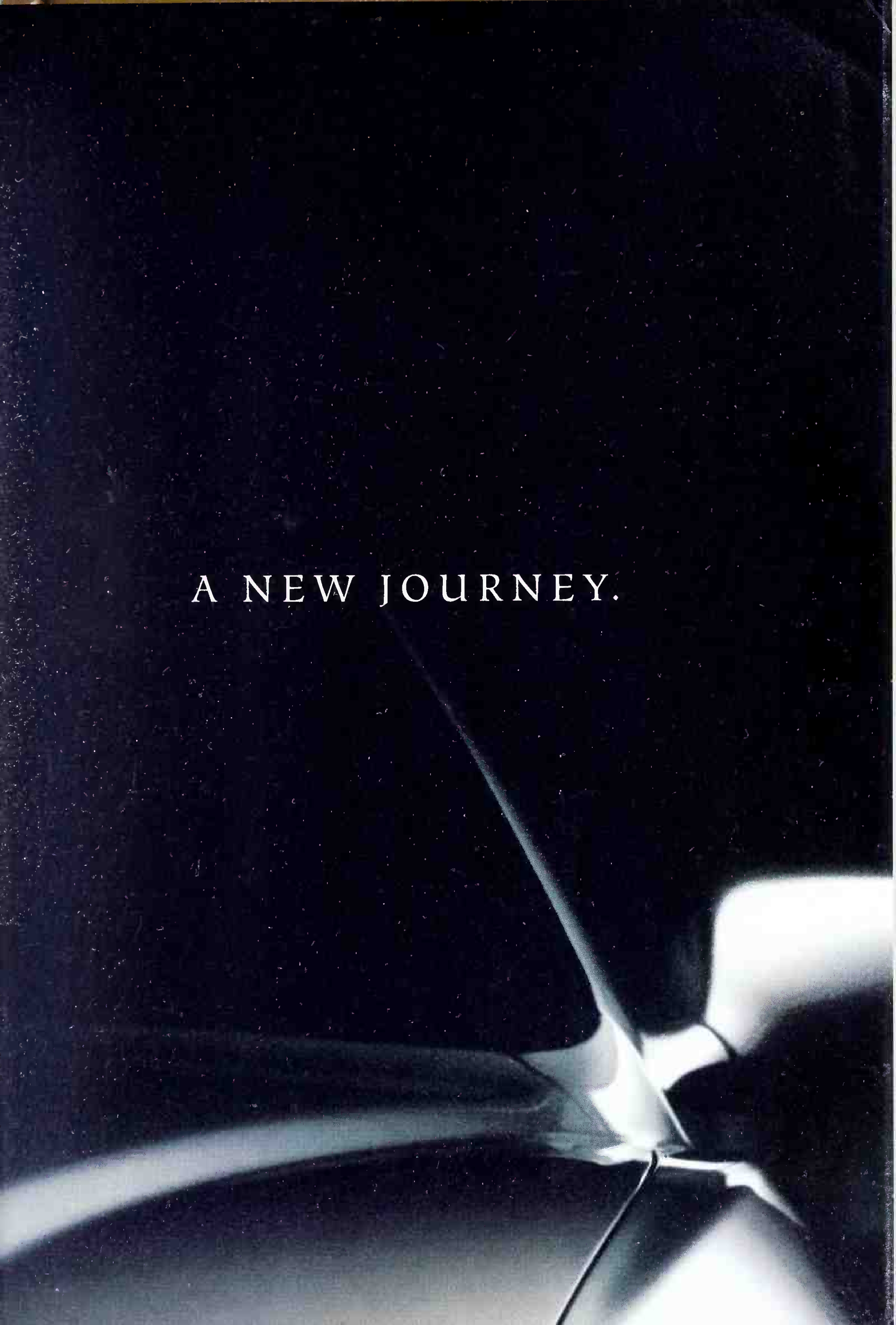
By Russell Mitchell in San Francisco, with Mark Lewyn in Washington and bureau reports

1-800-HOLD

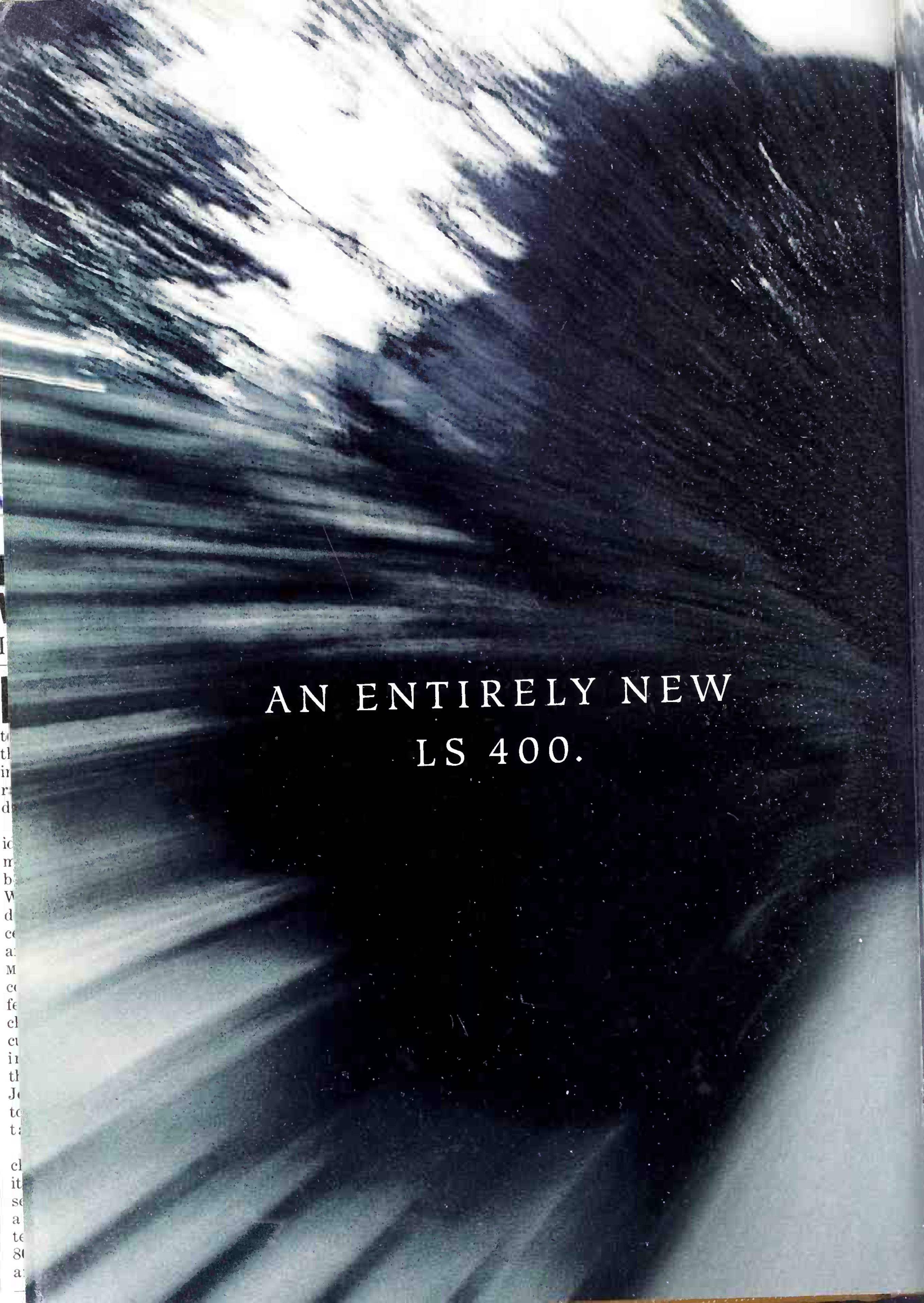
MCI still has plenty of kinks in its 1-800-CALL-INFO service. One measure: Waiting time. BUSINESS WEEK called MCI and AT&T five times each to ask for the same Oak Forest (Ill.) phone number.

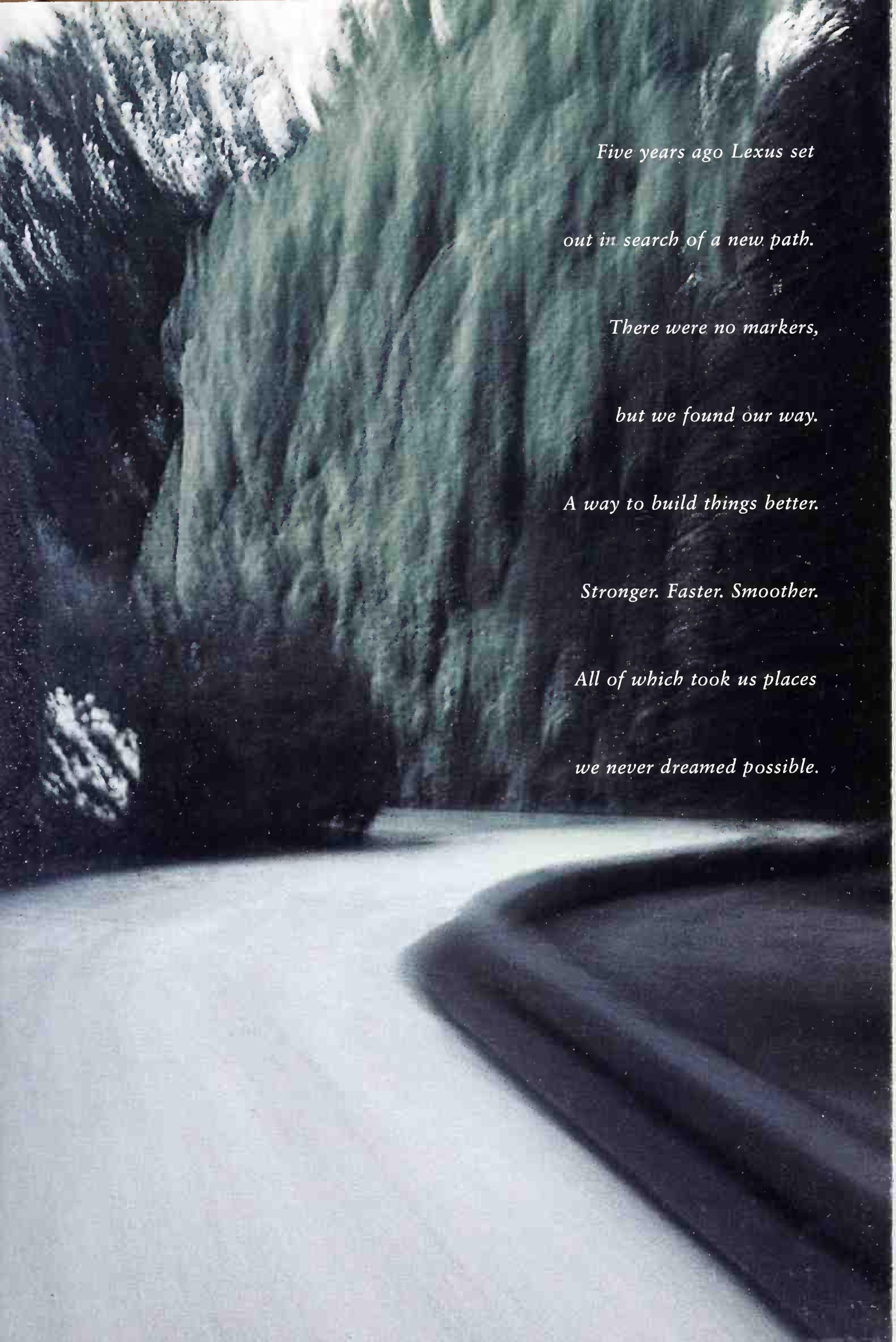


RAY VELLA/BW


A NEW JOURNEY.

GRAPHIC BY LISA KNOUSE BRAIMAN/BW


AN ENTIRELY NEW
LS 400.


Five years ago Lexus set
out in search of a new path.
There were no markers,
but we found our way.
A way to build things better.
Stronger. Faster. Smoother.
All of which took us places
we never dreamed possible.

GRAPHIC BY LISA KNOUSE BRAIMAN/BW

ITS ENGINE IS MORE POWERFUL,

YET IT CONSUMES LESS FUEL.

IT'S LARGER INSIDE,

YET THE SAME SIZE OUTSIDE.

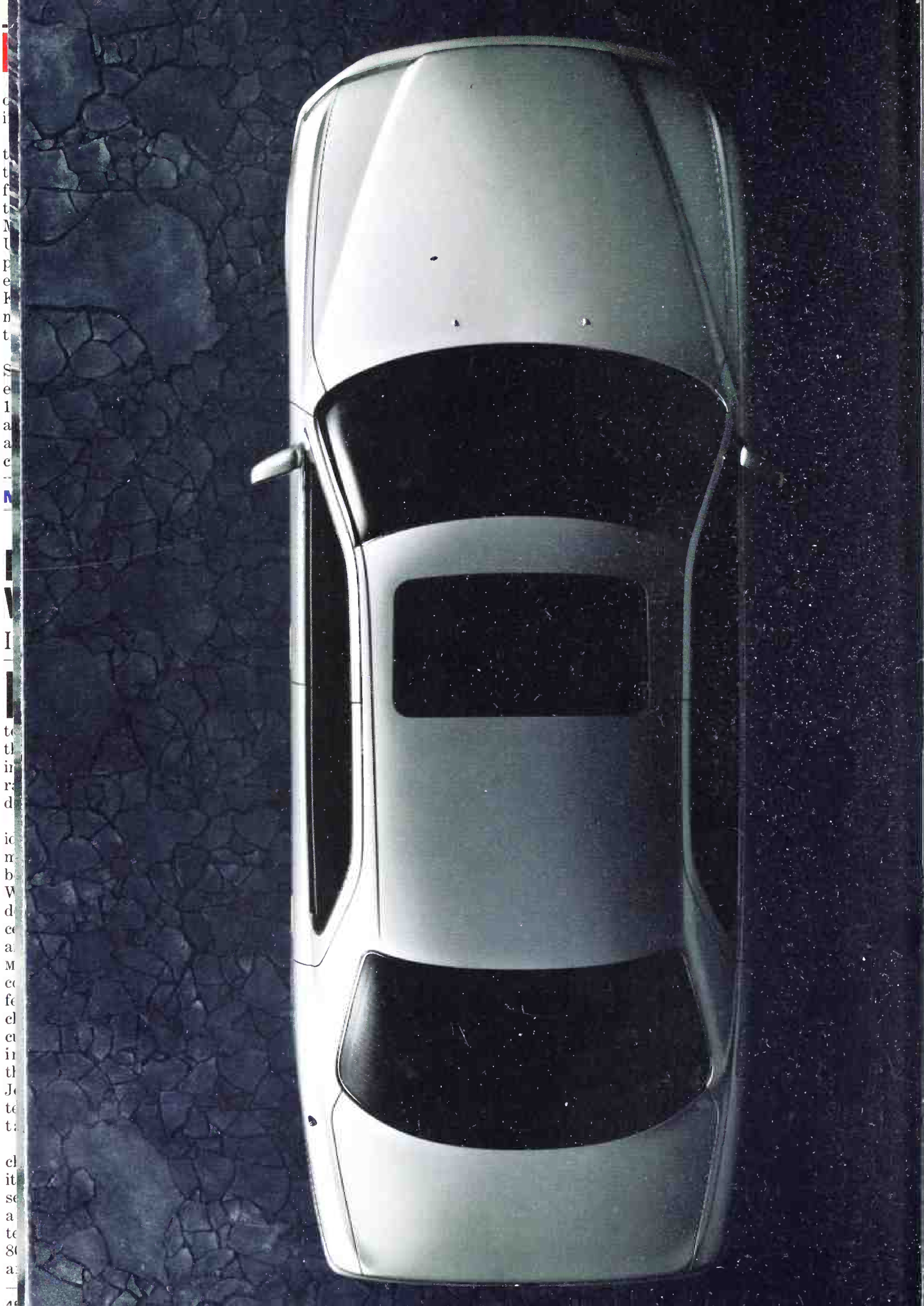
ITS RIDE IS EVEN SMOOTHER,

YET THE DRIVER IS MORE IN TOUCH

WITH THE ROAD.

(Is the new LS the definitive automotive paradox? Perhaps.)

GRAPHIC BY LISA KNOUSE BRAIMAN/BW



YOU'D EXPECT THE NEW LS TO HAVE IMPECCABLE ROAD MANNERS, BUT WHAT ABOUT A SENSE OF ETHICS?

An automobile like the LS is no doubt a luxury. But some luxuries are smarter than others. Case in point: the new LS. For starters, its 32-valve powerplant gets the best mileage of any V8 luxury sedan. The numbers? 19 city, 25 highway. (Please feel free to compare that to other luxury cars, or better yet, compare it to some economy cars.)*

The gas-guzzler-shunning statistics are a result of engineering as well as aerodynamics. The sleek shape of the new LS provides a 0.28 coefficient of drag. (Most sports cars have coefficients of drag in the 0.32 range.) In effect, better aerodynamics help make for better fuel economy. Not to mention better use of space. Because even though the new LS is more aerodynamic on the outside, there's more room inside. Yet, amazingly, it doesn't take up any more space on the road. The car's still under 197 inches long.

Now, if all of these measures aren't responsible enough, keep in mind that even the air-conditioning refrigerant used in the new LS is CFC-free.

To find out more information about the new Lexus LS, please call for the dealer nearest you at 800-USA-LEXUS. And begin a journey of your own.

**See mileage statement for details.*

PERFORMANCE

0-60 mph acceleration	*6.9 seconds*[*]
1/4-mile acceleration	*15.2 seconds*[*]
Top track speed	*150 mph*[*]
Aerodynamic coefficient of drag	*0.28*
Fuel Consumption	*19/25 mpg city/hwy*[**]

ENGINE

Type	*90° V8*
Valvetrain	*Four Cam, four valves per cylinder*
Displacement	*4.0 liters (242 cu. in.)*
Maximum Horsepower	*260 hp @ 5,300 rpm*
Maximum Torque	*270 lb-ft @ 4,500 rpm*

TRANSMISSION

Four-speed automatic Electronically Controlled Transmission with intelligence (ECT-i). Dual-shift programs, engine/transmission networking, lockup torque converter.

BRAKES

Four-wheel ventilated, power-assisted disc brakes, four-piston front calipers. 12.4-in. diameter front; 12.1-in. diameter rear.

SUSPENSION

Four-wheel independent, double-wishbone suspension, front and rear stabilizer bars.

WARRANTY

Four-year/50,000-mile limited warranty. Six-year/70,000-mile powertrain warranty. Six-year/unlimited-mileage corrosion perforation warranty.[†]

LUXURY & CONVENIENCE

Multi-adjustable power front seats with unique floating panels and suspension system.

Dual-zone automatic climate control with CFC-free refrigerant and multifunction interior air filter.

Walnut interior and leather trim with leather seating surfaces and leather-wrapped steering wheel, shift knob and center console lid.

Lexus premium AM/FM/cassette seven-speaker 195-watt (max. power) audio system with 8-inch bi-amplified subwoofer and dual-diversity antenna.

Remote entry system with audible signal, car finder, trunk release and "panic" modes.

AVAILABLE OPTIONS

Industry-first, in-dash, six-disc CD auto-changer.

Lexus/Nakamichi 280-watt (maximum power) premium sound system (requires CD).

Electronic air suspension with automatic load leveling.

Traction Control System (TRAC) with front seat heaters.

Power tilt-and-slide moonroof with sunshade.

Chrome wheels.

SAFETY EQUIPMENT

Driver's and front passenger's airbag Supplemental Restraint System (SRS).[‡]

Three-point pre-tensioning front seatbelts.

Anti-lock disc brakes (ABS).

Rigid cabin structure with front and rear crumple zones. Meets 1997 dynamic side-impact standards.

Dual power auto-dimming electrochromic outside mirrors with defoggers. Auto-dimming electrochromic inside mirror.

LEXUS
The Relentless Pursuit Of Perfection.

*© 1994 Lexus, A Division of Toyota Motor Sales, U.S.A., Inc. Lexus reminds you to wear seatbelts and obey all speed laws. For the dealer nearest you, call 800-872-5398. *These performance capacity figures are for comparison only, and were obtained with prototype vehicles under test-track conditions by professional drivers using special safety equipment and procedures. These should not be attempted on public streets or highways. **Preliminary 1995 mileage figures determined by Lexus. 1995 EPA estimates not available at time of printing. †See your Lexus dealer for details. ‡The Lexus driver's and front passenger's airbag is a Supplemental Restraint System (SRS) designed to inflate in a severe frontal collision. In all other accidents, the airbags will not inflate. To minimize the risk of severe injury in all types of crashes, all occupants must always wear seatbelts. Do not sit or place objects close to an airbag. Please read your Owner's Manual. Specifications, equipment, technical data, production processes and photos based on information at time of printing and subject to change without notice.*

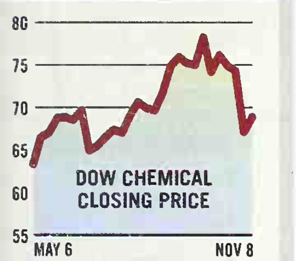
In Business This Week

DITED BY KEITH H. HAMMONDS

GREAT TRAIN CHASE T SANTA FE

ANTA FE'S BLUFF HAS BEEN lled. On Nov. 9, Union Pa- fic offered $3.3 billion in cash d stock for Santa Fe, upping e ante in its increasingly bit- r battle for the railway with urlington Northern. Union acific's hostile bid, although wer than its earlier $3.8 bil- on proposal, would use a vot- g trust to hold Santa Fe ares while regulators study e transaction. That way areholders would get paid front, an advantage Santa e, in an Oct. 27 letter, said ould merit its consideration. anta Fe shareholders are to te Nov. 18 on Burlington Northern's $3.2 billion offer, which does not provide for a trust. Santa Fe, which has backed that bid, says it will review Union Pacific's plan.

CLOSING BELL



DATA: BLOOMBERG FINANCIAL MARKETS

DOW'S DOWNER

Will the sins of its child be visited on Dow Chemical? On Nov. 14, the chemical giant will stand trial with Dow Corn- ng, its 50%-owned subsidiary, in two key liability suits nvolving silicone breast implants. A Texas judge on Oct. 31 refused to dismiss Dow Chemical from the suits, ruling that it could be held liable if it knew of the dangers of silicone. Investors dragged Dow Chemical's stock down 8.5% by Nov. 4, worried not only about the Houston cases—and 1,000 others in Texas—but also by the possibility that Dow's deep pockets will encourage more suits.

CONTINENTAL ALTERS ITS FLIGHT PLAN

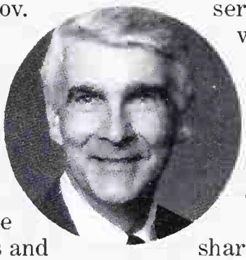
GORDON BETHUNE, NAMED CEO of Continental Airlines on Nov. 3, is already shaking up the ailing company. The former Boeing executive told BUSINESS WEEK that his early plans include grounding eight Airbus planes, or about 5% of capacity, effective in January. And on Nov. 7, Continental announced that it will close its Los Angeles and Denver maintenance facilities. The company plans to outsource the work, cutting about 1,640 jobs. Bethune also has made symbolic changes at Houston headquarters: He has dismantled the security cameras in the lobby outside the executive suite, disarmed a "panic button" at his secretary's desk, and opened the doors to all employees, not just those with special entrance cards.

MAKING AMENDS AT DENNY'S

HALF A YEAR AFTER PAYING $46 million to settle class-action claims of racial discrimination, Denny's has made its first big move toward increasing the number of African-American franchisees. Black-owned NDI signed a deal on Nov. 8 to own and operate up to 47 Denny's restaurants in the Northeast. The move is a major turnaround for the Flagstar unit, which historically has had almost no black-owned Denny's franchises. Flagstar says it wants 53 minority-owned Denny's by 1997, a pledge that grew out of highly publicized discrimination charges brought by the NAACP and in two class actions.

HEADLINER

THIS SOAP MAN WILL DO WINDOWS



Microsoft couldn't have made a more startling choice for its biggest new hire in years. Robert Herbold, named chief operating officer on Nov. 8, spent 26 years in Procter & Gamble's computer and ad departments. Yes, a Spic & Span brand manager will help direct the world of Windows and Excel.

Although he was general manager of an entire P&G business, Herbold, 52, will join CEO Bill Gates's elite strategy team, known internally as BOOP—Bill and the Office Of President. Gates is said to be excited, in part because of his new exec's technical resumé: A Ph.D. computer scientist, Herbold oversaw design of P&G's volume forecasting system.

And his brand savvy will serve Microsoft well. As it enters home computing, Hervold says, Microsoft enters "the heart of [P&G]: meeting consumer needs." Herbold even shares Gates's enthusiasm for the Info Highway. He has been trying to rally the ad industry to make sure it has a key role in interactive TV. And at P&G, the original soap opera sponsor, he has been exploring ways to back new interactive programs.

By Richard Brandt

LONRHO FACES LIFE WITHOUT TINY

IN A BITTER BOARDROOM COUP, Roland "Tiny" Rowland finally was ousted Nov. 3 from Britain's Lonrho. Led by Dieter Bock, a little-known German developer recruited by Rowland as his co-chief executive in 1992, the move could presage a radical makeover of the $4.4 billion company. Investors pushed Lonrho's shares up 11%, betting Bock will focus the sprawling Anglo-African conglomerate by selling off everything but its hotel, agricultural, and mining interests. Some even hope the 54-year-old tax lawyer will break up the empire.

WILL BARNETT BAG A BEVY OF BANKS?

ON NOV. 8, THE COMPTROLLER of the Currency approved Barnett Bank's purchase of 34 Florida branches from Glendale Federal Bank. The problem: Barnett faces scrutiny from the Justice Dept., which is looking into allegations of discriminatory lending practices. Although the comptroller gave Barnett a clean bill of health for its loans from July, 1993 through July, 1994, Justice is examining an earlier period. Justice's civil rights chief, Deval L. Patrick, says the department is discussing a settlement with Barnett; the bank says it didn't discriminate.

ET CETERA . . .

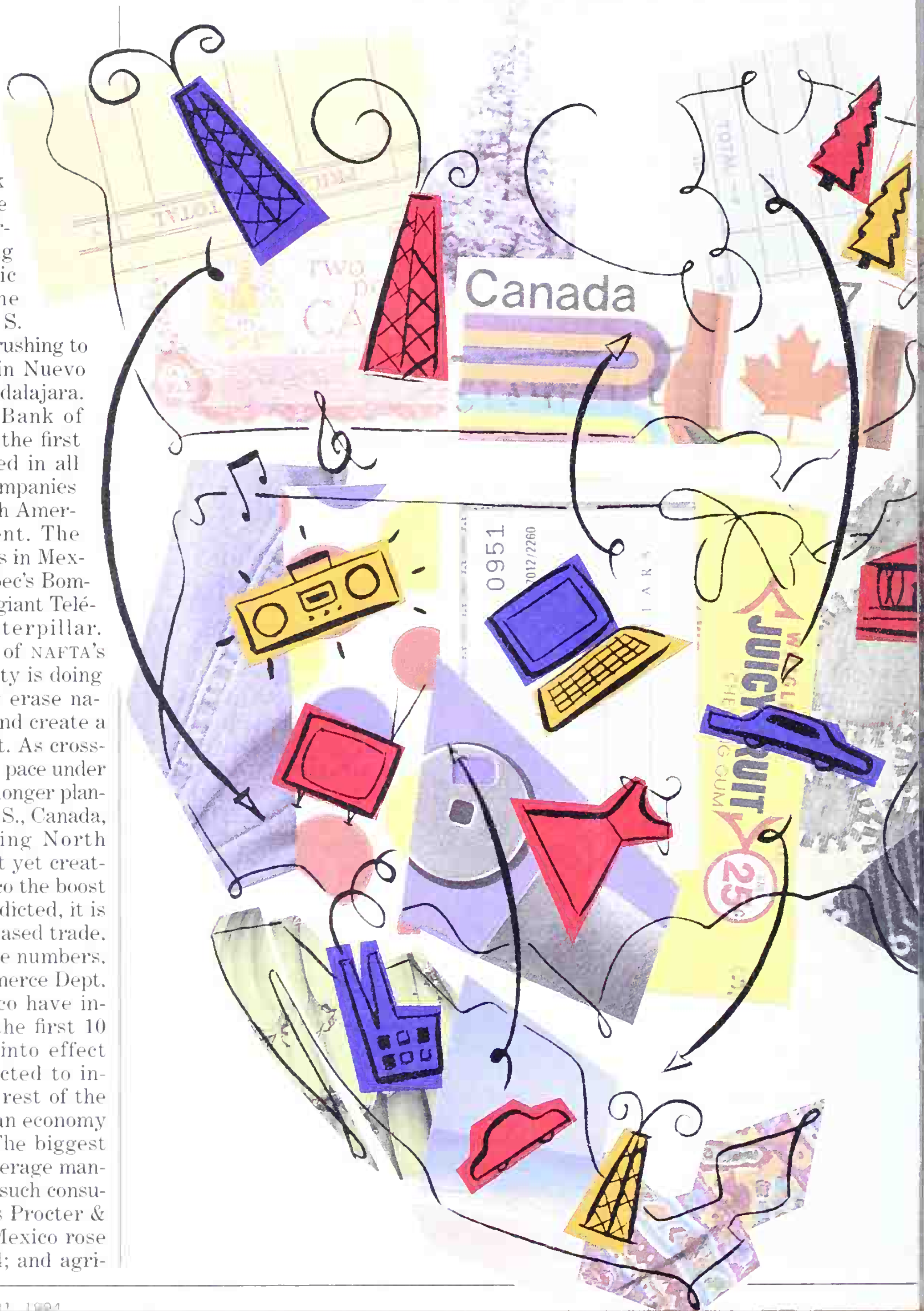
- Former adman Carl Spielvogel will head United Auto Group, a car-dealer chain.
- Sears, Roebuck will transfer its Chicago tower to its mortgage lender.
- Borden, still in a pact with KKR, will cut 200 jobs and reorganize into three units.
- Microsoft's Marvel is coming; America Online's stock dropped 9%.

GRAPHIC BY LISA KNOUSE BRAIMAN/BW

NORTH AMERICA

WHAT HAS NAFTA WROUGHT? PLENTY OF TRADE

One year later, the treaty is knitting together the U.S., Canada, and Mexico



Trucks are rumbling back and forth across the U.S.-Mexico border, carrying tomatoes, chewing gum, Ford Broncos, electric generators, and Maybelline mascara at a feverish clip. U.S. and Canadian companies are rushing to set up offices and factories in Nuevo Laredo, Monterrey, and Guadalajara.

In the north, Canada's Bank of Montreal has just launched the first mutual fund, to be marketed in all three countries, targeting companies poised to cash in on the North American Free Trade Agreement. The portfolio includes key players in Mexico's construction craze: Quebec's Bombardier, telecommunications giant Teléfonos de México, and Caterpillar.

As the first anniversary of NAFTA's signing approaches, the treaty is doing what it was designed to do: erase national borders for business and create a new North American market. As cross-border commerce quickens its pace under the accord, executives are no longer planning operations just in the U.S., Canada, or Mexico. They're thinking North America. While NAFTA hasn't yet created all the jobs or given Mexico the boost its most zealous backers predicted, it is paying big dividends in increased trade.

BIG WINNERS. Just look at the numbers. According to the latest Commerce Dept. data, U.S. exports to Mexico have increased by almost 18% in the first 10 months since NAFTA went into effect (charts). That rate is expected to increase slightly through the rest of the year as an improving Mexican economy pulls in more U.S. wares. The biggest winners will be food and beverage manufacturers such as Sara Lee; such consumer-goods manufacturers as Procter & Gamble, whose exports to Mexico rose 75% in the first half of 1994; and agri-

ILLUSTRATION [illegible]

usinesses, among them Archer-Dan- ls-Midland. “Our exports to Mexico ave tripled, and they’re going to triple gain next year,” crows ADM CEO wayne O. Andreas.

Hand in hand with the rise in trade on e continent, direct foreign investment also increasing, if a bit more slowly, nitting the economies ever closer. U. S. nd Canadian companies invested $2.4 llion in Mexico in the first eight months 1994, accounting for 55% of Mexico’s tal foreign direct investment. Third ountries, too, are investing in North merican capacity to take advantage of wer tariffs. In early November, Toyo- Motor Co. announced a $450 million xpansion in Ontario to make Corollas r the North American market. “When ou look at the number of business contacts, the partnerships developing, the investments being made,” says John M. Weekes, Canada’s chief NAFTA negotiator, “NAFTA is laying the foundation for something that will be a lot bigger.”

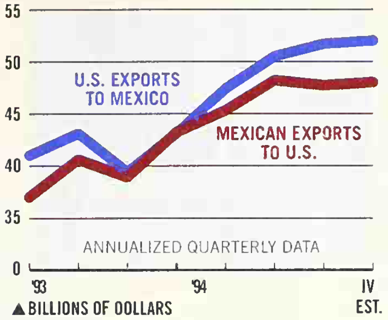
EARLY WARNING. NAFTA’s players are getting a nice boost from the business cycle, since its implementa- on has coincided with a recovery in the S. and Canada and with Mexico’s climb t of its economic slump. Economists dmit it’s difficult to say how much of e good news is NAFTA’s doing and how uch the result of cyclical events. They lso caution that it’s way too early to hail NAFTA as an unqualified success.

For one thing, it hasn’t been the awesome job creator envisioned by some. The U. S. Labor Dept. estimates that fewer than 100,000 of the 1.7 million net new jobs created in the U. S. this year have been NAFTA-related. But then, neither have job losses pproached the figures predicted by op- onents. Through the first 10 months of e year, 12,015 U. S. workers have been rtified for aid under NAFTA’s Adjust- ent Assistance Program. That’s about hat the Labor Dept. had expected.

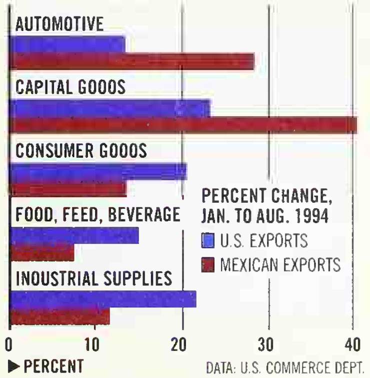
Moreover, the Mexican economic mir- le NAFTA was supposed to trigger has t to materialize. Political violence dur- g Mexico’s election year helped keep terest rates high and delayed vestment decisions by foreigners nd Mexicans alike. Growth pre- ctions of 4% have been lowered 3% for 1994, an insufficient rate r creating the 1 million new jobs exico needs each year.

Some of the accord’s strongest dvocates worry that economic rogress remains a long-term roposition. Gary C. Hufbauer, a enior fellow at the Institute for ternational Economics in Wash- gton, argues that NAFTA can’t be vehicle for job creation in Mexico while companies there struggle with real borrowing rates of more than 10%.

NAFTA HAS PERKED UP U.S.-MEXICO TRADE...



...ESPECIALLY IN KEY SECTORS



DATA: U.S. COMMERCE DEPT.

Another somewhat disappointing trend is that U. S. imports from Mexico and Canada have been rising faster than exports to both countries. U. S. makers of high-end products were supposed to clean up in Mexico. Instead, electronics, computer products, and telecommunications equipment have been coming into the U. S. from Mexico twice as fast as they’ve gone in the other direction. If the trend continues, the U. S. will suck in a record $48 billion in Mexican goods and $120 billion in Canadian goods this year. Economist Jeff Faux of the anti-NAFTA Economic Policy Institute argues that the large U. S.-Mexican wage gap explains the phenomenon. NAFTA opponents “pointed out there was a fairly sophisticated manufacturing base in Mexico that pays peanuts, and the numbers bear that out,” he says.

Even so, U. S. exports to Mexico are growing three times faster than U. S. exports to the rest of the world. And Mexico just passed Japan as the second-largest consumer of U. S. products. U. S. trade with Canada is up more than 10%—double the gain with Europe and Asia. And almost two-thirds of Canada’s imports come from the U. S, while U. S. purchases account for 25% of Canada’s gross domestic product. All the more incentive for CEOs to “look, not [only] at what’s happening now, but what will happen five years from now,” says Regina Vargo, director of Mexican affairs for the U. S. Commerce Dept.

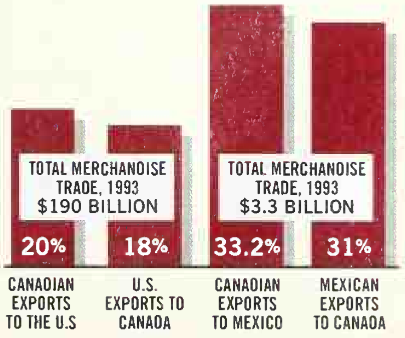
For the U. S. auto industry, the dramatic changes promised by NAFTA are here. Before the free-trade pact was approved, the Big Three had to produce locally most of the cars they sold in Mexico. Now, Ford can freely export cars to Mexico. At the same time, it’s spending $60 million to revamp its Cuautitlán plant near Mexico City to produce smaller cars and light trucks for global sales. The numbers are startling: Ford’s vehicle exports to Mexico are up from 1,200 in 1993 to an estimated 30,000 this year. Its exports of Mexican-made vehicles to the U. S. have jumped, too—up 30% in the year’s first eight months.

“WE’VE CREATED JOBS.” The good news for American auto workers is that there was no flood of jobs to Mexico. Although Mexico’s average labor costs of $6 an hour, including benefits, are vastly lower than those of the U. S., productivity is lower because of less automation. And almost 80% of the components in Ford’s Mexican-assembled cars for export come from the U. S. “We’ve created jobs here and in the U. S.,” boasts Victor M. Barreiro, president and general director of Ford’s Mexico operations.

Although political turmoil and poverty will be a drag on Mexico for decades, corporate execs are counting on more growth. And the optimism is giving momentum to proposals to add other Latin American countries to NAFTA, starting with Chile, linking the entire hemisphere with trade. Canada’s Weekes thinks it could happen within the next two years. After all, free-trade Republicans are now in full control of the U. S. Congress. Although it’s no easy challenge, a hemispheric free-trade zone may no longer be just a pipe dream.

By Douglas Harbrecht in Washington, William C. Symonds in Toronto, and Elisabeth Malkin and Geri Smith in Mexico City, with bureau reports

CANADA IS TRADING MORE, TOO



PERCENT CHANGE, JAN. TO AUG. 1994

DATA: STATISTICS CANADA

CHARTS BY ERIC HOFFMANN/BW

SOUTH AFRICA

THE ANC DARES TO BREAK ANOTHER TABOO: PRIVATIZATION

State companies worth as much $20 billion may go on the block

During its more than three decades as an underground opposition party, the African National Congress called for nationalization of South Africa's basic industries. But now that the ANC is the country's ruling party it is switching from socialist to free-market policies and breaking old ideological taboos.

Thee biggest turnabout: privatization of state-owned industries. Selling off state assets is a politically tricky about-face for President Nelson Mandela, who once insisted that the economy's "commanding heights"—banking, mining, and other big industries—belonged to the people. Nevertheless, a privatization effort seems certain to get rolling. Analysts have begun sizing up state-run enterprises as candidates for sell-offs that could eventually total at least $20 billion.

SOUTH AFRICAN AIRWAYS COULD BE AMONG THE FIRST PROPERTIES SOLD

ROLE REVERSAL. Deputy President Thabo Mbeki first suggested the ideological reversal in late October in a speech about South Africa's broad economic strategy. The government will consider "full or partial privatization of state assets," he said, "to reduce government debt and boost the reconstruction and development fund." He was referring to the government's program to narrow the gap between blacks and whites by improving housing and services for South Africa's mostly poor blacks. Earlier, Deputy Finance Minister Alec Erwin suggested to the Congress of South African Trade Unions (COSATU) that the government should audit its enterprises to see whether they are serving economic and social goals and are worth keeping.

A likely candidate for early privatization is the national airline, South African Airways. It is part of the government's Transnet Ltd., which also includes railroads and port services. Other easy targets are the government's stakes of 13% and 16%, respectively, in steelmaker Iscor and Sasol Chemical Industries Ltd., the oil-from-coal corporation (table). They were privatized in the 1980s, and the government's remaining shares are currently worth $1.8 billion. "If you wanted to raise money, this would be the place you would start," says Sean O'Connor, managing director of the New York unit of South Africa's Standard Bank Group. Smaller privatization candidates range from vacation resorts to a forestry corporation.

There's still strong resistance, however, to broad-scale privatizations among ANC members and allies such as the powerful COSATU. "We must fight at all costs the selling of resources that are essential to meeting social needs," ANC official Jeremy Cronin told a COSATU conference. "The retention of public utilities like Eskom, Telkom, the post office, and Transnet is essential." Such a list would exclude the government's biggest enterprises—in electricity, telecommunications, and transportation—from privatization.

However, fast-changing technology could build up pressure to privatize telecommunications utility Telkom or to bring in foreign partners. Otherwise "they know that it could be bypassed by new technologies," says Nico Czypionka, group economist at Standard Bank.

Partly, the shape and speed of South Africa's privatization effort will depend on the urgency of raising money. Currently, South Africa is spending 18% o its budget on debt service. "A grou from the ANC went to Mexico and wa impressed by Mexico's use of funds from privatization to reduce debt," Czypionka says. Such needs will be balanced against the need to cushion the impact o job losses and against the goal of empowering blacks by putting shares into the hands of workers and the public

JUSTICE. This will be Pretoria's second round of privatizations. In 1989, the government's privatization unit, which i part of the Public Enterprises Ministry sold off Iscor just months before Mandela stepped out of prison proclaiming nationalization as a central ANC policy. In that sale, 5% of the company's stock wa reserved for purchases by workers at a 20% discount. In 1991, a brewer of traditional sorghum beer was privatized in a $12 million sale that was politically acceptable because the buyers were black business interests.

Now, the government is looking a sell-offs in South America, Asia, and Eastern Europe for other models of privatization. Its aim is to find ways to finance reconstruction while promoting greater economic and social justice.

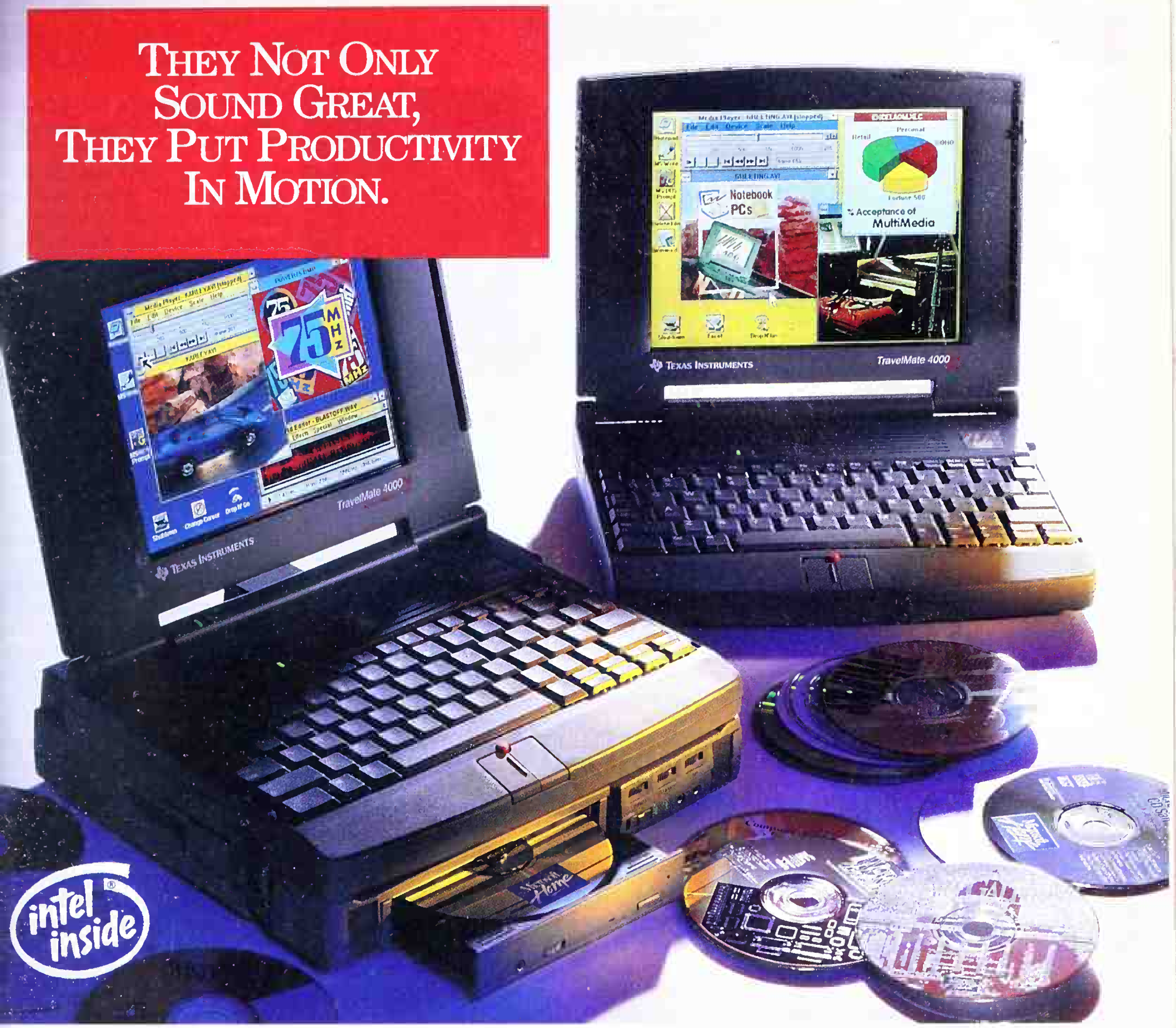
By Alan Fine in Johannesburg

South Africa's Privatization Prospects

NAME	TYPE OF BUSINESS	EST. VALUE BILLIONS
ESKOM	Electricity	$4.0
TRANSNET	Transportation	3.4
TELKOM	Telecommunications	2.2
DENEL	Arms and high-tech equipment	1.1
ISCOR*	Steelmaking	1.1
SASOL*	Synthetic oil	0.7

*Roughly 15% government shareholdings

DATA: STANDARD BANK GROUP, SOUTH AFRICAN GOVERNMENT



TravelMate™ 4000M Series
- 486 processors from 50MHz to 75MHz
- Active Matrix Color or Dual Scan Color Displays
- Hard Disk Drives: 200MB to 455MB*
- Built-in 16-bit sound
- PCMCIA Type III Slot
- Integrated Pointing Device
- Multiple Interfaces including SCSI II, Audio Controls, and MIDI/Game port
- Intel Indeo™ Video

Portable CD-ROM Docking System
- Double-speed CD-ROM drive (250ms)
- Built-in stereo speakers
- Separate NiMH battery gives you AC or battery-powered operation
- SCSI II connection
- Optional SCSI II bay for additional hard drive

The right multimedia notebook can give you a decided advantage in your work. That's why we made the TravelMate M Series notebook computers.

These powerful multimedia machines give you desktop PC capabilities in a portable package, including the industry's first truly portable, battery-powered CD-ROM Docking System. So you have the freedom to use them anytime, anywhere.

The M Series continue the TravelMates' award-winning reputation for incredible power, performance and reliability. Each comes standard with 16-bit sound, a built-in speaker and microphone, plus a choice of 486 processors to handle full-motion video and speed you through other multimedia applications.

And the optional, battery-powered CD-ROM Docking System gives you access to the growing libraries of CD-ROM software, no matter where you are.

The TI TravelMates. They're for people who are going places.

For more information or the name of the dealer nearest you, call *1-800-TI-TEXAS* (1-800-848-3927).

EXTENDING YOUR REACH™

TEXAS INSTRUMENTS

PC MAGAZINE EDITORS' CHOICE
August 1994
TM4000M/25

SERVICE & RELIABILITY PC MAGAZINE READERS' CHOICE
July 1994

*Depending on model. TravelMate and "Extending Your Reach" are trademarks of Texas Instruments. Indeo is a trademark and the Intel Inside logo is a registered trademark of Intel Corporation. ©1994 TI

GREG GIRARD/CONTACT

AIRPORT WORK: *"A hell of a lot of projects will hit the market"*

HONG KONG

FINALLY, HONG KONG'S AIRPORT IS CLEARED FOR TAKEOFF

The project will mean hundreds of millions for contractors

On Hong Kong's Lantau Island, earthmovers rumble at the site of the world's largest new airport. Squabbling between London and Beijing has slowed the $20 billion project—though some work has gone forward. But now, the pace of construction will soon pick up. On Nov. 4, the two governments agreed to a general financing plan, allowing billions of dollars to be awarded over the next three years. "A hell of a lot of projects will suddenly hit the market," says a top airport official.

After years of uncertainty, the prospects for the Chek Lap Kok airport have never been brighter. Under terms of the agreement, the Hong Kong government will provide $7.8 billion in equity and will borrow an additional $3 billion. The accord helps break a two-year deadlock over the airport. While the two sides must still hammer out acceptable borrowing terms, the Nov. 4 agreement shows there is a consensus to get the airport deal off the ground.

CONTENDERS. Moreover, the agreement will provide a boost to foreign contractors, including those bidding for the biggest prize: two contracts valued at $1.5 billion for the airport terminal and its building services. On the short list are eight multinational consortiums, stacked with heavyweights from Japan, Hong Kong, Britain, and China.

Notably absent from the list are Americans. U. S. corporations have garnered just 3% of the projects, vs. 27% for the Japanese. Most of the projects have involved civil engineering, dredging, and reclamation work, not areas of strength for U. S. companies overseas. But some projects that play to American strengths now are up for grabs. Federal Express Corp. has joined with a Singapore consortium for the air-cargo franchise, estimated to be worth $300 million, and Dobbs International Services Inc. is going for the $30 million catering franchise. Contenders for a $100 million communications system include AT&T, Electronic Data Systems, Hughes, IBM, and Unisys.

Underwriting the new financing could pay off for U. S. investment houses. Hong Kong's debt market is immature, but bankers hope th placement of billions in bonds t finance Chek Lap Kok will spu its growth. "If [this] is successful it will be a benchmark for othe bonds in the region," says Nicholas Bibby, an economist at Lehman Brothers Hong Kong.

Construction will boost foreign companies, but few of them are American

Naturally, the biggest winner are Hong Kong companies. They have secured 21% of the contracts and have benefited from an abundance of subcontracting opportunities. Bids are also du on Nov. 18 for residential an commercial developments along the railway that links the airpor to the rest of the territory. Since developers are barred from taking out a mortgage on the property in order to buy it, only those with strong balance sheets can afford the price tag. Ironically, the haggling over fi nancing may have helped the Hong Kong government's bottom line: The val ue of land zoned for property development has jumped from $5.4 billion in 1991 to nearly $13 billion.

HURDLES. Some snags remain. China and Britain have yet to sign off on two fi nancial-support agreements, which wil stipulate such key points as how the debt is structured for the airport and railway projects. Moreover, until Hong Kong's airport authority is officially in corporated, it cannot get a bond rating "There are still hurdles to cross before banks can lend money to either project," says one airport insider.

Some economists worry about the im pact on Hong Kong's economy, expected to grow 5.7% this year. Kevin Chan, re gional economist with Salomon Brothers Inc., expects the project to add half a percentage point to the inflation rate now at 8.5%. With unemployment at jus 1.9%, engineers, architects, and electri cians will be in short supply. Most of the 20,000 construction workers will be im ported from Asian neighbors, which has angered local labor unions.

Yet in business terms, the airpor looks like a sure winner. There's no ques tion about the need for it, and the gov ernment estimates that the facil ity will handily pay off its debt by 2001, assuming it opens in 1998 Hong Kong residents are hoping that this megaproject doesn't hi any more political crosswinds.

By Joyce Barnathan, with Dave Lindorff, in Hong Kong

If you're managing your company's finances, what's your next move?

REAL Solutions.

Real Solutions℠ from Sprint Business

Real business challenges demand *Real Solutions*. The new program that's helping businesses boost their bottom lines.

Your free action plan
Call us for a free top-to-bottom analysis of where your business stands, with information such as industry comparisons for operating expenses, spending trends and other vital financial benchmarks.

Talk to a professional business consultant
You'll have unlimited access to our experienced staff of professional consultants at the *Real Solutions* Business Center. They'll work with you on strategies to manage finances more efficiently. And show you how advanced communications technology can help your business do more business.

Here's what else you'll get:

- Flat rate pricing (to take the guesswork out of monthly expenses).
- One simplified bill combining voice and data.
- Free software to receive your bill on a disk.
- Credits for valuable business products and services.

So call today for *Real Solutions*. It's your move.

1-800-816-REAL

Sprint® Business

© 1994 Sprint Communications Company L.P. Monthly minimum and term plan apply.

EDITED BY STANLEY REED

INDONESIA: IS SUHARTO HOLDING THE LID ON TOO TIGHT?

Now that he is in the twilight of his 27-year reign, Indonesia's President Suharto seems to be worrying about his place in history. He wants to be remembered as the leader who transformed Indonesia from an inward-looking, deeply impoverished archipelago into a modern economic power. That's why he's using his role as host for Bill Clinton and 16 other leaders at the Nov. 15 Asia-Pacific Economic Cooperation forum (APEC) summit to champion a free-trade pact.

But Suharto's bid to cast himself as a modern statesman is full of contradictions. Although he calls for more political openness, he still rules like a military strongman. Since June, he has launched a sweeping crackdown that has included closures of publications, brutal beatings of demonstrators, and the arrests of many labor activists. "There's a vindictive streak in the government against anyone perceived as a threat," says Goenawan Mohamad, whose *Tempo* magazine was closed this summer.

Suharto justifies this hard-line approach by saying it's necessary to maintain social order in a potentially fractious country. Indeed, he gets credit from many Indonesians for maintaining stability in a land where Islam, Christianity, and Hinduism coexist, and where a potentially explosive income gap between the wealthy ethnic Chinese—who make up 3% of the population—and the remaining 190 million citizens grows yearly.

SUHARTO: *No obvious heir*

THIERRY ORBAN/SYGMA

But the fear is that if the 73-year-old leader continues to keep dissent and social grievances bottled up, there will be trouble when he passes from the scene. Suharto certainly isn't doing much to assure a smooth succession. It is rumored that he may allow his Vice-President and trusted military aide, General Try Sutrisno, 58, to take over at the time of the next scheduled elections in 1998. But Suharto isn't acting like he plans to leave. He keeps such a tight hold on the military and his Golkar party that no challengers emerge. "If the succession is not well set up," warns human rights activist Abdul Hakim G. Nusantara, executive director of Jakarta's Institute for Policy Research & Advocacy, "there may be majo political instability."

Analysts say that one of Suharto's biggest concerns in selecting a successor will be his family's financial interests. Hi sons Tommy, Bambang, and Sigit and daughter Siti continu to strike megadeals spanning property, telecommunications cars, and petrochemicals. Suharto also continues to lavis subsidies on the controversial projects of technology minister B.J. Habibie, a close adviso Habibie's biggest white elephant, a $1.6 billio plan to locally produce aircraft for export, ha been panned by the World Bank.

SHOWCASE. Cynics wonder how sincere Suharto can be about dismantling trade barriers given these huge, protected family interests. Th answer seems to be that he plans to lower barriers in a way that won't hurt his relatives an supporters. He has been no slouch as an economic manager, delivering an average of 6 economic growth since taking power in 1967 although per capita income is only $700. Gradually letting in foreign investment and opening the capital markets have played a role i growth. Insiders say that he's convinced another substantial opening is needed for anothe big growth spurt.

The summit and Clinton's presence will give Suharto chance to showcase his country for tourists and investors To prevent any embarrassing incidents he's banning protest and unauthorized meetings. Of course, there's always th chance of a major fiasco in front of thousands of visiting journalists—but Suharto will probably be able to keep the lid on Still, at the rate Indonesia is changing, he's not going to b able to succeed with these tactics forever.

By Pete Engardio in Jakart

GLOBAL WRAPUP

MEXICAN NEWSPAPER STRIKE

▶ Mexico's powerful newspaper distribution union is refusing to handle *Reforma*, the country's largest independent newspaper. The fight started over the newspaper's insistence that vendors work on holidays. But observers think the union is working hand-in-hand with the government to discipline the country's most influential and outspoken newspaper. Scores of prominent intellectuals and politicians have been selling the newspaper themselves at major intersections. Mexico's year-old Anti-Monopoly Commission has agreed to study the case.

MORE BULL FOR NEC

▶ The Japanese computer giant, NEC Corp., plans to raise its stake in ailing French computer maker Groupe Bull from 4.4% to over 10%, according to sources close to the company. Bull declines to comment. NEC seems to be mainly buying a bigger share of the French market. In return for its roughly $100 million investment it hopes that its hardware sales to Bull will quadruple in 1994 to $200 million.

THE YELTSIN SHUFFLE

▶ President Boris Yeltsin's wild shuffling of his Cabinet should not be taken too seriously. He's playing one for you, one for me. The result will likely give an edge to reformers. To please conservative lawmakers, he named two former apparatchiks as Ministers of Agriculture and Finance. But he has balanced those nods by elevating privatization chief Anatoli Chubais, his most ardent reformer, to oversee all economic reforms and tapping an academic as Economics Minister.

"The best online trading software I've seen."

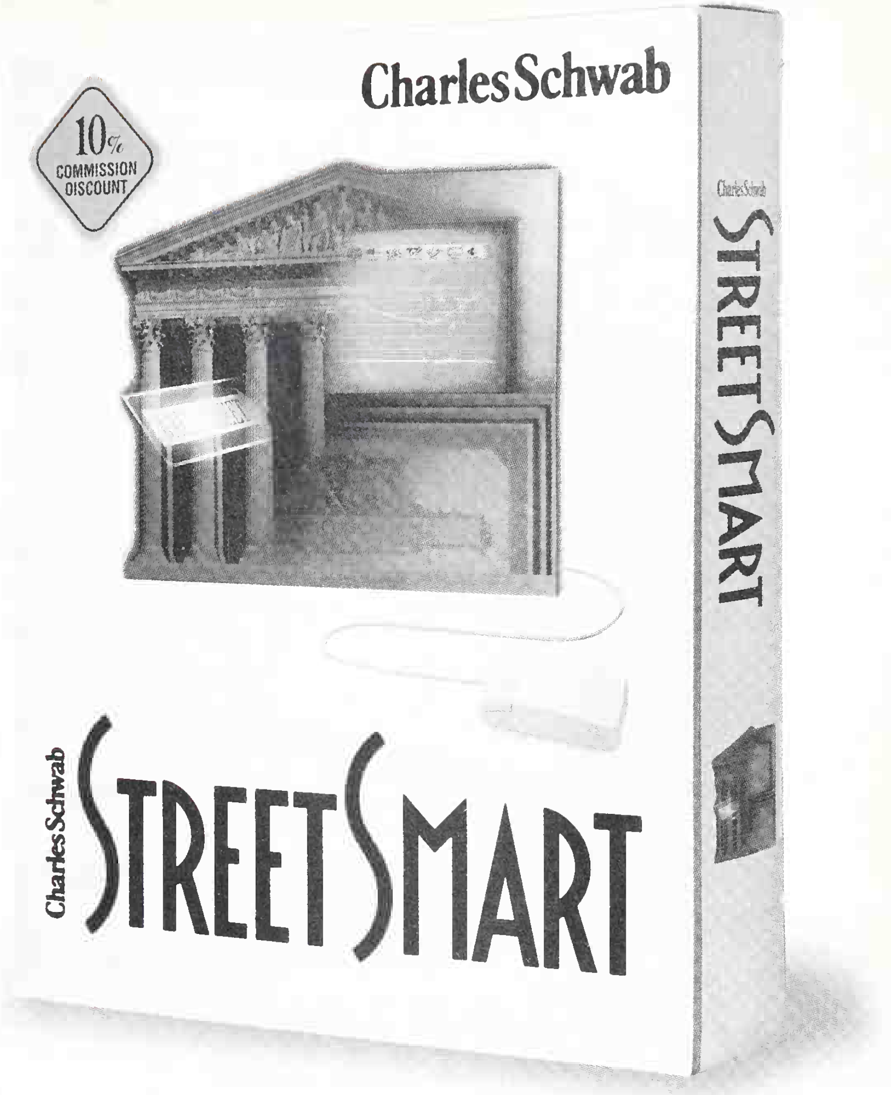
– Walter Mossberg, *SmartMoney* (2/94)

"The newest, brightest and jazziest brokerage software."

– *Forbes* (6/20/94)

"A pioneer of electronic investing."

– *Newsweek* (6/6/94)



SCHWAB'S WIDELY ACCLAIMED INVESTMENT SOFTWARE LETS YOU ACT LIKE YOUR OWN BROKER.

Many of today's well-known financial publications have described StreetSmart as a breakthrough in personal investment software.

Now Available for Mac® and Windows™

With StreetSmart, you can buy and sell stocks, bonds, options or mutual funds using your own computer. Also, you can track your account balances, check quotes and enter orders—24 hours a day.

Get Important News and Information

StreetSmart also gives you immediate access to financial newswires, research information and forecasts from independent Wall Street analysts.

Save Even More on Commissions

Plus, when you place trades with StreetSmart, you will save an additional 10% off Schwab's everyday low commissions.

Schwab's widely acclaimed StreetSmart software is available for only $59.00. Just stop by one of our more than 200 offices for a free demonstration or call:

1-800-472-4922 ext. 28B

Charles Schwab

Helping Investors Help Themselves®

©1994 Charles Schwab & Co., Inc. All rights reserved. Member SIPC/NYSE. (11/94)

Carnival®
THE MOST POPULAR CRUISE LINE IN THE WORLD!℠
The Message Center
PACIFIC BELL.
HSN
HOME SHOPPING NETWORK
NIKE®
CITIBANK®
UNITED AIRLINES
NATIONWIDE INSURANCE
Nationwide is on your side

You may not know it, but you use Unisys products and services every day.

The next time you cash a check, eserve a space on a plane or make a elephone call, you probably won't be inking about us. But the fact is, you can o all those things more quickly and easily ecause we've been thinking about you.

We're Unisys—one of the major infor- ation services and technology providers the world. And our solutions help all inds of companies—like the ones whose miliar names you see here—provide you ith better products and better service.

In fact, helping our clients serve eir customers better is the guiding prin- ple behind almost everything we do at nisys. We call it our CUSTOMERIZE hilosophy. It results in solutions that help organizations extend the power of information all the way to the points of customer contact. Which means they can be more responsive to what customers like you really want.

Right now, Unisys serves over 80 percent of the world's leading banks... over 140 airlines...over 1,600 government agencies...and 35 of the world's largest telecommunications companies. That adds up to a lot of people like you experiencing the many advantages of our customer-focused way of doing business.

So if using the products and services of these companies helps make your life easier and more enjoyable, it pleases us, too. Because Unisys is behind each one of them. Call us at 1-800-874-8647, ext. 22. See how we can help make *your* organization well known for creating something truly valuable in business: satisfied customers.

cus·tom·er·ize \ kŭs'-tə-mə-rīze' \ *vt* **1:** to make a company more responsive to its customers and better able to attract new ones **2:** to customerize an organization's information strategy, e.g., to extend systems capabilities to field locations and other points of customer contact and support **3:** what Unisys Corporation does for a growing roster of companies, and government agencies, worldwide ***syn*** see CUSTOMER SERVICE, COMPETITIVE EDGE, BUSINESS-CRITICAL SOLUTIONS, REVENUE GENERATION

UNISYS

We make it happen.

1994 Unisys Corporation.

IS GENERAL NUTRITION HEADED FOR CIVIL WAR?

Claiming the company favors its own stores, franchisees are trying to band together

Information
Multivitamins
Men's Nutrition
QUALITY
Healthy Foods

JUST YOU WAIT: *CEO Watts says that franchisees who market well have a bright future*

[illegible] CRAIN'S NEW YORK

In a timeworn building a block from Pittsburgh's red-light district, a receptionist answers a stream of calls. From Florida to California, people phone to ask about franchises for General Nutrition Cos., the country's largest vitamin retailer. With GNC opening a new store almost every day, and a health-obsessed public anxious to whip cancer and midlife bulge, GNC is one of the hottest tickets around.

But at a GNC store in Monmouth County, N.J., prospects aren't so dazzling. Gina Cotto, who invested $150,000 to open a franchise 18 months ago, is running out of popular GNC products. With the company shipment running late, she offers customers other brands, on which she earns less. If they're sticklers, she knows they can find a well-stocked company-owned GNC store 10 minutes away, and she wonders if they'll ever return.

EMPTY SHELVES. Cotto isn't alone. In the five years since Boston investor Thomas H. Lee engineered a $361 million leveraged buyout and return to the public market for GNC, it has been widely promoted as one of the cou try's best—and fastest-growing franchise operations. But grov ing pains are straining ties wi franchisees, who number 430 ar counting. While rapid expansic has been highly profitable fc GNC, some franchisees compla that it is coming at their expens They claim poor distribution h left stores unstocked, even they face increased competitic from new franchises and pric slashing company-owned store

Now, lawyers and a franchi ee trade group are hurrying unite the disgruntled retaile into an association aimed at wi ning a bigger chunk of GNC'S pr its. "GNC is acting in a predato manner with its franchisees says American Franchisee Ass President Susan P. Kezios.

BIG RISE. That's a charge comp ny officials adamantly deny. GN Chief Executive Officer Willia E. Watts admits that the contra between the company and i franchisees "is slanted towa us," as at most franchise oper tions. But he argues that expl sive growth will benefit bot since the company will domina the market. "When we own th industry, these franchises are g ing to be in an unbelievable pos tion," he says.

Watts's vision finds plenty believers on Wall Street. GNC's shar have more than tripled, to 27, since went public nearly two years ago. Re enue, on target to hit $682 million f 1994, is up 50%, from $453 million 1992, while analyst Marcia L. Aaron Alex. Brown & Sons Inc. estimates ear ings will top $45 million, a stunning te fold rise. Investor Lee, who holds 45% the stock, says judging GNC by disgru tled franchisees is akin to "looking an elephant's toenail and saying it's tl elephant."

The complaints about GNC aren't u

sual in franchising. Still, observers ay GNC's problems may run deeper han most. William B. Cherkasky, resident of the International Franhise Assn., an industry trade group, ays GNC's distribution difficulties re "a problem that it has to overome, and overcome quickly." Adds a op franchise lawyer who works for everal of the industry's biggest layers: "It sounds like the company s shooting itself in the foot."

Following its 1989 LBO, GNC turned o franchising to spread its stores apidly around the country while ervicing its $360 million debt. In 992, Watts hired Russell Cooper, ho had tripled franchises at Arby's nc. restaurants in the 1980s. Since then, NC has opened most of its 700 franchiss in the U.S. on top of roughly 1,300 ompany-owned stores. Stores are also pening in Mexico, Brazil, and Europe, hile GNC gained 209 stores by buying s biggest rival, Nature Food Centres, n a $55 million deal last August.

But the buildup is overtaxing distriution from GNC's huge manufacturing lant in Greenville, S.C. With supplies ight, franchisees complain that GNC hips popular products to companywned stores more often, while their helves remain bare. "All my outside uppliers can ship to me in three days, ax," says Cotto. "But I wait five weeks or GNC."

BATTLE. Cooper admits distribution s suffering, but denies favoritism. He ays many small franchisees don't stock dequate inventories, since it cuts cash ow. With a fourth distribution center pening next summer, he says the comany is moving to resolve the problem. The franchisees get mad about it," says ooper. "But it drives me crazy."

Yet saturation remains an issue—paricularly when company-owned stores aunch price wars. While GNC battled ature Food, company stores discountd many lines by 25%, and GNC urged ranchises to follow—but offered them o discount on products. Franchises also ad to offer customers 20% off on Goldard Tuesdays, a GNC promotion, and ay 7% royalties.

DISILLUSIONED: *Savin lost money on her store and is suing GNC*

LARRY FORD

Savin says that GNC enticed her with rosy earnings projections and "lowball" startup cost estimates

Such practices are common in franchising. But GNC's franchisees complain that because it manufactures its products—unlike most franchisors—it could have eased prices. The upshot: Rather than healthy 50% markups that GNC says retailers typically receive, some stores sold goods at a loss. "A lot of franchisees really got hurt," says Jack Sullivan, who runs four stores in the New York area.

The price war eventually paid off, driving Nature Food's earnings and stock price down to "where we could afford to buy them," says Cooper. That eliminated GNC's biggest rival, but left many franchises facing even more GNC outlets. One franchisee who runs a GNC store in Boston now battles three company-held Nature Food Centres within two blocks of the shop. Though pricing has improved, "I'm in competition with my franchisor," says the franchisee.

GNC executives say that for franchisees who market aggressively, rewards outweigh the risks. "If you're a mediocre operation, business could suffer, but we don't allow cannibalization," says Cooper. Indeed, there's room for optimism. Last month, President Clinton signed a bill limiting regulatory scope on vitamins. For GNC, says PaineWebber Inc. retailing analyst Gary M. Giblen, "It's a case of all stars coming into alignment."

Certainly, some franchisees are doing well. In 1989, brothers Jack and Richard Sullivan set up one of the first GNC franchises next to a Bally's Health Club in New Jersey. Traffic from Bally's fed growth and the brothers now have four franchises. While recognizing GNC's current troubles, Jack Sullivan says most complaints come from lazy operators.

For Barbara Savin, GNC's star has already dimmed. A longtime GNC employee, Savin started a franchise three years ago. Now, in a suit filed in September, she charges that GNC enticed her with overly rosy earnings projections and "lowball" estimates for startup costs. Savin's suit claims she lost an average of $60,000 a year after opening her Edison (N.J.) store in 1991, in part because GNC ordered her to cut prices to compete with Nature Food. When low revenues led to late payments, she says GNC held back products. Eventually, GNC took over her store, and in August declared her in default. "I was being totally strangled," says Savin.

A SPARK? CEO Watts says the suit is without merit. Company officials maintain that the numbers they gave Savin were average sales and startup costs from comparable GNC franchises—not projections. And they say the store would have been profitable if she hadn't taken money out of it to pay hospital bills for her sick daughter, a charge Savin denies. "We carried her for two years," says Cooper.

While Savin's experience was far worse than the typical GNC franchisee's, her fight could well spark the creation of an association that taps into the frustrations others feel. Kezios of the franchise association mailed out the first wave of organizing letters in late October. Such a union won't halt GNC's rapid growth. But it might tilt the balance just a bit more toward the franchisees, the foot soldiers in GNC's global vitamin campaign.

By Stephen Baker and Keith L. Alexander in Pittsburgh

GNC's Growing Pains

Adding 350 stores a year fuels healthy profit growth, but franchisees are grumbling

WHAT FRANCHISEES CHARGE	WHAT GNC SAYS
GNC favors company-held stores by supplying products to them more often, while franchisees wait	Company denies favoritism. It says franchisees need to invest in more inventory—but don't because it cuts cash flow
The company furnished overly rosy projections of startup costs and profits	GNC figures are average performance at comparable stores, not projections
An overtaxed distribution system leaves store shelves empty	The company is adding a new distribution center to strengthen delivery
Buyout of rival Nature Food Centres means too many stores in some areas	Despite short-term pain, well-run stores that market aggressively are gaining share

WHO

WOULD BE *INTERESTED*

IN A COMPANY

WITH WORKING CONDITIONS

LIKE THESE?

Lots of people. Readers and business users. Advertisers. Employees. Investors. People who know that, regardless of how technology changes, Knight-Ridder will always be one of the world's preeminent providers of news, business updates, entertainment and other information. ■ Today, Knight-Ridder publishes 29 daily newspapers. And we are committed to delivering information in whatever format consumers want. For example, KR Video produces a nightly newscast in Philadelphia, based on the next day's Inquirer. The San Jose Mercury News, in collaboration with America Online, offers the daily paper and a host of other interactive opportunities online. Dialog, the world's leading online resource for business and professional information, serves subscribers in more than 100 countries. Knight-Ridder Financial provides real-time and archival market data to subscribers around the world. ■ And in Boulder, Colorado, at our Information Design Lab, we're looking even further into the future – developing an electronic newspaper for technology still on the drawing board. ■ But no matter what form information eventually takes, someone will always have to do the hard, often dangerous work of getting the story. Of photographing that unforgettable split-second of history. Of asking the tough questions and analyzing the implications. That's why Knight-Ridder is positioned for continued solid growth. Collectively, our newspapers and journalists have earned 62 Pulitzer Prizes – more than any other news organization. And when you start thinking about the future of news and information, that kind of experience gets very interesting, indeed.

© Knight-Ridder, Inc.

KNIGHT-RIDDER

Take Kaplan and g
LSAT
GMAT
G

KAPLAN'S GRAYER: *"We were walking around like a wounded Goliath"*

PHOTOGRAPH BY STEVE SKOLL. CHART BY ROB DOYLE/BW

MANAGEMENT

THE TEST TUTORS TRY TO SETTLE A SCORE

Kaplan and Princeton Review are locked in a grudge match

You've seen plenty of these battles before. A scrappy and aggressive newcomer takes on a sleepy and overconfident industry giant and snatches market share—at least until the giant finally wakes up. It's a scenario that has played itself out in virtually every industry, from computers to ice cream. Now the fight has moved to test-preparation, the business of helping students cram for those standardized tests for admission to college and graduate and professional schools.

As David-and-Goliath struggles go, this one has been unusually fierce. It pits longtime leader Kaplan Educational Centers, the king of the test-prep market, against Princeton Review Inc., a smaller, highly aggressive rival that is growing nearly four times as fast. The pair has been slugging it out over the past two years, trading letters from lawyers, public barbs, and accusations. Sample: "Everything they do, we did a year ago, and that's a very good place to have your competitor, no matter how big it is," snipes John S. Katzman, Princeton Review's 35-year-old president and co-founder. Retorts Jonathan N. Grayer, Kaplan's 29-year-old CEO and president: "It's such a hypocritical thing for a company that created itself in Kaplan's image to say."

O.K., time out. Kaplan created the test-prep industry in a Brooklyn bas
ment in 1938. By claiming it could i
prove students' scores on the Scholast
Assessment Tests and other admissi
exams, Kaplan built a business wi
more than 100 centers by 1985, wh
the company was acquired by Washin
ton Post Co. But Post Co. paid scant a
tention to its newly acquired sidelin

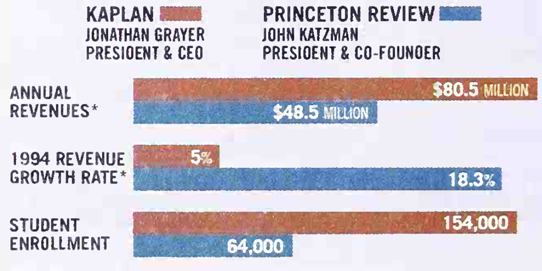
That made Kaplan's market an enti
ing target for a young, ambitious entr
preneur. Katzman, who got into Princ
ton University with a combined S
score of 1500 out of 1600, quit his fir
job as a computer programmer on W
Street after only six months. He th
set up shop, in 1981, in his parents' Ne
York City apartment with 15 studen
and $3,000 from his mom and dad.
enlisting youthful, dynamic teachers a
claiming big increases in test score
Katzman became a formidable challen
er to Kaplan. This year, Princeton R
view says it will help 64,000 studen
cram for their exams at $395 to $945
pop. Add in revenues from 45 book titl
and software products, and the priva
company claims revenues will grow b
18% this year, to $48.5 million, with pr
tax profits of over $10 million.

BOISTEROUS CLAIMS. Kaplan, mea
while, was ignoring the competition. I
course offerings were growing stale, an
it failed to expand into book publishin
as its rival was doing. "We were walkin
around like a wounded Goliath," Gray
concedes. Kaplan wasn't roused from i
torpor until the early 1990s. While Po
Co. doesn't release separate financi
results for its Kaplan unit, the pare
reported a total of $15 million in loss
in the past two years for the division
which Kaplan is a major part. Kapla
says another unit in the same division
responsible for most of the losses. An
it asserts that Princeton Review is ove
stating its revenues by $10 millio

Enter Grayer. While he declines t
provide his own SAT score, he must hav
been no test-taking slouc
Armed with a pair of Ha
vard University degree
including an MBA, Gray
joined Post Co. in the ma
keting department o
Newsweek Inc. in 199
The company asked him t
move to Kaplan as regio
al operations director i
1991, and he climbed hi
way to chief executive las
July.

He hired a slew of simi

HOW THE TEST-PREP GIANTS MEASURE UP

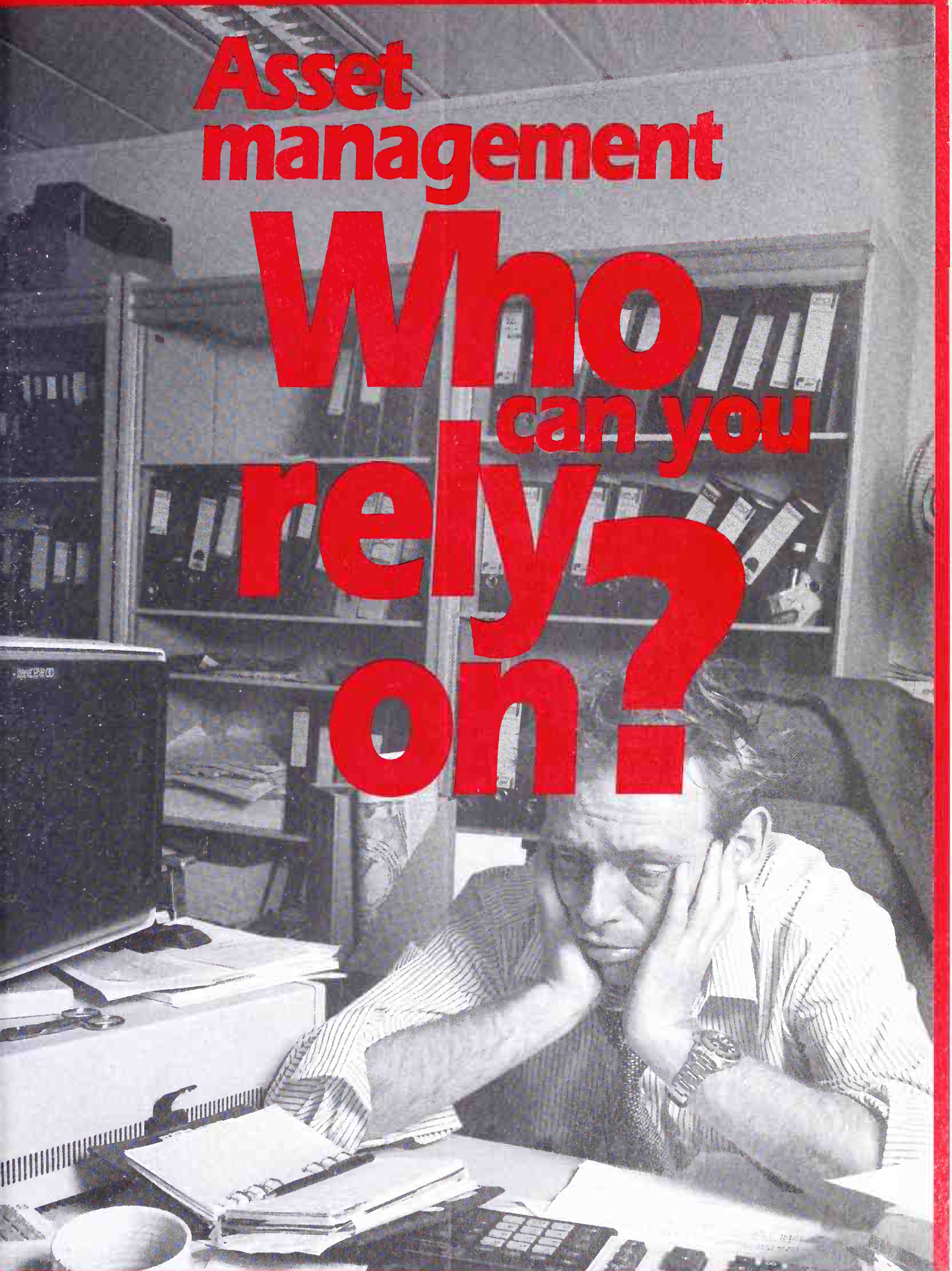


*ESTIMATES

DATA: BUSINESS WEEK

Asset management

Who can you rely on?



$220 000 000 000

When you have been entrusted with that kind of money, you can afford to make a stronger promise than others.

Go ahead
you can rely on us

Money talks. This figure testifies to the trust thousands of fund managers and individuals have put in AXA Group companies, located in 16 countries, on three continents. Alliance Capital Management and Donaldson Lufkin & Jenrette, subsidiaries of The Equitable in the USA, and AXA Equity & Law in the UK are shining examples.

There are other revealing facts and figures about AXA. We are the fourth largest insurance group in the world, based on funds under management. And over the last 15 years AXA has multiplied its revenues 180 times, its profits 150 times, its equity capital 160 times and its funds under management 690 times.

As you can see, we are as good at managing other people's money as we are at managing our own business. For us, the two go hand in hand.

So we are not speaking lightly when we say : "Go ahead. You can rely on us".

AXA Group has companies in : Belgium, Canada, France, Germany Hong Kong, Italy, Japan, Luxembourg, Malaysia, Mexico, Netherlands, Portugal, Singapore, Spain, United Kingdom, United States.

AXA

INSURANCE & INVESTMENT

larly ambitious MBAs from such unlikely places as American Express, Goldman Sachs, McKinsey, Morgan Stanley, and RJR Nabisco. Grayer's team is hatching new plans to turn the tables on Kaplan's tough nemesis. They are reinvesting millions of dollars to update the core test-prep courses and are finally extending the product line into books, on-line services, and software.

Just as critical, however, Kaplan is trying to muzzle the boisterous advertising claims of its rival, which has contended among other things that its average score improvements range from 110 to 160 points on the SAT. Grayer says Kaplan threatened to sue Princeton Review for misleading advertising unless the company yanked its claims and agreed to new ground rules on future promises. Katzman says that for a while, both companies were threatening legal action.

"NOT DAUNTED." Rather than get entangled in a messy court fight, Katzman says, he signed a private pact. The agreement requires both sides to back claims of test-score improvements with independent studies and to settle future disputes between them by submitting to arbitration.

Katzman hardly views the settlement as a setback, since it imposes the same restrictions on Kaplan as it does on Princeton. "These are skirmishes that happen in business," he says. "So far, I'm not daunted by their accomplishments." He shouldn't be. By many measures, Kaplan is still playing catch-up. The company, for example, didn't launch a line of books until 1993 because it feared cannibalizing its SAT courses. That was a eight years after Princeton Review went to market with its first title, *Cracking the SAT*. Now, Princeton is the No. 2 publisher in this market, behind Barron's Educational Series Inc.

Kaplan expects its revenues to grow by about 5% this year, to $80.5 million vs. the Review's more impressive 18% annual growth rate. Mary Ann Winter, an analyst at Brown Brothers Harriman & Co., thinks Kaplan might break even or post a slight profit this year. That would be an early sign that things are improving but would hardly be cause for celebration. Grayer agrees: "We have taken major steps to turn around this organization, and we've done some really good things, but by no means is Kaplan turned around." If similar battles in other industries are any indication, it may be a number of years before Kaplan moves out in front. But at least this aging Goliath is finally fighting back.

By Lori Bongiorno in New York

STRATEGIES

THE POLISHING AT ZALE STARTS TO PAY OFF

The jewelry chain's turnaround plan has caught the Street's eye

GOLDEN BOY: *DiNicola led the rebound*

A year ago, Zale Corp. barely looked like a survivor. After collapsing under a junk-laden debt load in 1992, the nation's largest jewelry retailer emerged from Chapter 11 debt-free in July, 1993. But its sales were dropping. Quarterly losses weren't uncommon. Before long, stockholders unloaded their shares. Zale's stock fell 15% in the final quarter of last year, to 9¼.

Investors who bailed out of Zale undoubtedly now regret their impatience. Over the past three months, the Irving, Tex.-based company's stock has glittered, rising 55%, to a new high of 13⅞ on Oct. 24. After settling back a bit, Zale's stock is rising again (chart). And some prescient investors feel vindicated. Apollo Advisors, for one, a Zale investor headed by former Drexel Burnham Lambert Inc. investment banker Leon Black, acquired a 14% stake in the chain last year. "We saw a terrific franchise that had been beaten up as a result of being overleveraged," says Peter P. Copses, a Apollo partner and Zale directo Ironically, Black's old firm helpe create that overleverage, underwrit ing half the $1.6 billion in junk bond Zale used to finance ill-timed acqui sitions in the 1980s.

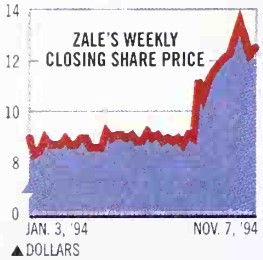
Much of the credit for the nev perception goes to Zale's chief ex ecutive, Robert J. DiNicola. The for mer head of Federated Departmen Stores Bon Marche division, DiNico la, 47, joined Zale last April and has n't wasted time. Lower prices, a nev marketing campaign, and even a $6 million face-lift for most of Zale' 1,235 stores are part of his plan t revive the chain. "We simply have t rebuild the very foundation of th company," DiNicola says.

A BARGAIN. The rally in Zale stoc began within days of the company' Aug. 10 announcement that its loss es narrowed to $5.7 million in th quarter ended June 30 from $33. million a year ago. Sales were up 4% to $183.6 million. Not only was Zale les sickly, its stock seemed a bargain. A 8¾, it was trading 20% below its boo value of $11 a share. By September, dai ly volume in Zale stock was 5 millio shares vs. 1 million in June.

Analysts remain upbeat about th company. David M. Glatstein, chief exec utive of Barre & Co., a Dallas invest ment banking firm, figures that Zale' profits could climb 11% in the compa ny's new fiscal year that ends in July to $31.2 million, as its sales rise 4.7%, t $963.5 million. But DiNicola has to dem onstrate that he can fulfill such expecta tions. The Christmas season, which ac counts for 40% of Zale' annual sales, is looming "If the business is ou there, we intend to ge our fair share of it," vow DiNicola. He had bette Judging from past expe rience, most Zale share holders aren't too patient

By Stephanie Anderso Forest in Irving, Tex., wit Laura Zinn in New Yor

A SPARKLING STOCK



DATA: BLOOMBERG FINANCIAL MARKETS

PHOTOGRAPH BY [illegible] HORN, CHART BY ERIC HOFFMANN/BW

TO BUILD A BETTER BRIEFCASE, WE STOPPED HALFWAY.

The Samsonite® Smart™ Attachés are the first briefcases that do twice the job by going half the distance. Our patented Smart Hinge tells them to open all the way when laid flat, but only as far as a portfolio when upright. Even standing, you can access anything you need from their ingenious dividers, compartments, and zippered pockets. Stay organized under the most adverse conditions. The Smart Attaché Series proves, you never know what you can accomplish until you hold back.

THE SMART ATTACHÉ SERIES

Samsonite

Our Strengths Are Legendary.®

© 1994 Samsonite Corp.

HP Vectra VL2 PCs
HP quality in
value-priced PCs, from
$1,049

HP Vectra N2 PCs
High-performance
network-ready
PCs in a slimline
package, from
$1,429

HP Vectra M2 PCs
High-performance
PCs for the connected
office, from
$1,509

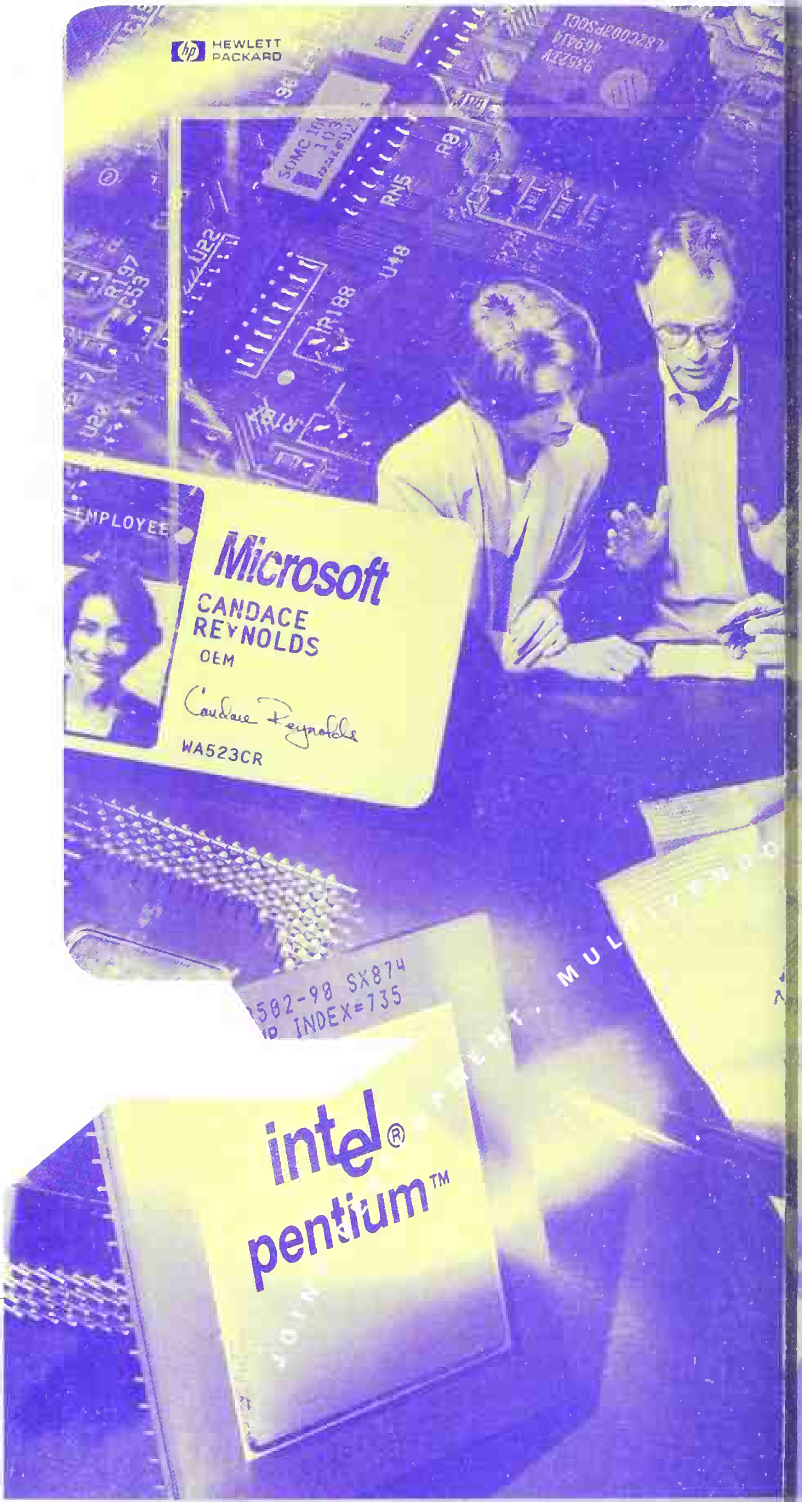
HP Vectra XM2 PCs
Exceptional 486
performance for
advanced business
use, from
$2,069

HP Vectra XU PCs
The ultimate PCs
for advanced business
and technical
applications, from
$3,749

HP Vectra Interactive PCs
Integrated multimedia
and communications
solutions for
business, from
$1,559

HP offers a full 3-year
warranty on all PCs,
including 1-year on-site
and 2-year carry-in.
For more information, call
1-800-322-HPPC, Ext. 8781.

H E W L E T T - P A C K


HEWLETT PACKARD
EMPLOYEE
Microsoft
CANDACE
REYNOLDS
OEM
Candace Reynolds
WA523CR
582-98 SX874
INDEX=735
intel®
pentium™
MULTIVENDO

intel inside

MICROSOFT WINDOWS
READY TO RUN

yes
It runs with
NetWare

All prices include hard disk drive (VL2 , N2 , M2-, Interactive PCs-, XM2 210MB IDE, XU-270MB SCSI-2) Prices do not include monitors. Microsoft and the Windows logo are registered trademarks and Windows is a trademark of Micros

D P C s

IFICATION
10
C
D
F
I
NOVELL.

You're looking at partnership in a whole new light.

If you have PCs on a network, hardware and software compatibility is undoubtedly one of your biggest concerns. You need to know who's talking to whom.

And you can start by talking to Hewlett-Packard. Together with partners like Intel, Microsoft,® Novell and others, we're developing technology that ensures true compatibility, across the board and across the network. So your PC runs everything it's supposed to, wherever it's supposed to.

Because if it doesn't work in your environment, it doesn't work at all.

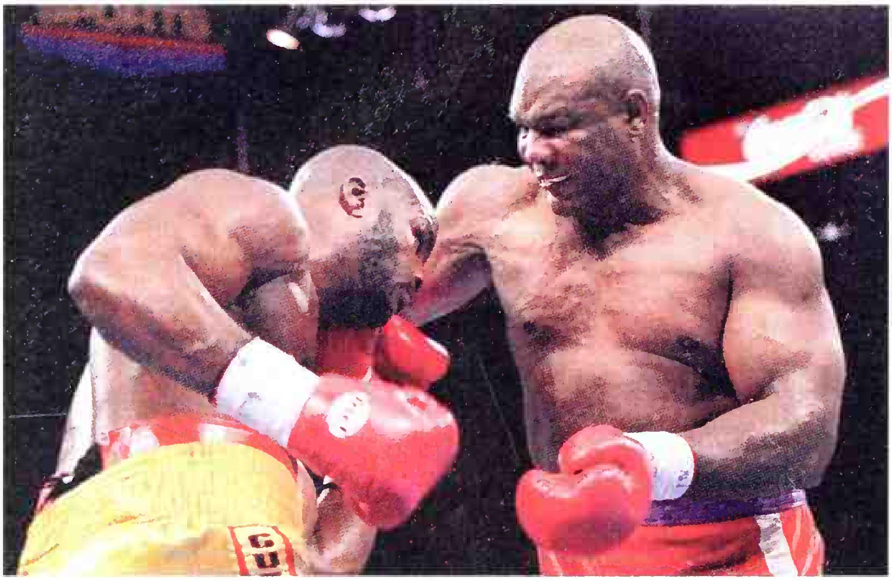
HEWLETT® PACKARD

ion. Pentium and the Intel Inside logo are U.S. trademarks of Intel Corporation. *For a nominal fee, a 1-year on-site service contract can be upgraded to 3-year on-site service. ©1994 Hewlett-Packard Company PPG410

ENDORSEMENTS

BIG GEORGE AND THE 'OVER-THE-HILL' GANG

Why sports marketing's senior tour is so hot these days



ONE FOR THE BOOMERS: *Foreman can be cuddly, too*

George Foreman said it all with a single haymaker. Standing over Michael Moorer on Nov. 5, his right hand stinging from the knockout punch that made him heavyweight champion of the world at age 45, big old George showed why so many sports graybeards have become the golden boys—and girls—of athlete endorsement.

Foreman, Arnold Palmer, Nolan Ryan, Chris Evert, and other stars of sports marketing's senior tour are all old enough to laugh at themselves, revered enough to make you take notice, and familiar enough to exude a sense of comforting believability. (Foreman, currently seen hawking Doritos chips and Meineke mufflers, will likely be lending his smiling moon face to several new ad campaigns after his stunning victory.)

NO HOLDOUTS. Sure, disasters such as Hertz's long nightmare with O. J. Simpson can happen, but old pro athletes remain in great demand these days, to push everything from painkillers to cellular phones. Ice-skater Peggy Fleming, a gold-medal winner at the 1968 Olympics, axels for Advil. And 65-year-old dewsweeper Arnie Palmer admonishes his army to buy Quaker State motor oil. "The retired guys are busier now than they've ever been," says David Burns, president of Burns Sports Celebrity Service Inc. in Chicago.

Why? Simple. For one, there's no chance of an old pro having an off season, staging a contract holdout, or blowing up at the coach and embarrassing the company. Also, it's less likely that old pros will have drug problems, car crashes, or fistfights in bars. "You're building predictability into the marketing campaign," says Brian J. Murphy, editor of *The Sports Marketing Letter* in Westport, Conn.

Retired or fortysomething stars enjoy high credibility with consumers (table). And they're seen as icons by baby boomers. That's why Jim Palmer followed Phil Rizzuto as pitcher for the Money Store, a Union (N. J.) consumer-loan company that targets its advertising to the 25- to 54-year-old age group. The 49-year-old former Orioles hurler is ". . . in the right age demographics for us, and he's clean-cut," says Mauro Appezzato, the lender's ad director. Just as significant: Graying jocks appeal to the aging boomers who now hold top marketing spots at major companies. "You're talking about a group of athletes that these people can relate to," says Nova Lanktree, president of Lanktree Passport Celebrity Network in Chicago.

Having hung up their cleats, retired athletes also have more time to spend schmoozing for corporations as part of the marketing plan. Olympic speed skater Dan Jansen now gives pep talks to John Hancock Mutual Life Insurance Co. agents. Companies "need the athlete for public relations, VIP events, and corporate hospitality," says Frederick A. Fried, executive vice-president of Integrated Sports International in East Rutherford, N. J., Jansen's agent.

HEADACHES. Baseball's strikeout king Nolan Ryan is a prime example of what companies are looking for in an old pro spokesperson. "People develop reputations in how they perform and how they lead their lives," says Ryan. He should know. Ryan was never one to get involved in bar brawls or arguments with the front office. As such, he's in demand and will earn an estimated $3 million endorsing Advil, Southwest Airlines, and Wrangler jeans this year. "I pick products that I have a personal interest in, and it has to be a product I use," drawls the 47-year-old Ryan.

WHO DO YOU TRUST?

Of the 20 most trusted athletes, 9 are retired or past 40. Ranked in order of credibility on a scale of 1–5, they are:

4. NOLAN RYAN	3.64
5. MAGIC JOHNSON	3.61
6. LARRY BIRD	3.51
10. ARNOLD PALMER	3.46
11. JACK NICKLAUS	3.40
13. K. ABDUL-JABBAR	3.26
15. JOE NAMATH	3.19
17. GEORGE FOREMAN	3.17
19. CHRIS EVERT	3.15

DATA: AMERICAN SPORTS DATA INC.

Ryan ranks 16th in athlete name recognition, according to American Sports Data Inc., a sports-marketing research firm in Hartsdale, N. Y. But when it comes to influencing consumers, he's fourth among all athletes, retired or active, behind Michael Jordan, Joe Montana, and Shaquille O'Neal. With Advil, Ryan says he knows he has fans in his age group, "and those are the people that Advil is targeting."

According to American Sports Data, 9 of the 100 most recognized athletes are retired or semiretired. And 9 of the top 20 most influential athletes for advertising purposes are retired. With stats like that, the old pros may have it all over the Young Turks and the rookies for years to come. Just ask Michael Moorer. And give the poor guy a couple of Advil.

By Chris Roush in New Haven

NTEREST RATES

WHO'S HURT BY RATE HIKES? HINT: IT'S NOT THE RICH

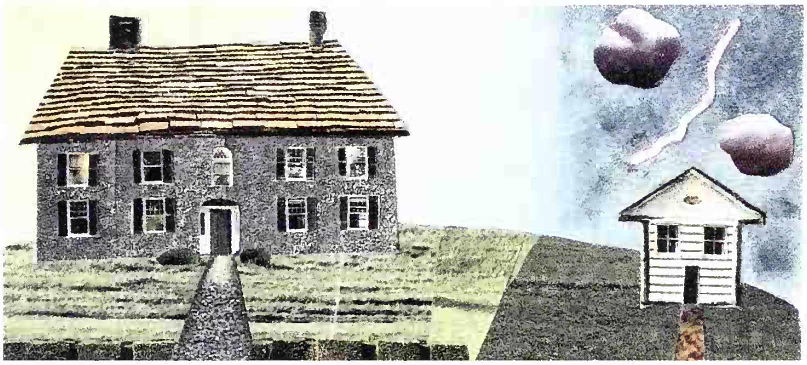
The Fed's preemptive strikes hit the middle class hardest

When Federal Reserve Board officials meet on Nov. 15 to consider yet another interest-rate hike, hey will carefully weigh the benefits of amping inflation vs. the costs from lowing growth. They probably won't ive more than a fleeting thought to how igher interest rates affect families in ifferent income brackets and actually hange the distribution of income in the conomy.

But they should. The vidence is overwhelming that higher interest ates hurt the middle lass a lot more, because t shells out a greater ortion of its income in nterest payments than o the affluent. They lso benefit the middle ess because it owns a maller share of the nation's interest-earning ssets. The opposite is true for the affluent. Sure, a rate hike depresses the vale of many financial assets, such as onds that fall in price as rates rise. So he portfolios of the well-off are worth ess when rates spike. But this is only in he short run. Over the longer haul, the ains in interest income from higher ates outweigh any short-run losses.

NEQUAL IMPACT. To make matters vorse, raising interest rates also exacerbates the already widening gap beween income classes. While the top 20% f families have seen their real incomes ise in recent years, the incomes of the emaining 80% of families have fallen. So 'ed tightening hits hardest at those who have less to spend. "From the Fed's standpoint, interest rates are the only lever it has," says David A. Wyss, an economist at DRI/McGraw-Hill. "But that's the wrong lever right now" from an equity standpoint.

Economists and policymakers have long worried about the unequal impact of Fed policy. However, they usually focused on the unemployment it typically produces, which strikes first and hardest at blue-collar and low-income families. The lack of attention to income distribution may have been justified in the past, when most people's income was rising. But that's no longer true, so higher rates have a more disparate impact.

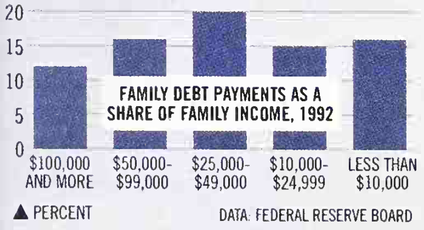


Economists say that in judging the burden of higher rates, the key is not the actual amount of dollars spent but rather the percent of family income that those dollars make up. So although the 7% of households earning $100,000 or more a year have two to three times as much mortgage and credit-card debt as other households, they spend only 12% of their annual income on all types of debt, according to the Fed's Survey of Consumer Finances (tables). By comparison, middle-class families shell out up to 20%. The poor spend less, about 16%, primarily because many don't own a home and lack access to credit.

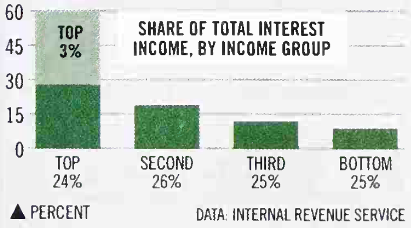
BIG GAINERS. To be sure, the aggregate numbers appear to show that all households gain from rising rates, because they receive more in interest than they pay out. The total amount of interest-bearing assets in the U. S. exceeds the value of interest-bearing liabilities by as much as 50%, according to a 1988 study by Fed economist Charles A. Luckett and two colleagues. Similarly, households' interest income surpassed their interest payments by 10% to 50% for almost every year since World War II, Luckett found.

But that's very deceptive. Affluent families are the big gainers, while those on the lower rungs are losers. The top 7% of households own 60% of the nation's bonds and 31% of all other interest-bearing assets, according to an analysis of Fed data by New York University economics professor Edward N. Wolff. As a result, taxpayers in the top 7% rake in nearly 40% of all interest income, according to Internal Revenue Service data.

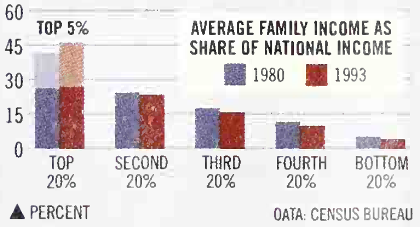
Of course, the gains of the affluent can be offset by other effects of Fed tightening. Because stock and bond prices typically fall when rates rise, the value of wealthy families' assets drops. But that's only part of the story. The affluent get a stream of income from their financial assets, which they can reinvest in more lucrative investments when rates go up. Over time, they can't help but come out way ahead from an increase in interest rates. Of course, poor and middle-class households could in theory invest at the same higher rates. But in practice, they simply don't have the capital. Indeed, they are net


RISING RATES: THE AFFLUENT SUFFER LESS...

DATA: FEDERAL RESERVE BOARD


...AND RECEIVE THE BIGGEST GAINS...

DATA: INTERNAL REVENUE SERVICE


...EXACERBATING THE GAP BETWEEN RICH AND POOR

OATA: CENSUS BUREAU

Think

INTERNATIONAL.

Think

TWENTIETH CENTURY.

Introducing Twentieth Century's Newest International Growth Fund

Now there are two reasons to do your international investing with Twentieth Century. That's because we now offer two different international funds:

NEW **INTERNATIONAL EMERGING GROWTH** This fund was introduced in April of 1994. Its primary focus is on rapidly growing, "emerging" companies. The fund is not restricted geographically or confined to markets in developing countries. It invests in smaller companies in developed nations, and can invest up to half of its portfolio in companies in countries with emerging markets. The fund's total cumulative return for the period beginning April 4, 1994 and ending September 30, 1994 is **14.2%**.*

INTERNATIONAL EQUITY This fund invests primarily in larger, more seasoned companies of developed countries. And so far, it's proving itself. **19.7%** and **16.2%** are the fund's one-year and since inception (5/9/91) average annual total returns as of September 30, 1994.

To find out more, call or write for a free World Investors Kit, which contains a prospectus with more complete information, including charges, expenses and minimums. Investments in foreign securities involve a greater risk—and in the case of International Emerging Growth, significantly greater risk—than investments in domestic securities. Please read the prospectus carefully before investing.

Call today, toll-free:
1-800-345-2021
P.O. Box 419200, Kansas City, MO 64141-6200

TWENTIETH CENTURY®
MUTUAL FUNDS

© 1994 Twentieth Century Services, Inc.
BSW

Investments That Work™

*31.9% was the annualized return for International Emerging Growth from 4/4/94 to 9/30/94. Annualization of return assumes that the partial year performance will be constant throughout the period. Actual return may be greater or less than the annualized data. ▪ Data quoted represents past performance and assumes reinvestment of all distributions. Investment return and principal value will fluctuate, and redemption value may be more or less than original cost.

TWO INTERNATIONAL FUNDS FROM TWENTIETH CENTURY

debtors, so an increase in rates actually lowers the amount of disposable income that they have available for new investment opportunities.

- The elderly probably are net creditors, too. People 65 and over invest more in interest-bearing assets than those in other age groups. They also pay less in debt—about 10% of their family income—than younger families, accordin to the Fed. "There's no question tha all those elderly coupon clippers in Florida are happy when rates go up," say Donald Ratajczak, an economist at Georgia State University.

"FRIGHTENING." Soaring inequality ha exacerbated the Fed effects. The ga between high- and low-income familie has widened steadily since about 1980 hitting a new high every year sinc 1985. Last year, the top 20% pulled in record 46.2% of national income. Thi was a 1.6-percentage-point leap fron 1992, the largest jump since the Census Bureau began keeping track in 1947 As a result, median family income fel 1.9% after adjusting for inflation, ever though the economic recovery generated a healthy 1.8% spurt in real per capita income, according to the Census Bureau. And this was no one-time blip Median family income has fallen 7% behind inflation since 1989. "All of th growth last year went to the top 20% of families," says Larry Mishel, chie economist at the Washington-based Economic Policy Institute.

In this context, Fed rate hikes undercut the spending of families that already are earning less. "The notion that the Fed wants to tighten when the average family is losing ground is a little frightening," says Harvard University economist Lawrence F. Katz.

It's also likely that the signals of soaring demand worrying the Fed stem primarily from more affluent households. Spending and consumption patterns closely paralleled the jump in income inequality in the 1980s, according to a 1991 analysis of Census data by Katz and Harvard economics professor David M. Cutler. Indeed, the bottom 30% of individuals actually spent and consumed less, in inflation-adjusted dollars, in 1988 than in 1980, they found. The top fifth gained about 20% during this period. The Census data from 1988 to 1992, the latest year available, show a similar pattern of spending inequality.

With the economy humming along, the Fed may feel that it has no choice but to jack rates up again. If it does, it's the middle class who will once again take the biggest hit.

By Aaron Bernstein in New York

The **BusinessWeek** Library of Computing

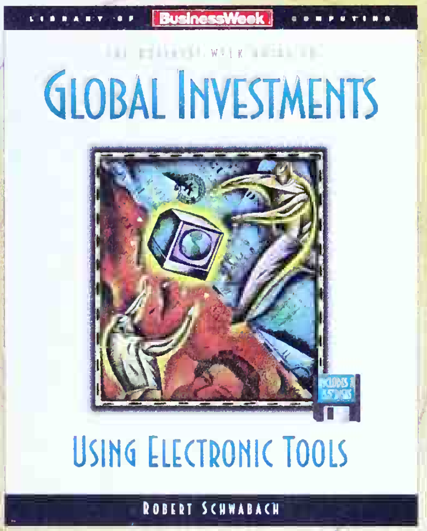
Because **your world** is about to enter a whole **new chapter...**

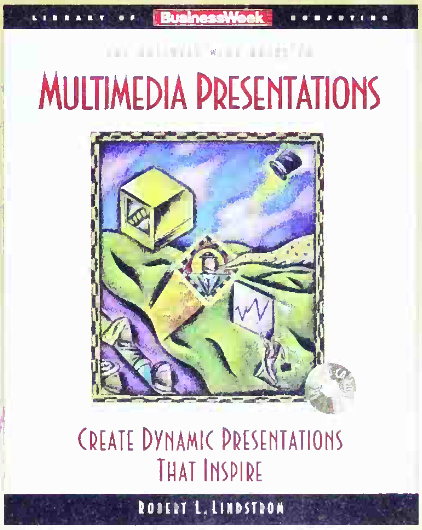
The Business Week Guide to Global Investments Using Electronic Tools

by Robert Schwabach
Paperback $39.95 U.S.A.
Includes three 3.5-inch PC disks with working versions of the best-selling programs for analyzing stocks and markets.

The Business Week Guide to Multimedia Presentations
Create Dynamic Presentations That Inspire

by Robert L. Lindstrom
Paperback $39.95 U.S.A.
Test drive today's hottest presentation graphics software...full working versions included on one CD-ROM disk!


LIBRARY OF BusinessWeek COMPUTING
THE BUSINESS WEEK GUIDE TO
GLOBAL INVESTMENTS
INCLUDES 3.5" DISKS
USING ELECTRONIC TOOLS
ROBERT SCHWABACH


LIBRARY OF BusinessWeek COMPUTING
THE BUSINESS WEEK GUIDE TO
MULTIMEDIA PRESENTATIONS
CREATE DYNAMIC PRESENTATIONS THAT INSPIRE
ROBERT L. LINDSTROM

Includes three 3.5-inch PC disks

Includes one CD-ROM disk

It's a brave **NEW WORLD** and to get ahead, you've got to leverage all your resources. No one is better positioned to help you maximize your potential than **Business Week** and **Osborne/McGraw-Hill.** Whether you want to take command of world markets from your desktop or hone your presentation skills with the latest multimedia technology, the **Business Week Library of Computing** has the insights, practical advice, and **cutting edge information** you need to make a positive impact.

Don't wait for the future to be old news. The **Business Week Library of Computing** is designed to keep you ahead of the curve and well on your way to a SMOOTH TRANSITION into the business world of tomorrow.

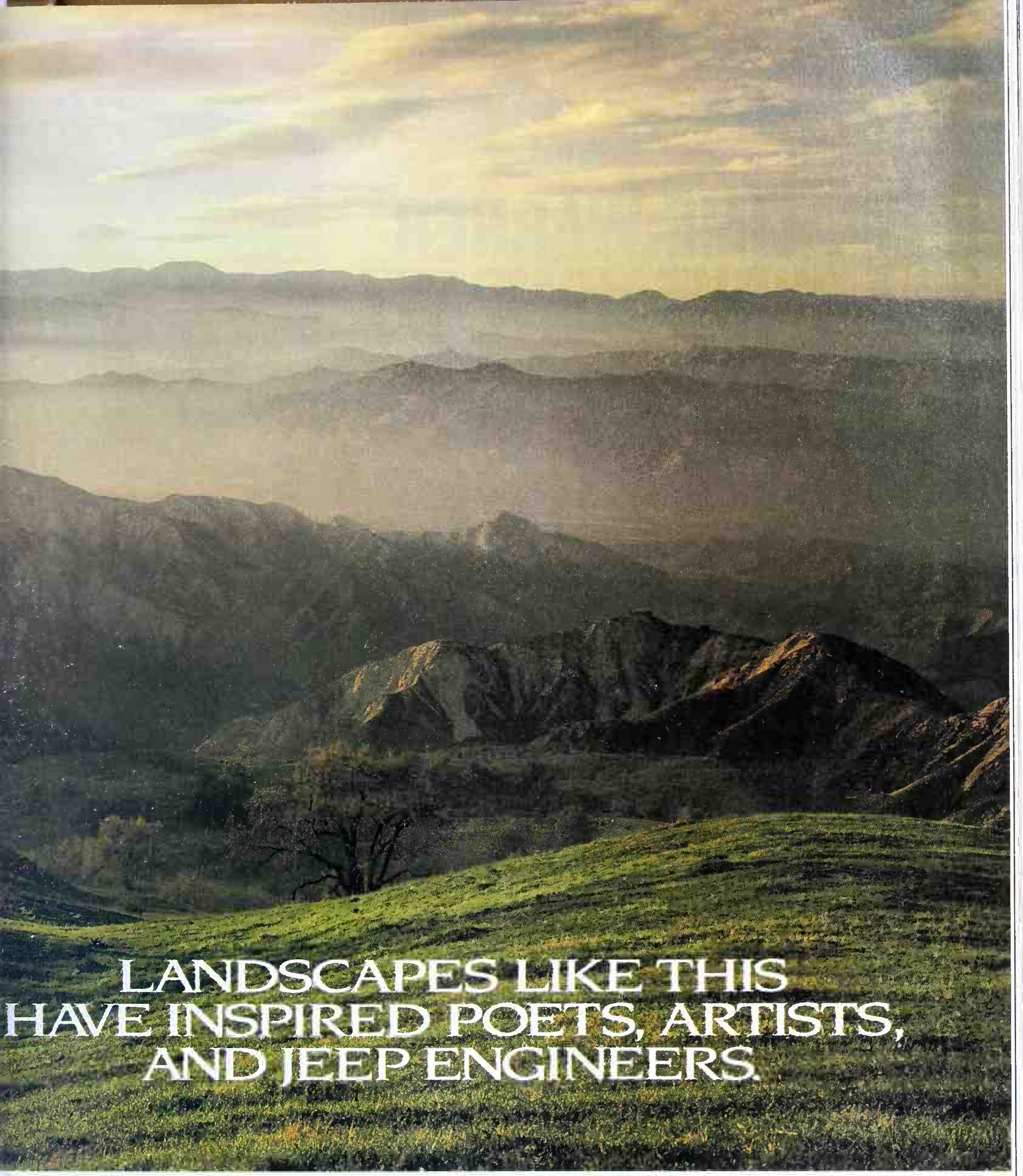
Available at better bookstores and computer/software retailers everywhere, or for more information in the U.S.A. call **1 800 227-0900** (9:00 a.m. – 4:30 p.m. Weekdays Pacific Time). In Canada, call 1 800 565-5758 (8:30 a.m. – 4:30 p.m. Weekdays Eastern Time).

OSBORNE

Some of the most impressive works of art are
result of nature's inspiration. Although this time, inst
of using pen or brush, a team of Jeep engineers u
steel, aluminum, leather, and glass to create a
masterpiece: Jeep® Grand Cherokee Limited.

The true genius of Grand Cherokee lies in its te
nology. To give you exceptional control, our engin

Always wear your seat belt. Jeep is a registered trademark of Chrysler Corporation.


LANDSCAPES LIKE THIS
HAVE INSPIRED POETS, ARTISTS,
AND JEEP ENGINEERS.

loped Quadra-Trac®—an all-the-time four-wheel
e system that actually senses the need for added
tion and distributes power accordingly.
Other advanced features include its Quadra-
™ suspension, an optional 220 horsepower 5.2 litre
four-wheel anti-lock brakes, and a state-of-the-
utomatic temperature control system that keeps you cool without damaging the Earth's ozone layer.

For more information, please call 1-800-925-JEEP. We think you're going to find driving a Jeep Grand Cherokee to be a truly inspiring experience.

There's Only One Jeep®...
A Division of the Chrysler Corporation.
Jeep
Eagle

TELECOMMUNICATIONS

NOW, TIME WARNER IS A PHONE COMPANY

It's wary of wireless but wants you to make calls on cable

For a company that generates more than its share of noise, Time Warner Inc.'s silence was deafening. The Federal Communications Commission had set Oct. 28 as the deadline for companies to register for its December auction of wireless communications licenses. Since Time Warner had been an early champion of this new type of mobile-phone technology, called personal communications services (PCS), rivals expected it to be a lively bidder. Instead, Time Warner let the deadline pass without a peep. While other cable-TV and telephone companies scrambled to set up alliances, Time Warner said it didn't plan to bid for any of the 99 major PCS licenses.

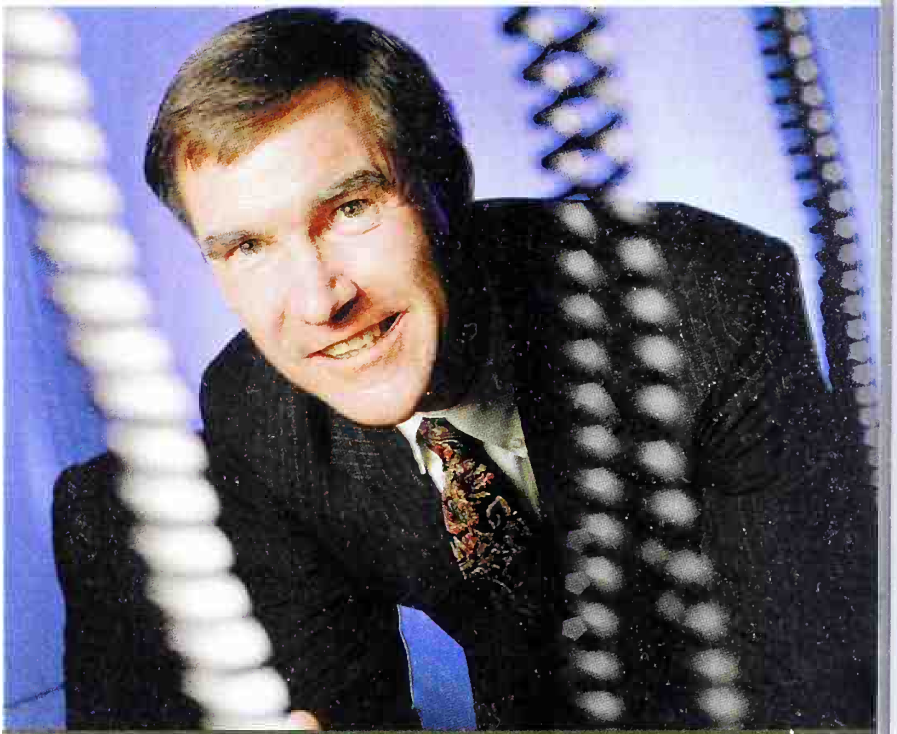
What gives? Has Time Warner, the very avatar of a diversified communications company, decided to kiss off one of the telecommunications industry's hottest frontiers?

Not exactly. But Time Warner's decision underlines how its telephone strategy is diverging radically from that of other cable companies. While TCI, Comcast, and Cox Cable are betting heavily on the growth of wireless, Time Warner is putting more emphasis on the lucrative—but entrenched—wired telephone business. And while its cable colleagues have allied with a long-distance provider, Sprint Corp., Time Warner has thrown its lot in with a Baby Bell, U S West (table). "The industry is going through a major consolidation," says Christopher Dixon, a media analyst at PaineWebber Inc., "with two different models emerging."

LOCAL BYPASS. For Time Warner, the success of its approach has broad ramifications. Government reregulation has chopped the company's cable cash flow, and Time Warner is urgently searching for new sources of revenue. The telephone business also may have a more predictable payoff than such exotic services as interactive home shopping or video games. At a recent presentation for Wall Street analysts, Time Warner trumpeted the promise of the phone business while giving its once highly hyped Orlando cable system only a perfunctory mention.

On the face of it, Time Warner's strategy doesn't seem all that revolutionary. Like its rivals, the company is upgrading its cable wires to offer both local phone service and competitive access—a service that bypasses local phone companies to link long-distance calls. Bu Time Warner is pushing into telephone service on a market-by-market basis Sprint and its cable partners, on the other hand, want to build a national service that bundles cable, long-distance local, and wireless service.

Time Warner's strategy is motivated by both necessity and opportunity. With $13.9 billion in debt, it can't afford to squander a nickel in building its telephone infrastructure. That's why Time Warner Chairman Gerald M. Levin decided to pass up the FCC auction. Media executives predict the bidding for PCS licenses will be ferocious: The license for New York State alone could fetch $1.3 billion. Time Warner may yet bid for smaller licenses during a second round



LARRY FORD

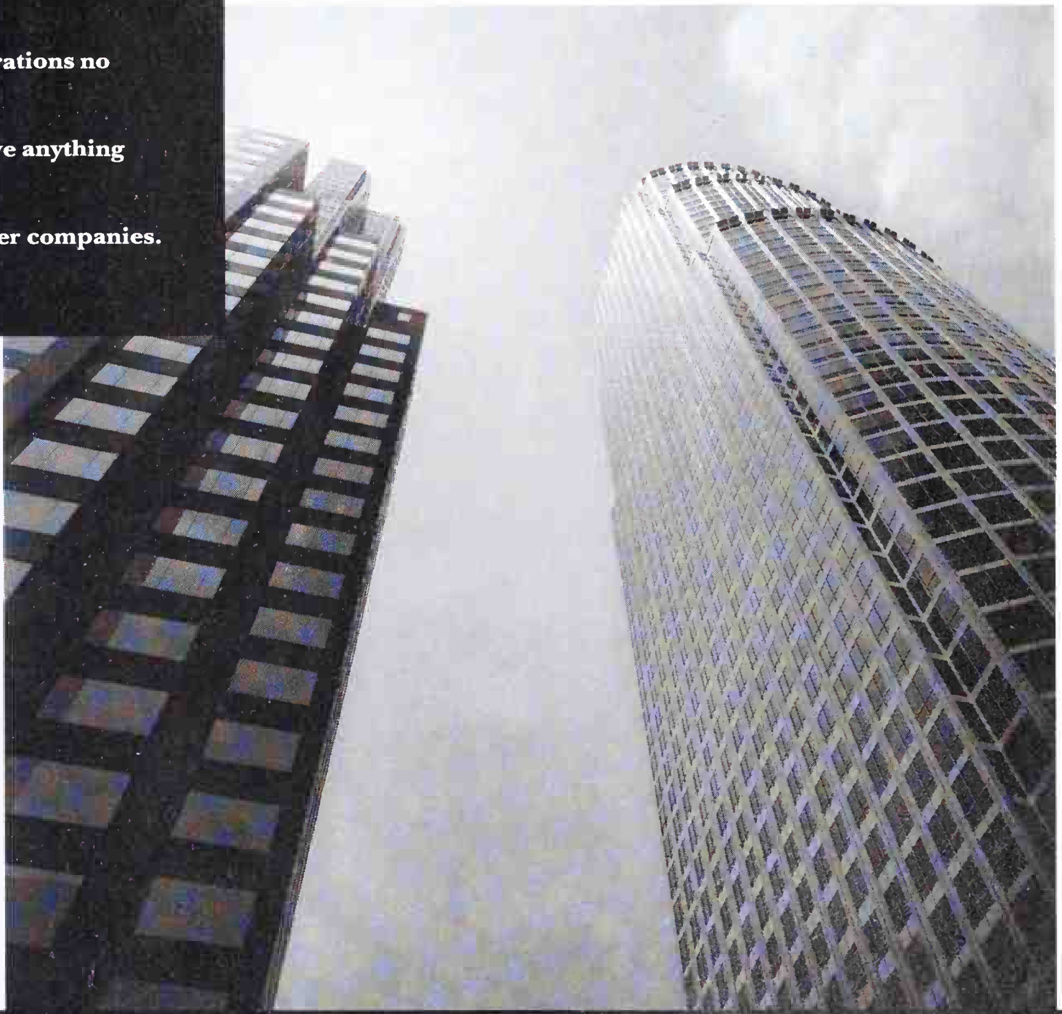
MORROW: *He brings needed telephone expertise–courtesy of US West*

Who's Got The Right Number?

Time Warner leads one of two evolving cable-telephone strategies

	TIME WARNER/U S WEST	TCI, COMCAST, COX/SPRINT
FOCUS	Favors wired over wireless phone service. Expands service on a market-by-market basis. Eschews long-distance partners.	Gambles heavily on wireless business. Constructing a national network of long-distance, local, wireless, and cable services.
ASSESSMENT	Avoids huge cost of PCS auction but will lose out if PCS becomes a big business. Potential regulatory hurdles.	Fewer regulatory obstacles than a Baby Bell alliance. But a national network poses huge logistical challenges.

When it comes to health benefits, big corporations no longer have anything over smaller companies.



As the owner of a business with 1 to 125 employees, you know finding affordable health coverage for your company can be a somewhat monumental task. It shouldn't be that way. And it doesn't have to be. Because now you can get the same kind of price breaks that big corporations get, with our Business Health Alliance.℠′

By pooling together businesses of 1 to 125 employees, the impact of any major claim on your business is reduced. What that means is an insurance premium that's not only more affordable, but more stable than you thought possible.

You owe it to yourself (as well as your employees, for that matter) to make a quick call to your broker or a Blue Cross of California sales office. If your company has 1 to 50 employees, call 1-800-999-2273. If your company has 51 to 125 employees, call your local group sales office. You'll get a better idea of the kind of money you can save in the long run. After all, it's not size that matters. It's saving money.

We make the system work for you.℠

BUSINESS HEALTH ALLIANCE℠′

CaliforniaCare* Health Plans

Blue Cross of California

* CaliforniaCare Health Plans and Blue Cross of California are Independent Licensees of the Blue Cross Association. ® is a registered mark of the Blue Cross Association. ®′ is a registered mark of the WellPoint Health Networks Inc. SM is a service mark of Blue Cross of California. SM′ is a service mark of the WellPoint Health Networks Inc. © 1994 Blue Cross of California.

Funny how it's the little things that attract people to a particular small business server.

Then again, maybe this is a big thing.

Introducing the
IBM PC Server, for small business.

486DX 66 MHz
or Pentium® 60 MHz

▪

Upgradeable

▪

30-day money-back guarantee

▪

*3-year on-site warranty**

▪

Tested to exacting IBM standards

▪

Industry standard architecture

▪

*Starting under $3,000***

You're about to place your entire business in a box no bigger than a suitcase. That's enough to make anyone pace the floor.

Fortunately for the life of your carpet, IBM now makes a server for small local networks.

This means, of course, that the kind of performance and reliability IBM is famous for, and the kind of support we're famous for (24 hours a day, 7 days a week, 365 days a year†) are now available to you, too.

All at the kind of price (we confess) IBM is not so famous for. A remarkably competitive price, whether you need to network five people or fifty.

And because the IBM PC Server is easily upgradeable, and happily works with most anyone's peripherals, it lets you create the perfect, total business solution.

For more details, talk to your favorite reseller, or, if you need a favorite reseller, just call us at the Personal Systems HelpCenter® at 1 800 772-2227.‡ For information via FAX, call 1 800 IBM-4FAX and ask for document 3078.

IBM®

---

*Copies of IBM's statement of limited warranty are available upon request. **Dealer prices may vary. †Via telephone from the Personal Systems HelpCenter In Canada, call 1 800 465-7999. IBM and HelpCenter are registered trademarks of the International Business Machines Corporation. All other trademarks and registered trademarks are the property of their respective holders.* *© 1994 IBM Corp.*

Run with it.

3M is the brand business demands. Rated number one in reliability, it's no surprise 3M diskettes and quarter-inch cartridges are preferred over other brands. Now our new go-anywhere diskettes give you enhanced performance so you can take your work anywhere. Another reason why more businesses protect important information on 3M brand storage products than any other brand in the world. You should, too. Find out more. Call 1-800-888-1889, ext. 1703.

3M Reliability

3M diskettes require compatible drives. Preference and reliability ratings based on independent research. © 3M 1994

of bidding, mostly in areas where it owns cable systems. It also intends to lease PCS space on the spectrum from existing licensees. "An auction is often the worst place to buy anything," says Dennis R. Patrick, a former chairman of the FCC who oversees Time Warner's wireless strategy.

Time Warner's strategy is also driven by its powerful telephone partner. U S West, based in Englewood, Colo., owns 25% of Time Warner Entertainment, which comprises Warner Bros. Inc., Home Box Office Inc., and Time Warner Cable. The Baby Bell has given its partner technical expertise in the form of 70 executives, including Tom Morrow, who runs Time Warner's wired phone business. It has also pledged $1 billion toward Time Warner's $5 billion effort to upgrade its cable network. Although Time Warner officials say that U S West hasn't prevented it from considering a long-distance partner, the alliance has made such a link less important.

PATRICK: *Auctions can be costly*

There's another reason for Time Warner to eschew the likes of Sprint. The company's 9 million cable subscribers are heavily clustered in such metropolitan areas as New York, Orlando, and Charlotte, N. C. By upgrading those systems with fiber-optic cable and digital switches, Time Warner believes it can create profitable, stand-alone local phone businesses.

Already, Time Warner is pushing to offer phone service in Rochester, N. Y., and Ohio. Last May, it won approval from the New York State Public Service Commission to offer service in Rochester, where it owns a cable system. And it signed a landmark deal with Rochester Telephone Corp. in which the company will hand off calls to Time Warner's cable network. Morrow say he hopes to offer phone service by th summer of next year. After Ohio, Nev York City may be Time Warner's nex major area of focus.

Given the huge expense of upgrading its cable systems, some observer question whether Time Warner will b able to compete with local phone companies on price. But Morrow thinks he ha an ace in the hole: He plans to packag Time Warner's cable and phone servic together. Says Morrow: "We've becom more confident that we can offer packages of services that would make Tim Warner attractive."

CROSS-PURPOSES? Time Warner's telephone strategy faces several hurdles Only six states currently allow cabl companies to offer local phone servic Without national telecom legislatio Time Warner must lobby state governments—and battle resistance from local phone companies—to expand its service. Such a process could delay by few years its effort to become a big-tim phone company.

Some observers also contend tha Time Warner's interests will inevitabl clash with U S West's. Gerald H. Taylo president of MCI Communications Corp says the Baby Bell played a part in Tim Warner's recent decision not to invest i Teleport, a competitive access provider. Time Warner says it pulled the plu on Teleport itself because the compan was going to be folded into the Sprint alliance. For its part, U S West says it i satisfied with Time Warner: "Any cultural differences have been minimal, says Thomas E. Pardun, president o U S West's multimedia group.

Time Warner has ample motivatio to keep it that way. U S West is key t its strategy of expanding its clusters o cable subscribers. Although Time Warner has looked at several cable operator and is currently in talks with Cablevision Industries Corp., its balance shee cramps its options. U S West has simila ambitions but a much fatter wallet. B coordinating their dealmaking, the companies could build a national cable-telephone network more quickly.

Such a network would hedge Tim Warner in an era of eroding cable profits. And if the company's bet on wire over wireless communications turns ou to be right, it could generate vast nev profits. Either way, for Time Warne phone service is no longer the tail at th end of the Info Highway comet, but th star of the show.

By Mark Landler in New York, wit Mark Lewyn in Washington and Kath Rebello in San Francisco

We've been known to send some people's garbage right back to their house.

It may come back to light a room, cook your food, or even heat your home. Because all that garbage you threw out actually had a lot of energy in it.

Energy that, once the garbage is in a landfill, is released as methane. Methane is just like natural gas. It's a clean-burning fuel. Good enough to fuel turbines that run power generators. Like the 4,000-kilowatt generators that supply 13,000 people in Geneva, Illinois with electricity. All from the local landfill. Or the generators at the 29 other sites around the country where we capture methane to generate power.

Last year alone, we produced enough energy from methane to save 1.9 million barrels of oil. Not only as electricity, but also as an alternative fuel to actually replace gas, oil, or coal for industry. In 1993, we sold it to customers like a carmaker and a chemical company. All of which makes good use of landfill gas.

It comes from garbage, but it's nice to know it's not going to waste.

What business do we have saying we help the environment? That is our business.

Waste Management
A WMX Technologies Company

Special Report

MOM AND POP GO HIGH TECH

The little guys are rushing into the Information Age

Michael Allawos' tool-and-die shop isn't very big. Housed in a tiny building in an industrial park in San Dimas, Calif., it makes metal parts for Northrop Grumman and Bristol-Myers Squibb Co. But it has big plans—and big-company technology on its side. On sales calls, Allawos whips out a laptop computer to confirm the status of a customer's order—and verify that all the materials for the job are on hand. Orders for new parts are dropped electronically into his job-tracking system, and a financial package traces to the penny the cost and profit of every order, every step of the way.

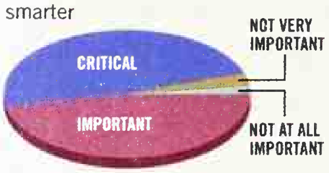
Allawos' Mikana Manufacturing Co. will close the year with not even $2 million in sales. But Mikana is just one small example of a quiet revolution in the way small companies view and use information technology. To Allawos, there was no choice: either automate or die. "If I hadn't been computerized in this last recession, I wouldn't have been competitive. My customers wouldn't have given me an opportunity to stay in business," he says.

Consider Aspen Press Ltd., a $1 million children's-book publisher that started its business two years ago. It receives orders and payments electronically from customers such as retailer J. C. Penney Co. and Dillard Department Stores Inc. But without the electronic link, says Aspen Chief Executive Richard Feldstein, the publisher might be out of the loop. Penney and other big customers are paring their supplier lists, eliminating companies that are behind the curve in technology. "Those who don't [network] are usually the first to go," says Feldstein. Embracing computer and network technology, he adds, "levels the playing field for small business."

SMALL BUSINESS IS BIG ON TECHNOLOGY

It's ready to invest...

How small-business owners rate information technology as a factor in making them work faster and smarter



...and gets a big payoff

Annual growth rate of small businesses that rank technology as extremely important: **27.8%**

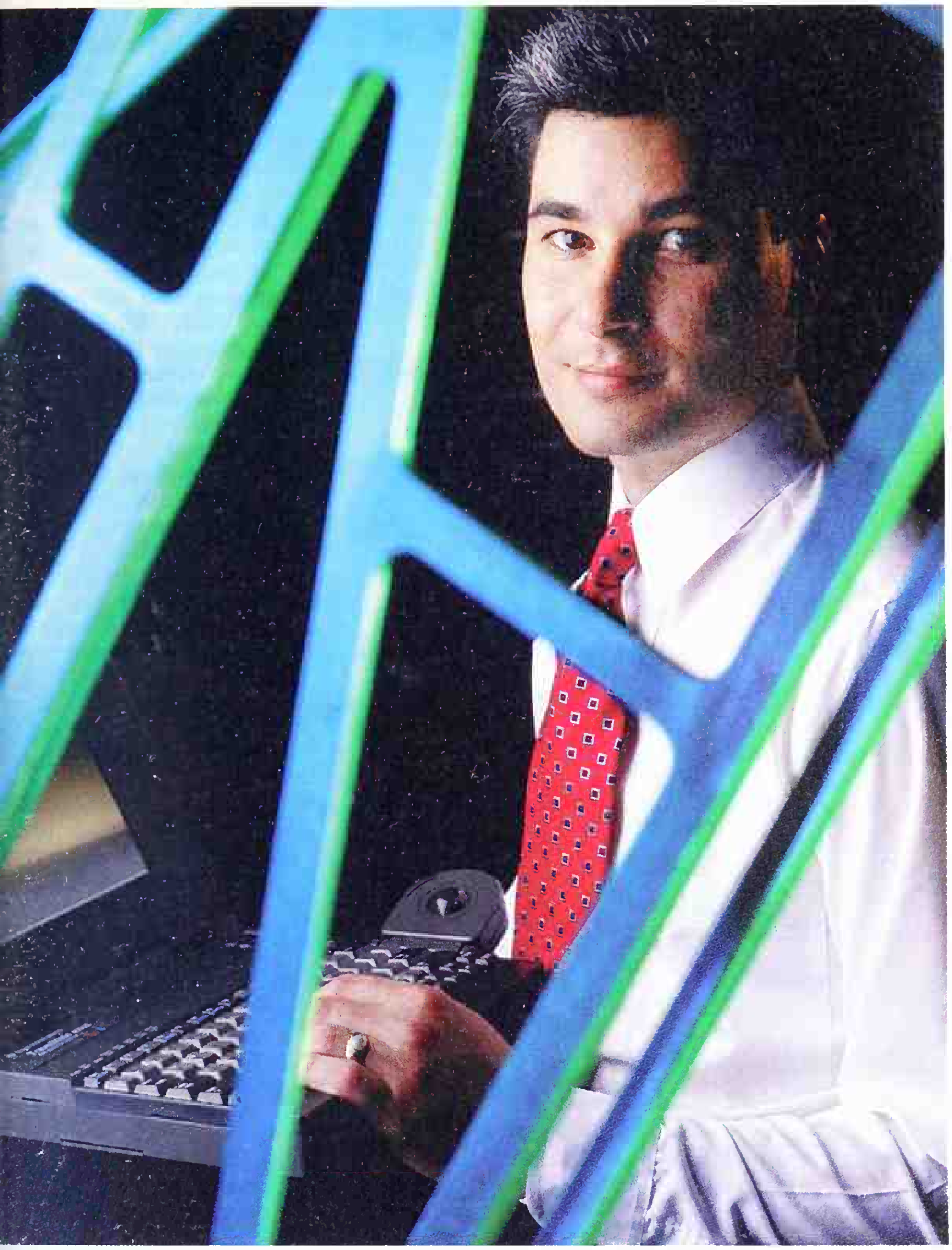
DATA: IBM, COOPERS & LYBRAND

MAIN STREET. Exceptional examples? Think again. State-of-the-art digital technologies once available only to deep-pocketed big companies are making their way to mom-and-pop stores and garage shops. Once the last refuge of mechanical cash registers and shoe-boxed receipts, small businesses such as Mikana and Aspen are latching on to sophisticated manufacturing, financial, and inventory management systems. Their operations are being transformed with easier-to-use software, cheap computer power, and global electronic networks. At the same time, small companies are getting a pus from big businesses that have lost patience with old-fashioned ways. As a consequence, many of America's 15 millio small businesses are becoming as adept at exploiting technology as their bigger counterparts.

There's no turning back. Call it The Information Ag meets Main Street. The forces that have reshaped Corporat America—greater competition, relentless cost-cutting, an demands for higher quality—now reach businesses of ever size and in every segment of the economy. Megastores suc as Home Depot Inc. and OfficeMax are forcing rival retailers and merchandise suppliers, both small and large, t adopt high-tech inventory-management an electronic-ordering networks. Companie that can't keep up with these giants ar likely to wind up among the small-busines casualties.

The impulse to automate isn't totall defensive, however. Newer, computer literate employees, some of whom are son and daughters of the founders, are givin these small fry a dose of computer smarts Brought up on computers from high schoo or college, these offspring are helping parents shake off their technophobia. Likewise, newly minted entrepreneurs wh toiled until recently in major corporation understand the value of information technology. "We went through our files recently and looked at the history of companie formed in the last four years," says Josep W. Duncan, chief economist at Dun & Bradstreet Corp. "It's amazing how many wer senior corporate officers—ex-IBM and ex Citibank."

The result: Small businesses are entering the Informatio Age with the same zeal Corporate America did a decade ag For these companies, which have annual sales of $50 millio or less, information systems and related high-tech gear suc as computerized milling machines make up half of their capital spending, estimates the National Federation of Independent Business. In 1985, only 25% of small businesses reported having any computerization. By 1990, 67.5% of smal businesses were running on digital power. And since 1992, pur



MIKANA MANUFACTURING “If I hadn’t been computerized in this last recession, I wouldn’t have been ompetitive. My customers wouldn’t have given me n opportunity to stay in business” —MICHAEL ALLAWOS

His small tool-and-die shop in San Dimas, Calif., has adopted big-company technology

hases are up 14%. What’s more, the fastest-growing small usinesses are also the ones that are the biggest technology elievers (table). They plan to spend 8.7% of revenues on omputer equipment over the next 12 months—well above the .6% average for the largest 1,000 U. S. companies, says conultant Coopers & Lybrand.

Computer makers cite small business as the next great ntapped market—after home PC users. “The smaller guys are dopting new technologies faster than our larger accounts,” says Thomas B. Martin, vice-president for worldwide marketing at Dell Computer Corp. And Wirt M. Cook, an IBM general manager responsible for small-business markets says these companies are “without question one of the most important opportunities for IBM.” He estimates that about $3 billion of Big Blue’s $63 billion in annual revenues comes from sales to small businesses in the U. S.

“A REAL SHOT.” The payoff that larger companies have already seen from effective technology use—higher productivity, quality improvements, and faster turnaround—should start kicking in for small businesses in the second half of the 1990s. Indeed, a new Coopers survey of fast-growing small businesses finds that revenue per employee at companies with high computer use is 2.5 times as much as at low-tech companies. As more companies automate, productivity increases in the economy should continue, says Dun & Bradstreet’s Duncan. “The net result is, with a small employment growth in highly technical activities, we’re seeing a real shot in productivity,” he says. Across the economy, output per hour has jumped 6.7% in the past three years, but economists figure small businesses may have done even better.

There’s a rippling effect at work, too. As big companies have downsized and eliminated departments, they have farmed out more and more work. That makes small manufacturers and service companies the lifeblood of Corporate America. Now, as the small fry automate, they pass on productivity gains to their customers in the form of lower prices, higher quality, and faster time to market.

Not every small business will automate. Some may never need more than a phone and cash register. But the greatest impediments to wider use have been a lack of resources and training. “It’s very difficult to persuade the person running a small business to take one to five days off to learn a new tool. Efficiency in the short run declines,” says John W. Newman, a consultant to small businesses and director of the family business program at Babson College. Indeed, the two biggest concerns small-business owners have about adopting

ALDO MAURO

information technology are staff training and planning.

That may be changing. Hundreds of easy-to-use programs built on Microsoft Corp.'s Windows operating system are now available. With 60 million copies of Windows in use, the selection of off-the-shelf software is expanding, creating systems for every conceivable enterprise and pulling thousands of small businesses into the Information Age. “The thing really driving it is the incredible improvements in software technology,” says William C. Dunkelberg, chief economist at the National Federation of Independent Business. “When the first computers were put in, no one knew how to use them. User-friendliness is resulting in tremendous efficiency even in the service sector.”

And it's not just application programs. Small businesses today can choose from among easy-to-install computer networks such as Novell Inc.'s NetWare and Artisoft Inc.'s LANtastic. IBM's latest version of the OS/2 operating system includes software that lets customers connect directly to the Internet, the worldwide computer network. Microsoft's next version of Windows will do that, too. “We're just starting to see business-to-business use of tools like the Internet,” says IBM's Cook (page 85). “It is a significantly growing opportunity.”

RUNNING SHORT. Indeed, today's entrepreneurial success stories almost always include a chapter on information technology. Take Kevin Palmer's Sports Venture Inc. Just three years ago, the Mesa (Ariz.) retailer of sports attire was up to its neck in unsold inventory and was running short of cash. Palmer cobbled together a system that shows which items are selling and when to order more. “That system saved our business,” says Palmer. The result: Sales rose 30% to 60% at his three stores—and profits followed. He calculates that the inventory-control program alone has boosted profits by $100,000. Palmer's next step: a new network link to his supplier's factory that will allow him to see a picture and order items electronically—rather than wait for a sales call.

Improvements in hardware also make it easier for small businesses to adopt information technology. Rising computer power lets developers pack more into their applications. And falling prices put systems within the grasp of more companies. Consider Apex Engineering, a Pittsfield (Mass.) product-design and -development company. It recently acquire computer-aided-design workstations for $8,000 apiece tha can do more than the $22,000 workstations bought just tw years ago. The new equipment lets Apex designers redraw parts at the push of a button. And plummeting compute prices make it easier to afford more equipment. Today, Ape can test designs before sending them to a parts maker. Soon it hopes to automate areas such as toolmaking.

“Computers are today what we expected them to be 1 years ago. They're great tools,” says Apex President Do Rochelo. His 11-year-old company has grown 22% a year fo the past five years, and he expects to hit $3.5 million in revenue this year. As it ha put more technology t work, setting up roboti lines and expanding t 24-hour production, Apex has gained a high-tech reputation. And the new technology has enable Apex to raise its sight from just being a tool-and-parts maker. Computer-aided design now lets it design entire products for customers. An now, it is even building entire products for big customers such as Polaroid Corp.

Rochelo is an exampl of the self-taught techie He took the time to go t trade shows to see how the technology works Many entrepreneurs don't have the time or the skills to do that. But they can still put their companies on the path to automation. One way is by tapping consultants, customers, or franchisors (page 90). Burglar-alarm installer Sonatrol Security Systems in Cambridge, Mass., got consultants to adapt an off-the-shelf sales-contact package so it would incorporate information from Boston-police theft reports. The system automatically matches addresses culled from police reports with a computerized directory of names and telephone numbers. That way Sonatrol's sales staff gets a list of people with a high interest in installing alarms. The result: Sales of its security gear rose from $50,000 a month to $120,000.

Franchisors are also a great source of information technology. In the 1980s, outfits such as Mrs. Fields' Cookies Inc equipped stores with up-to-the-minute computer and communications systems. Now, small chains are doing the same Pro Image Inc., a $50 million Bountiful (Utah) company with 250 stores in its franchise network, is developing a system that searches its warehouses and its franchisees' inventory for needed items—something already in place at such retailers as

RITTENHOUSE HOTEL “Where we benefited as a small, independent hotel is we didn't have to get 5 million people at national headquarters to approve [automating]” —SANDY HEYDT of Philadelphia's Rittenhouse, whose staff members are shown setting up for a meeting

WHAT SMALL BUSINESS IS BUYING

These rankings are drawn from a poll of 410 owners of companies

DATA: COOPERS & LYBRAND

MOST-VALUED SYSTEMS		LEAST-FAVORED SYSTEMS	
PAYROLL, TAX, AND BOOKING	74%	INVENTORY CONTROL	36%
SALES INFORMATION	52	CUSTOMER SYSTEMS	22
ORDER-ENTRY AND BILLING	65	DISTRIBUTION AND LOGISTICS	17
FINANCIAL ANALYSIS/CASH MGT.	54	MANUFACTURING	16

ap Inc. Now, sports buffs ho might have walked it because of the lack of a eattle Seahawks team cket in a Tampa store n have it delivered overght. Says Pro Image resident Brian Carmack: Rather than operate a ore with $80,000 or 00,000 in inventory, they ill have $20 million in inentory to pull from."

O WAREHOUSE? Just as nazing, Carmack plans to offer store owners both the sysm and the required electronic links to inventory for about ,000—little more than a top-of-the-line PC. "Imagine you're independent trying to compete with us and don't have acss to that," he boasts. After the store network is up and runng, Pro Image plans to extend it to its clothing manufacturs. That way, stores may one day submit orders directly to e manufacturer, further speeding deliveries and possibly iminating the need for a warehouse.

Still, the greatest prod to automate is coming from big isinesses that rely on small companies for everything from parts to new designs. Increasingly, Corporate America is dictating the way suppliers—large or small—work with them. Sheet-metal fabricator PDQ Manufacturing Inc.'s use of electronic invoices, networking, and design was driven by IBM, a major customer. After IBM required PDQ to accept invoices and payment electronically, it helped with the software and hardware selection and installation. That stirred PDQ President Scott Hutchins to go paperless on the Staatsburg (N. Y.) company's shop floor.

Today, the 30-employee business passes electronic blueprints between its designers and customers and taps into the Internet network for market information. It scours the network's many bulletin-board sections for opinions of products and potential suppliers. With automation, "we've cut lead time from 16 weeks to 4," says the 33-year-old executive.

PDQ liked the initial results so much that it is incorporating new technology throughout manufacturing and purchas-

A COMPANY THAT'S 100% VIRTUAL

At Rickard Associates, the only people showing up for work each day are the owner, Wendy Rickard, 36; her assistant, Carrie Williams; and a part-time employee. You might not guess it from the low-key atmosphere in the old house in Hopewell, N. J., where it's headquartered, but the editorial production company is a pioneer on the digital frontier—a 100% virtual corporation that lives and dies by computers and networks.

The company, which produces magazines and marketing materials, employs an art director in Arizona, editors in Florida, Georgia, Michigan, and the District of Columbia, "and tons of freelancers all over," says Rickard. Using personal computers connected over the Internet and America Online, they work together almost as if they were in the same office. For instance, Rickard and her art director can exchange electronic copies of finished pages of *Educom Review*, one of the publications they produce, in just minutes.

EX-WAITRESS. "I'm not a technologist," Rickard says. "A lot of small-business people think they have to be to use computers and networks, but they don't." Indeed, Rickard worked as a copywriter and waitress and studied acting in New York before getting into the editorial business. Moving to New Jersey, she landed a job at Educom, an association that advocates the use of computers in education. Many of its members, including the staff that put out *Educom Review*, were heavy users of electronic mail.

In 1987, Educom moved to Washington, D. C., but Rickard decided not to follow. Instead, she proposed continuing to put out the association's magazine from New Jersey under contract. "If it weren't for the Net, I'd have gone out of business," says Rickard.

That put Rickard way ahead of Corporate America, which is just now probing the Net for business opportunities. "For three years," she says, "nobody knew what I was talking about." No more. IBM found that three-quarters of the small-business CEOs it surveyed early this year view the Information Highway as a potential asset to their business. Besides offering low-cost E-mail connections, the Net and networks run by CompuServe, America Online, and General Electric provide near-instant, low-cost access to a wealth of technical and government data and, increasingly, to much corporate information.

RICKARD: "I'M NOT A TECHNOLOGIST"

GARY SPECTOR

"LIFEBLOOD." Networks can even serve as primary marketing and distribution channels. For instance, Tower Concepts Inc., a small software supplier in New Hartford, N. Y., uses the Net to market, deliver, and update all of its packages, which are used for managing computer-programming projects. "The Net is our lifeblood," says Mark Duening, engineering director.

Still, using the Net and other networks successfully is not always a snap for small companies. Says Rickard: "Sometimes, I have to spend 20% of a day on technology, and that doesn't make me happy."

But it's worth the effort. Rickard now collaborates so well with her far-flung staff that she's taking on a second magazine, *OnTheInternet*, published by the Internet Society, an organization in Reston, Va., that helps plan the Net's growth. Even on the digital frontier, it seems, there's still room for paper magazines.

By John W. Verity in New York

Special Report

ing. "Once you start the process, you like what you find," says Hutchins, who had no computer experience before taking the job. Now, he is thinking about adding so-called workflow software that would automatically grab orders and route them simultaneously to administrative and manufacturing departments to speed operations. The idea? Make billing and electronic payments as automatic as his stamping machines. Thus far, Hutchins has gotten output per employee up from just $60 an hour five years ago to $100 and boosted sales from $3 million to $5 million—with fewer employees.

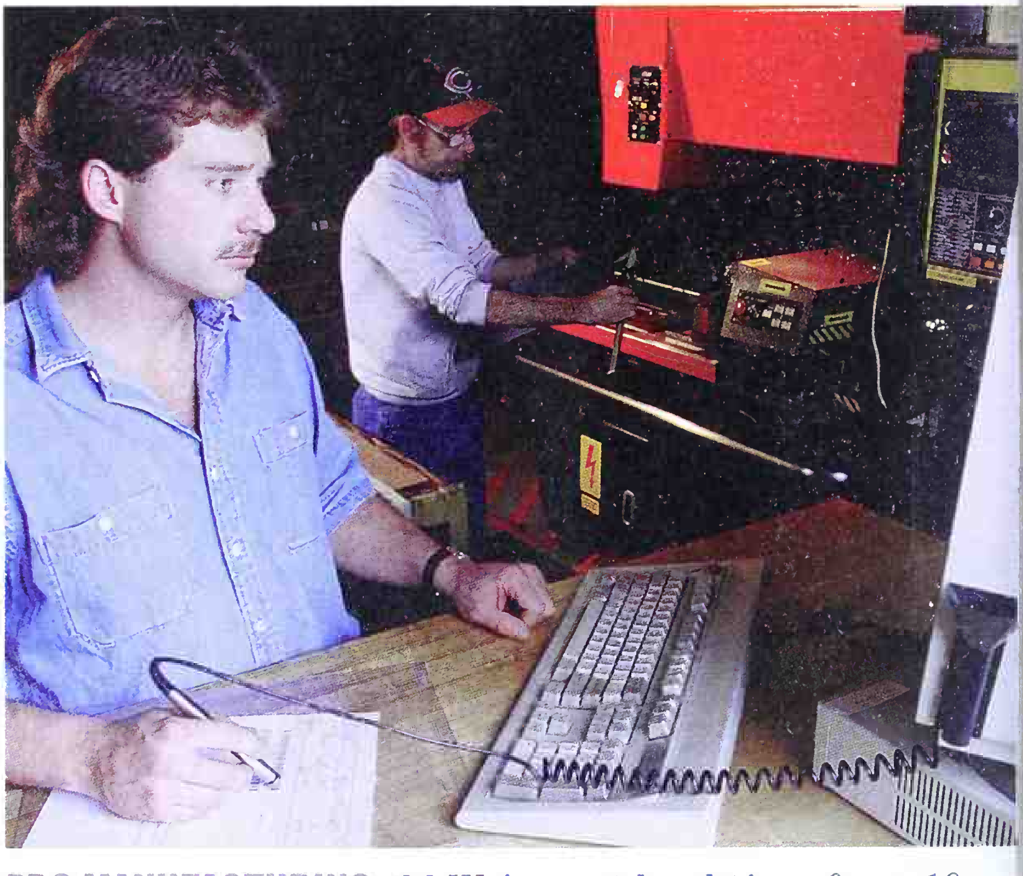
Technology can also help a small competitor take on the giants. That's what happened at Philadelphia's Rittenhouse Hotel, which boosted the occupancy in its 98 rooms to a stellar 70% and hiked the average take per room by $21 this year, with help from off-the-shelf PCs and software. The system, supplied by Newmarket Software, a small Portsmouth (N. H.) outfit founded by a former hotel executive, automates the hotel's event and catering schedule. Rittenhouse can now estimate meeting and catering fees at the time of booking to determine in advance which events will bring high returns to the hotel. What's more, by helping the hotel schedule meetings better, it reduces the need for room discounting. Plus, with no manual record-keeping, the sales staff can spend more time with prospects.

QUICK O.K. Rittenhouse's size has been a distinct advantage in getting the technology it needed. Its chief rival, part of the Four Seasons Hotels Ltd. chain, still manages its sales and catering operations on paper. "Where we benefited as a small, independent hotel is we didn't have to get 5 million people at national headquarters to approve this," says hotel Director of Sales and Marketing Sandy Heydt. With faster decision-making, small companies can use their technology to negate a larger firm's economies of scale. "We said we wanted it, and it was done in a couple of months," says Heydt.

Suddenly, computer makers are more obliging when small businesses call. IBM, Digital Equipment, Compaq Computer, among others, are stepping up their appeals to America's 15 million small businesses. This fall, the major PC suppliers are introducing lines packaged with business software or designed specifically for small businesses. IBM, for instance, has run eight small-business technology seminars across the country this year and sponsors local support groups for fledgling companies. It's a market that has become more importan at the highest levels of the industry giant. IBM Chairma Louis V. Gerstner Jr. opened the first seminar in May, and h was the first IBM chairman to address the annual get-togeth er of IBM's business partners—mostly small businesses tha work with IBM to sell gear to customers that are too small fo the computer maker to deal with directly.

CUSTOM PACKAGING. To snag more small-business custom ers, Dell Computer has changed the way it bundles softwar Instead of giving a fixed package of programs—the top-sel ers for corporate customers—it allows companies to pick th software to be factory-installed. It's not that there is an particular set of software that small businesses want, bu rather that they don't want to settle for a standard packag say Dell marketing officials. DEC is putting more of its resour es into retail sales, hoping to attract small-business owner "It's a segment forecast to grow significantly and one wher nobody is doing a good job today," says marketing directo Rod Keller. DEC's new Starion PC line has built-in tutorial with each business program. Like many other PC maker DEC provides on-line links to diagnose and fix problems— recognizing that small companies don't have technicians t troubleshoot their PCs.

Software kingpins also are zeroing in on small businesse The October deal to purchase developer Intuit Inc. make Microsoft the largest supplier of small-business accountin packages with Quicken Books. It will compete against Computer Associates International Inc., the mainframe softwar



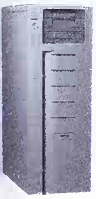
PDQ MANUFACTURING "We've cut lead time from 16 weeks to 4" —SCOTT HUTCHINS President of the sheet-metal fabricator in Staatsburg, N.Y. Hutchins also boosted output per employee from $60 an hour five years ago to $100 and hiked sales from $3 million to $5 million–with fewer workers

John Nelson
South Bend, IN
Peter Marcum
Nashville, TN
Ray Pedderson
Salt Lake City, UT

Meet the people from the company that's been installing networks longer than anyone else.

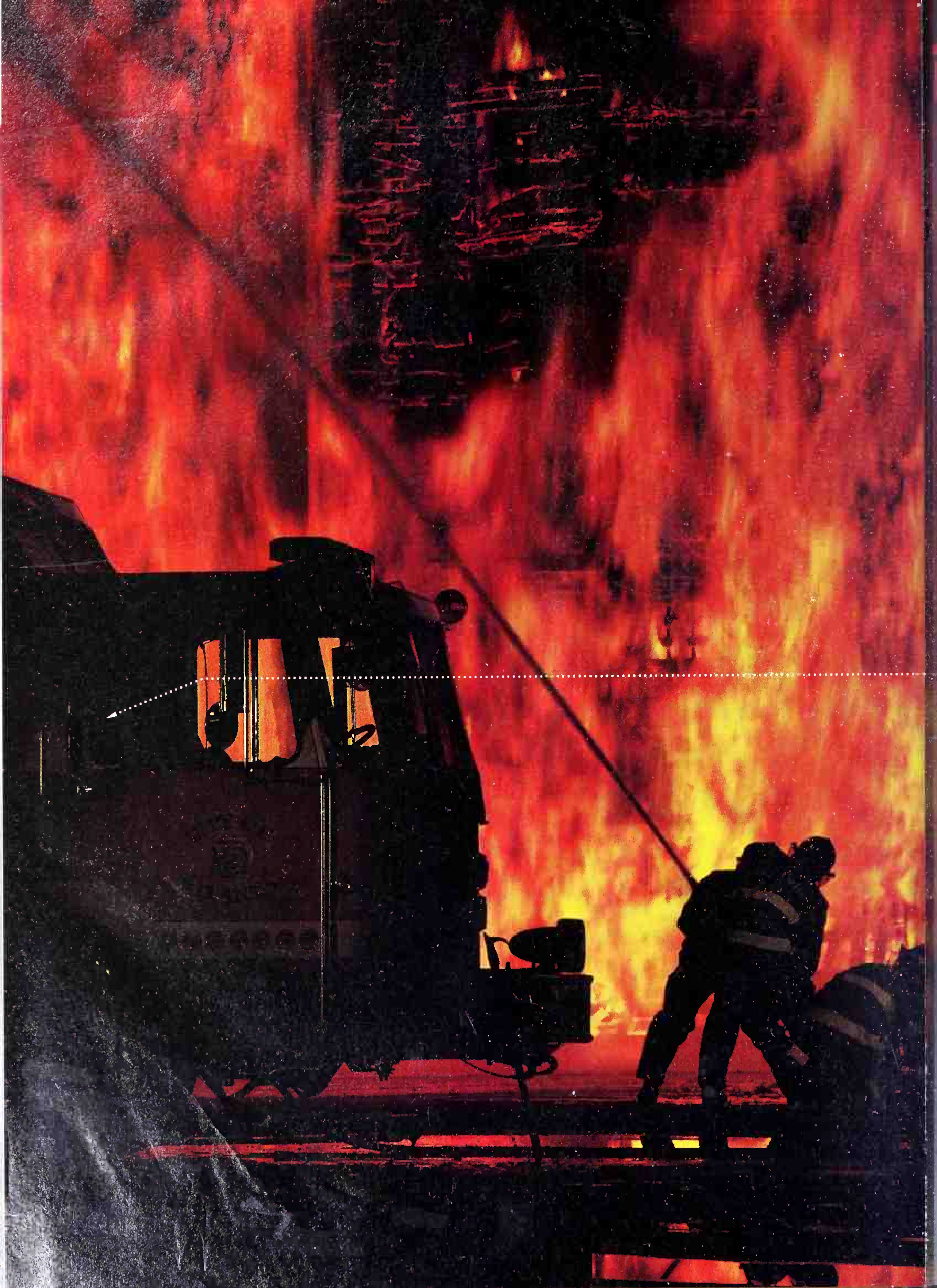
Your company thrives due in no small measure to your computer network. That's why it makes sense to work with a real networking expert — ComputerLand. In our 17 years of business, far longer than anyone else, ComputerLand has designed and installed 70,000 networks and 700,000 nodes. We offer all the latest hardware, including the entire Compaq ProLiant server family. And because each of the more than 200 ComputerLand locations nationwide is locally owned and operated, you can be sure of getting personalized service. To learn more about Compaq ProLiant servers, call 1-800-893-6893. ComputerLand. Where business-to-business means person-to-person.

COMPAQ *The newest Compaq ProLiant 4000 server shatters price-performance records as he most powerful member of the highly raised Compaq ProLiant family. It uses a 100MHz Intel Pentium processor for erformance that tops the 66MHz Pentium by nore than 45%. Add Compaq's unique "Transaction Blaster" cache option and performance explodes to more than 70% better. Compaq also offers the new rack-mountable ProLiant 4000R as well as 100MHz upgrades for current models of the ProLiant 2000 and 4000 servers.*



ComputerLand®

All products mentioned are registered trademarks of their respective corporations. ©1994 Merisel FAB, Inc. ComputerLand Corporate Offices: 5964 W. Las Positas Blvd., Pleasanton, CA 94588.



The citizens of Atlanta, Georgia depend on their fire department. The Atlanta Fire Department depends on a Muratec plain–paper fax machine with superfine resolution and error correction. It's used to receive drawings of burning buildings and safety data sheets on hazardous materials. Muratec. Count on it. 1-800-543-4636.

11TH FLOOR PLAN
ATLANTA
muratec
F-60

Muratec™
For the real world.

giant that has been selling its Simply Accounting small-business program for the past seven years. Early next year, the biggest developer of mechanical-design software for manufacturing giants, Parametric Technology Corp., plans to release specially configured versions of its Pro/Engineer software priced for small manufacturers that will be able to compete directly against AutoCAD from Autodesk Inc.

UNCLE SAM'S RULES. Crafting programs specifically for the needs of small businesses is becoming a growth industry itself. A word-processing program or a spreadsheet may work just as well for a small company as a large one. "But for process-control or job-shop bidding programs, they buy little programs from little companies," says Leslie Schneider, director of TECnet, a Medford (Mass.) group that helps small manufacturing companies build electronic networks. Software developer SBT Accounting Systems Inc. in San Rafael, Calif., expects revenues to soar 40%, from $12 million to $16 million, this year because of a Windows version of its program. But possible government rules—requiring even companies with fewer than 10 employees to file payroll reports electronically—should make the future even brighter. "That encourages people to do their accounting on computers," says Chief Executive Robert H. Davies

Systems integration—tying different types of hardwar and software into a single information network—is as muc a challenge for small companies as for big ones. The differenc is that usually nobody in the small company can do it. Sinc many small-business accounting systems don't accept electronic invoices, their electronic-data interchange (EDI) links t big customers often have more value to the customer than th supplier. Small businesses typically have to reenter the invoices—losing a key benefit of networks, says Schneider.

No matter how hard the transition is for small businesses, it's increasingly clear that mastering information technology pays off, sometimes in unexpected ways. Mikana Manufacturing, the 10-person tool-and-die company, recentl was tapped by Northrop Grumman to help automate th defense contractor's receiving department. The giant's internal efforts had hit a snag. "I find small business overall i understanding and rapidly absorbing technology better," says Doug Marshall, manager for material systems at Northrop Grumman in Hawthorne, Calif. Indeed, Marshall says h looked to Mikana for help because of its reputation for tracking orders. So, as the Information Age reaches Main Street the payback from automation of the U. S. economy continue to spread.

By Gary McWilliams in Boston with bureau report

GOING DIGITAL WITHOUT BURNING YOUR FINGERS

Where do I begin? That simple question can be the toughest for small businesses. Not knowing how—or where—to start off with computers or networks has kept many a small company in the digital Dark Ages. But now, luckily, there are more opportunities for enlightenment than ever before.

First, check with other small businesses in your area for recommendations. For leads, try associations such as the Rotary Club or Chamber of Commerce, which often know the companies that have gone this route before. Franchise owners can tap the knowledge of others in their chains. Ask about their experience with computer companies, software suppliers, or systems integrators—the consultants who customize off-the-shelf technology for individual businesses.

ASK WHY. Next, focus on what really needs to be fixed. If inventories are piling up, a hot manufacturing package may not be the answer. Often, say consultants, companies need to focus on core business issues before picking through the technology. "When small-business people come in and want to automate, the first question I always ask is: Why?" says Robert Distler, president of WAC Consulting Inc., which sells financial and manufacturing systems. As a first step, he suggests doing a needs analysis to determine what, if anything, can be gained from putting in automation.

Going back to school is another good idea. Scan the catalogs of local colleges for adult-education classes that can make a novice familiar with computer terms and technology. "The initial hurdle is becoming comfortable with the technology," says John W. Newman, who directs the family-business program at Babson College in Wellesley, Mass. "Once over that, you're able to adapt to new technologies as they become available."

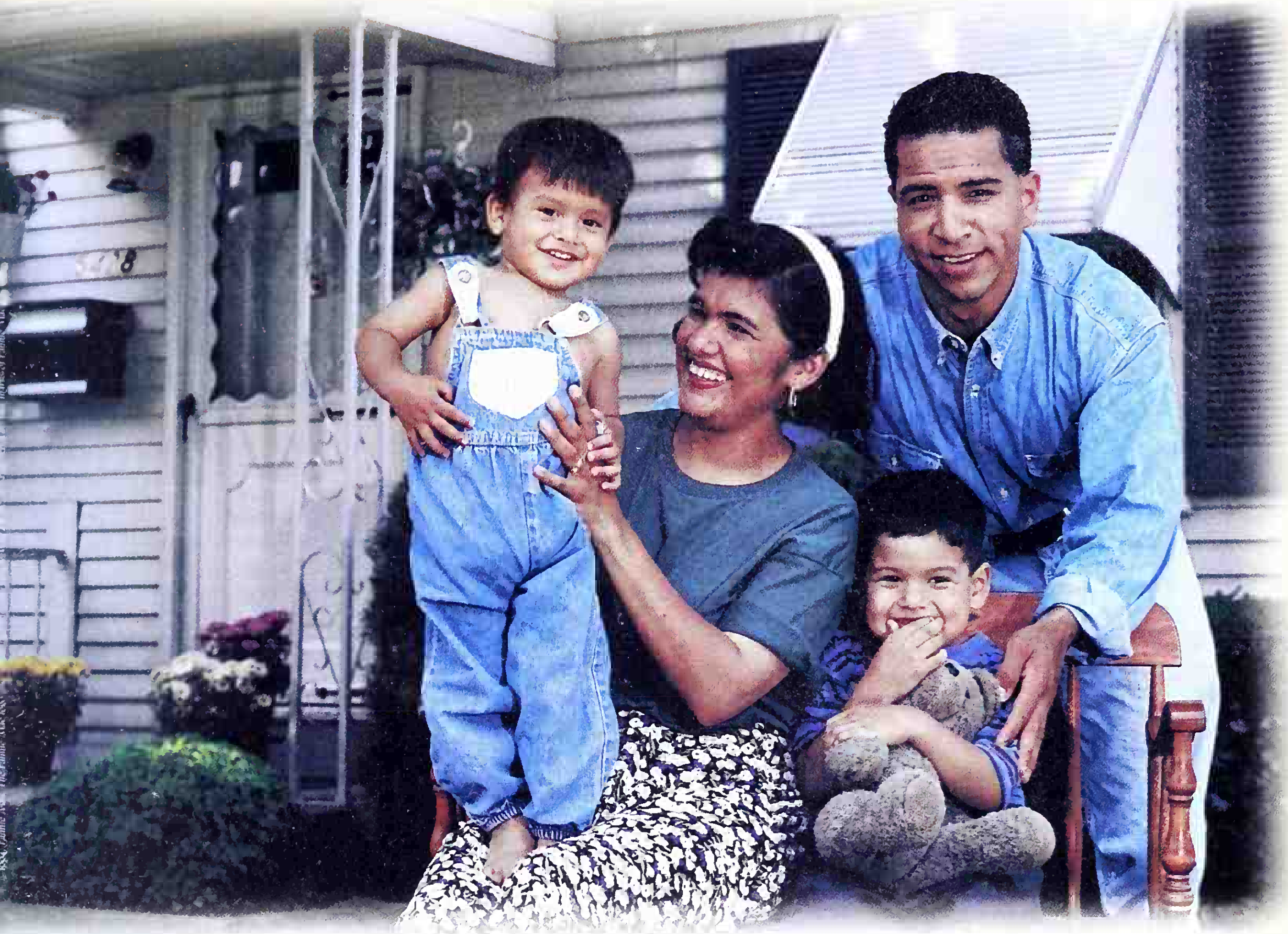
HOW TO REV UP YOUR TECHNOLOGY IQ

- Don't try to automate everything. Pinpoint key operations that will give the biggest bang for the buck.
- A little knowledge goes a long way. Consider taking a college night course to get a basic understanding of techno-speak.
- When you're ready to buy, kick the tires. Whether you use a computer company, a consultant, or a software specialist, check references and look at what they've done for other businesses.

Having analyzed your business and picked up a dose of techno-talk, seek some high-level advice. Universities with computer-science departments often have professors skilled in inventory management and in planning complex systems—common small-business bugaboos. And many professors moonlight as consultants to keep themselves up-to-date. Some business schools, such as Vanderbilt University, assign student teams to consult with small businesses for class credit.

For those unable or unwilling to become so involved, sophisticated help is also available these days. Big-name computer, telecommunications and consulting companies are hot to expand their systems-integration practice among fast-track small businesses. For instance, researcher Cognetics Inc. has hired giant Northern Telecom Ltd. to assess and provide for all its needs—as part of the price of buying the company's products. "I don't even know what hardware I'm getting," admits Cognetics President David L. Birch. "I trust them to find the least error-prone equipment—because they'll have to fix it." In his case, knowing where to begin wasn't even an issue. Birch is letting someone else make that decision.

By Gary McWilliams in Boston



Doors are opening.

Opening to people who want to buy a home, but need more information on how to do it.

Opening to people who've had to struggle just to get access to mortgage credit.

Opening to people who've been underserved, in the city, in the country, across America.

Opening to families buying their first homes.

We're committing a trillion dollars to help finance over ten million homes.

To help people most in need. We're opening a lot of doors.

FannieMae®

Showing America A New Way Home.®

For more information about our efforts to help people overcome the barriers to homeownership, call 1-800-548-9444

If you can picture it, you can scan it.

The New HP ScanJet Scanner

Just click. That's all. If you can do th
HP ScanJet scanners will do the res
Photos, illustrations, text: all easil
incorporated into your document.
The new HP ScanJet 3p is a graysc
scanner, offering 1200-dpi enhance
resolution (300-dpi optical) and ne
software that makes everything aut
matic. The HP ScanJet IIcx boast
24-bit color at 1600-dpi enhanced
resolution (400-dpi optical) and no
includes Calera WordScan OCR sof
ware. What's more, if you purchase
HP ScanJet IIcx between November
and February 28, you'll get a $150 reb
when you send in a coupon availabl
from your dealer. For more informati
or for the name of your local deale
call 1-800-SCANJET, Ext. 8825.

Black & White – $599

Color – $1,179

The easiest thing you'll do all day.

HEWLETT® PACKARD

Suggested U.S. list prices. In Canada call 1-800-387-3867, Dept. 172. ©1994 Hewlett-Packard Company PE12424

Developments to Watch

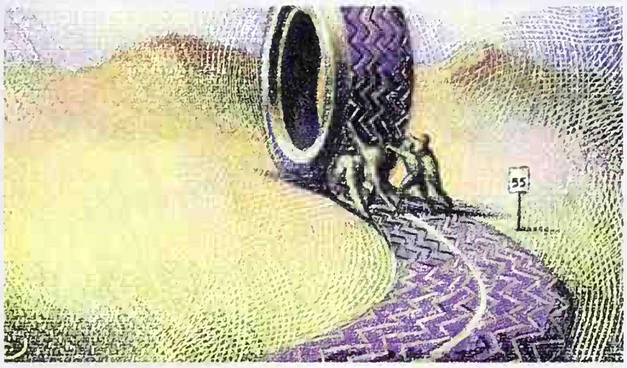
DITED BY OTIS PORT

IAZDA PULLS NTO THE EGGIE AISLE

NDER THE HOOD OF THE azda RX-7 hums a hot little otary engine that soon may elp cool the broccoli in upermarkets. That's the reen" plan at Rotary Pow- International Inc., a Wood- idge (N.J.) defense contrac- r. To lessen its dependence n military business, the ompany aims to turn Maz- a's rotary gasoline engines to clean-burning natural- as engines for big chillers. n the U.S., that market is rtually untapped. But in nergy-stingy countries such s Japan, natural gas ac- ounts for almost all of the ommercial refrigeration and r-conditioning market.

Why modify the RX-7's en- ne? Because it is produced n large volumes, which akes it suitable for price- ensitive customers, says Ro- ry Power President Rich- rd M. H. Thompson. But he so hopes to refine his com- any's own rotary engines for vilian jobs such as generat- g electricity for periods of eak demand. Starting in De- ember, a Mazda engine will et a workout at a New Jer- ey A&P supermarket.

THIS BLACKTOP COMES WITH WHITEWALLS



AIR POLLUTION ISN'T THE ONLY EVIL CARS LEAVE BEHIND. Every year, the U.S. scraps 275 million tires. Dumps already contain about 3 billion rubber carcasses—enough to circle the earth 34 times, according to researchers at North Carolina State University. Tires don't biodegrade. Burning them releases noxious fumes and liquids. And their shape makes them practically useless for any secondary purpose.

Unless, that is, you grind them into powder and combine that powder with cement. It's not a new idea, but after carefully analyzing various combinations of the two materials, North Carolina State civil engineering professor Shuaib H. Ahmad believes that he has found the optimum mix.

Up to 10% rubber can be added to road cement with only minor changes in the pavement's durability and resistance to inclement weather. Of course, shredding the used tires takes a bit of energy, which means burning fuel. "There's always going to be a trade-off," Ahmed says. But the engineer hopes that the new composite, which he calls "rubcrete," will pass the remaining fatigue tests in the next few months. Then, maybe, the rubber will really hit the road.

MAYBE JAWS CAN PUT THE BITE ON CANCER

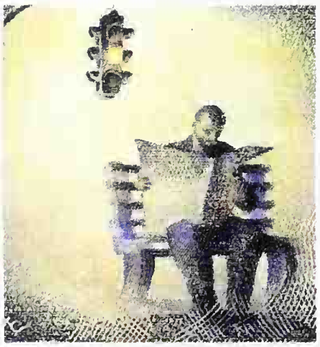
SHARKS AND RAYS ARE PRACTICALLY unique among creatures in their ability to ward off cancerous tumors. Sharp-eyed health-food suppliers took note early, turning dried shark fins into edible tablets. But biologists have also been racing to isolate any fishy compounds that might explain the shark's magical resistance. Now, after scrutinizing dozens of compounds, researchers at California State University in Fresno say they have isolated four substances in shark cartilage that appear to inhibit cancer.

Kin-Ping Wong, dean of Cal State Fresno's School of Natural Sciences, is keeping mum about details until patents are filed. But what the chemicals do is block a mechanism discovered in the mid-1980s at Harvard University: Tumor cells secrete a protein called angiogenin that entices blood vessels to grow close to cancers and nourish them. The shark extracts counteract angiogenin, and the tumor starves. Wong has already begun animal tests, and he hopes to begin human trials next year.

TRAFFIC LIGHTS THAT SAVE ON LONG GREEN

DRIVE AROUND PHILADELPHIA this holiday season, and you may spot some red lights twinkling uncommonly bright. Too bad they're stop lights. Still, if the 27 intersections with redder-than-red traffic signals continue to perform as expected, local taxpayers could get a gift next year from John M. O'Connell, chief engineer of Philadelphia's Municipal Energy Office: A $25 to $50 cut in the annual electricity bill from each red light. Since Philly has some 28,000 traffic signals, the total savings in future years could top $1 million.

That's just for stoppers. When green light-emitting diodes (LEDs) as bright as their red cousins are ready, Philadelphia could pocket another $1 million in savings from energy-stingy LEDs. In addition, there would no longer be a need to replace bulbs periodically—and those savings can be even larger. And LEDs are rugged: Oregon highway engineers even hit the lights with buckshot and only knocked out 20% of them. Ray E. Deese, president of R&M Deese Inc., which makes traffic signals in Anaheim, Calif., figures green LED lights will be ready in a year or two.



Hewlett-Packard Co., a leading supplier of super-bright LEDs, claims its latest recipe for LEDs doubles the output of green light. The intensity of its red, yellow, and orange LEDs already exceeds that of incandescent bulbs behind a colored lens. As the range of colored LEDs expands and increases in power, huge billboards may be painted in points of light, like an illuminated painting by Georges Seurat. Long term, HP has its sights set on LED reading lamps.

ILLUSTRATIONS BY RAUL COLON

IBM®

AS/400
RISC System/6000
ValuePoint

BusinessWeek

Beyond news. Intelligence.

MCI®

PROOF POSITIVE℠

IBM, Business Week, and MCI proudly present a new series airing on Public Television this Fall . . .

SMALL BUSINESS TODAY

Small Business Today salutes the spirit of enterprise and provides information, advice and inspiration to help small business owners achieve their ambitious goals.

Regular features include:

- Interviews with small business owners on how they got started . . . and how they're growing.
- Innovations in technology and telecommunications to improve productivity and expand a growing business.
- Discussions on the law, marketing, selling, financing . . . and more.

Check your local listings for details.

Small business owners Terry Fansler and Hattie Bryant co-host Small Business Today.

High profile planning

Monday 20
Tuesday 21
Wednesday 22
Thursday 23
Friday 24
Satu 25
199
PLAN
Planne
Alan P. Young
Alan P. Young

Special Offer!

Smart business people recognize value for money. 1995 BusinessWeek planners, at 30% off the regular price, represent *eal* value for money. Available separately or in matching black kived leather Sets. The design is sleek yet practical, with 3-month calendars, week-to-view appointment spreads, and omprehensive travel & business information sections. hese are planners with a plus.

On the other hand, BusinessWeek's 'Presidential Set' presents all his in a deluxe 'limited edition' of desk and matching wallet planner. Only 999 boxed Sets are available for 1995, meticulously bound by British craftsmen in top-grade blue leather, with silver metal corner uards, and silver-edged pages. Full ame stamping is complimentary.

or details on customization options and special uantity discounts call Amanda Kane on 201-461-0040

laterials and workmanship fully guaranteed or your money back

USA Credit card holders may call
☎ **TOLL-FREE 800-247-2570**
In Iowa 800-362-2860
Ask Operator 18 for Dept BC4HP4
We honor AmEx/Diners/Visa/MasterCard

Desk Planners:
$10^1/_2$" x $8^1/_2$"
Pocket Planner:
$6^7/_8$" x $3^3/_8$"
Wallet Planner:
$7^3/_4$" x $3^3/_4$"

Name (Mr/Mrs/Ms)__________

Company__________

Address__________

City__________ State/Country__________

Zip/Postcode__________ Tel__________

Job Title__________

☐ Send me your color brochure and information on quantity discounts and customization options.

Full name for blocking__________

Clip coupon and mail with check to BUSINESSWEEK PLANNER, Dept BC4HP5 P O Box1597, Fort Lee, NJ07024, USA *Fax 201 461 9808* or P.O. Box 13, Great Missenden, Bucks HP16 0PZ ENGLAND *Fax 44 494 890757* or Suite C, 22nd Floor, Yiko Industrial Building, 10 Ka Yip Street, Chaiwan, HONG KONG *Fax 852 5589246*

Item	Code	Regular Price	Your Price	Quantity	Total US$
Black Desk & Pocket Planner Set	BW210	~~US$46.00~~	US$32.95		
Black Desk Planner	BW207	~~US$34.00~~	US$24.95		
Black Pocket Planner	BW204	~~US$16.95~~	US$12.95		
Blue Presidential Planner Set	BW101	US$95.00	US$95.00		
(The Presidential Planner Set comprises a blue leather Desk Planner with matched blue leather Wallet Planner. Boxed for gift presentation with complimentary silver blocking of your name on both items)					
		Personalization US$4.75 per item			
		Handling & Packing US$2.25 per item			
		NJ Residents add 6% Sales Tax UK Residents add VAT			
				TOTAL US$	

Prices include delivery by surface mail but do not include local duties or taxes
Delivery commences September 1994

☐ Check enclosed payable to 'BusinessWeek Planner'
☐ Bill my Company (Purchase Order & Company letterhead enclosed)
☐ Charge to ☐ AmEx ☐ Diners Club ☐ Visa ☐ MasterCard

Card No__________

Expiration Date__________ Signature__________

SEMICONDUCTORS

CAN THIS CHIP MAKE THE NEXT QUANTUM LEAP?

Intel and HP plan one twice as fast as anything on the horizon

One immutable law rules the ever-changing computer business: The machine you buy tomorrow will run a lot faster than the one you own now, thanks to relentless advances in microprocessors. When Intel Corp. invented the microprocessor 23 years ago, it used 2,300 transistors to run a calculator. Today's versions—the "brains" for every type of computer and most other electronic systems—contain millions of transistors in a numbing maze of circuit lines. They are among the most complex products ever built. Every few years, though, the progress gets harder to sustain.

In fact, the next generation of circuits will be so complicated that some experts think it might be the last to make the usual quantum leap in performance. Intel's next-generation chip, due next year, will pack 6 million transistors—double the number on its latest Pentium models. Digital Equipment Corp.'s latest Alpha chip already has 9 million transistors. If this keeps up, developing chips will "make the Apollo moon shot look like a weekend romp," says Jeffrey T. Deutsch, a Silicon Valley chip-design consultant. And the circuitry could become so convoluted as to hobble computer speeds.

To avoid that, chip designers are eyeing some radically different concepts to simplify things. The most far-out is called very long instruction word. The VLIW approach would pack a whole stream of commands into extraordinarily long software instructions. This would shift many time-consuming overhead tasks—such as sorting program commands into the proper order and routing them to the right place—from the chip to software. The circuitry that handles these chores occupies up to a third of the silicon real estate on some chips. So eliminating it would make room for more circuits that crunch numbers. The result, says Joseph F. Fisher, a VLIW pioneer with Hewlett-Packard Co., would be microprocessors at least twice as fast as anything now on the horizon.

There's little doubt that VLIW is technically feasible. In the late 1980s, several companies built VLIW-based computers—notably Multiflow Computer Inc., co-founded by Fisher. And in 1990, Philips Semiconductors, the Silicon Valley unit of Philips Electronics, unveiled a VLIW chip. Because of difficulties in adapting software, the computers soon disappeared, and the Philips chip hasn't caught on.

SCRAMBLE FOR SURVIVAL? So, VLIW looked like a bust—until last June. That's when Intel and HP jointly announced a new departure in microprocessors. They will use VLIW to bridge the technology gap between Intel's X86 family and HP's svelte reduced instruction-set computing (RISC) chips. In essence, the two companies are betting their futures on VLIW.

And they're not the only ones revisitin VLIW. Sun Microsystems Inc. has at leas two teams, including one in Russia, digging into VLIW. And in September, IB said future generations of its PowerP chips, developed with Motorola Inc. an Apple Computer Inc., would tap VLI methods as well. "Everybody's lookin into it," says Glenn Henry, head of th personal-computer division at MIPS Technologies Inc., the RISC-chip arm of Silico Graphics Inc.

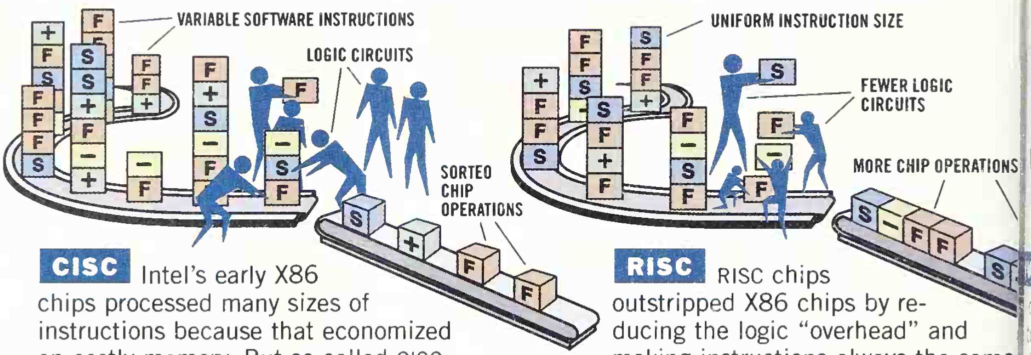
The quest for VLIW could even become a scramble for survival—for computer companies as well as chipmakers Worldwide, microprocessors are an $11. billion market. But Intel's 80%-plu share leaves barely $2 billion for the si runners-up: Motorola, IBM, HP, Sun, MIP and DEC, plus a few others in Japan, Europe, and the U. S. Given the cost of developing a new chip—up to $100 millio for design engineering, plus $1 billio for a factory—most pundits expect th U. S. field to be whittled to three playe by decade's end. Says former HP chi designer Linley Gwennap, now edit of the newsletter *Microprocessor R port*: "It's hard to see how they can a survive."

It won't be for lack of demand. Ge ting John and Jane Doe on the Informa tion Superhighway will take an enormou boost in computing power. Couch pot toes may not budge without much frien lier screen interfaces and PCs that r spond to verbal commands. Generatin that much horsepower with current tec nology might require tens of millions transistors—enough to choke the chip The reason dates to 1971. To conserv then-precious memory space, Intel d signed the first silicon brain so each sof ware instruction could dictate multip on-chip operations. The trade-off wa that complex instruction-set computi (CISC) chips had to "decode" each instru

THE EVOLUTION OF CHIP TECHNOLOGY

A microprocessor's "clock rate" isn't the only factor affecting performance. Something else is becoming increasingly important: How many instructions are executed with each clock tick.

+ ADD
– SUBTRACT
F FIND
S STORE



CISC Intel's early X86 chips processed many sizes of instructions because that economized on costly memory. But so-called CISC chips also needed more logic "workers"—circuits—to keep complex operations sorted in the proper order.

RISC RISC chips outstripped X86 chips by reducing the logic "overhead" and making instructions always the same length. But now, RISC chips are handling so many operations that keepin data flowing is again getting tough.

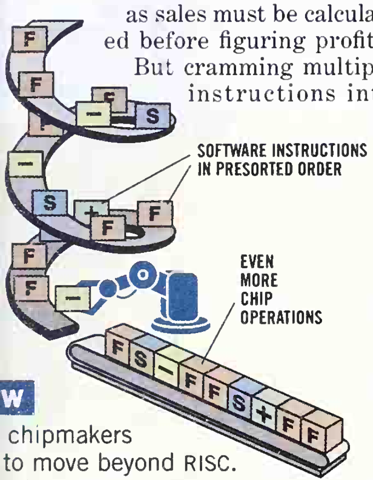
GRAPHIC BY LISA KNOUSE BRAIMAN/BW

n—to determine how many operations
ere were and sort them into the right
quence. As a result, processing one in-
uction often took several ticks of the
p's internal clock.

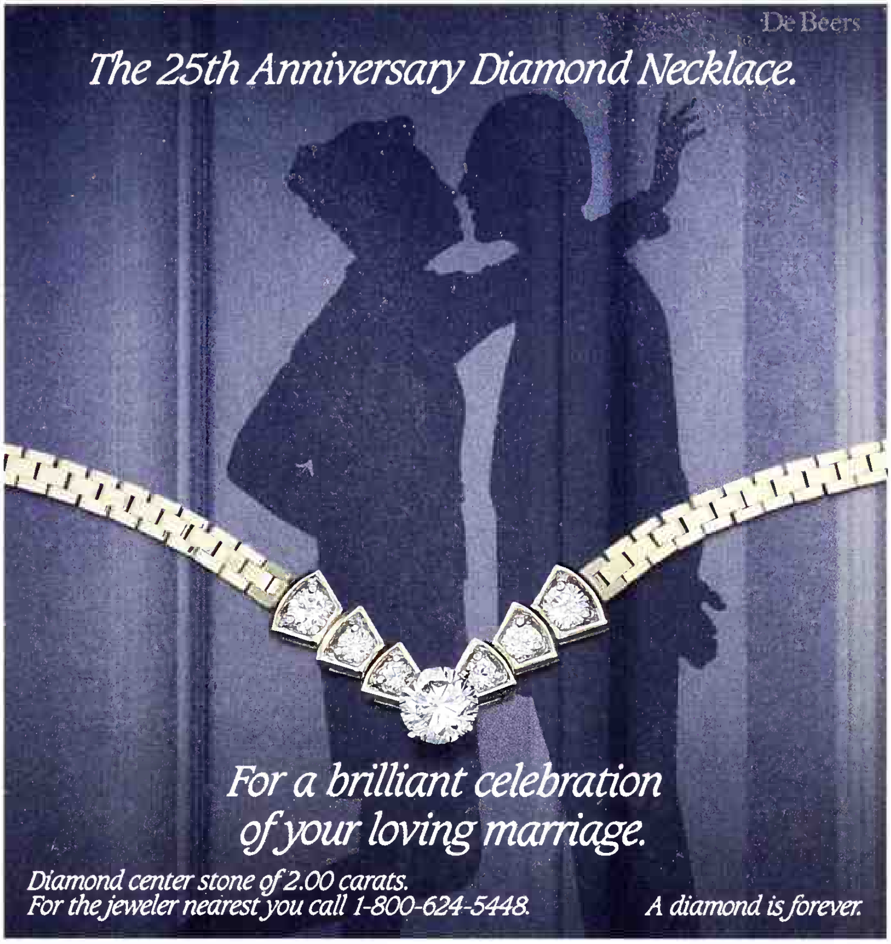
A decade later, HP helped pioneer the
C approach. To speed up processing,
C uses a software tool, called a com-
er, to slice computer programs into
nple instructions of uniform size. Since
chip has to contend with fewer over-
ad functions, it runs faster. Initially,
C chips could polish off as many as
e instruction per clock tick, or cycle.
ck then, clocks ticked about 10 million
nes a second (10 megahertz).

HER PLANE. Now, even RISC chips are
out to catch the Intel "disease." All
latest microprocessors chew on two
more instructions per cycle. Regulat-
this takes extra traffic-cop circuits,
ce processing one instruction may re-
re the results from the other—just
as sales must be calculated before figuring profits. But cramming multiple instructions into
ch clock cycle is the only way to com-
nsate for another factor: It's getting
ugher to increase performance by
eeding up the clock rate. Over the past
cade, the clock speed of Intel's chips
jumped tenfold, to 100 Mhz in today's
Pentium model. It's dubious whether
physics of silicon crystals will per-
another tenfold increase, however.
at's why next year's crop of chips will
ndle at least four instructions per cy-
Six may be the limit, some experts
: Beyond that, chips could spend so
ch time directing traffic that they
uldn't run much faster.

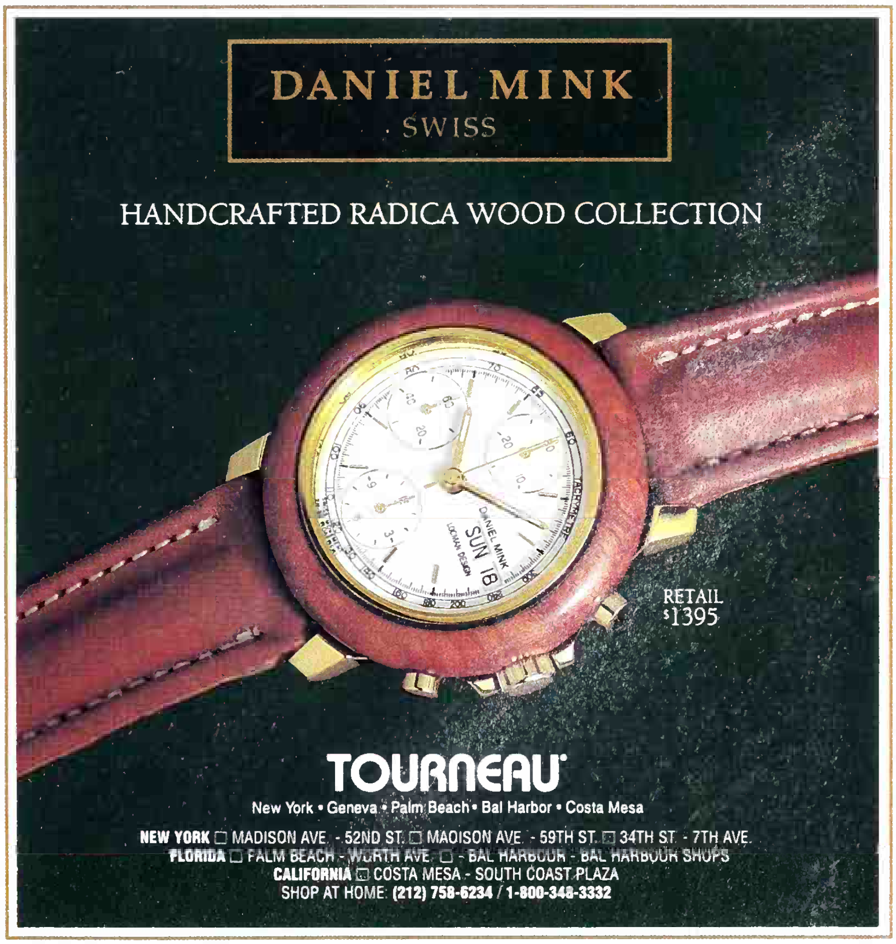
Enter VLIW. To move to a higher per-
mance plane, VLIW would use an even
arter compiler that would presort
ht or more instructions and clump
m together into one extra-long
rd," which could be fed straight to
chip's number-crunching circuits.
e a chess grandmaster who thinks a


F
F
S
SOFTWARE INSTRUCTIONS IN PRESORTED ORDER
S
F
F
F
F
EVEN MORE CHIP OPERATIONS
F S – F F S + F F

W
chipmakers
to move beyond RISC.
chips may double RISC
ds by stuffing each clock cycle
eight or more instructions—all
ped together in a very long "word."

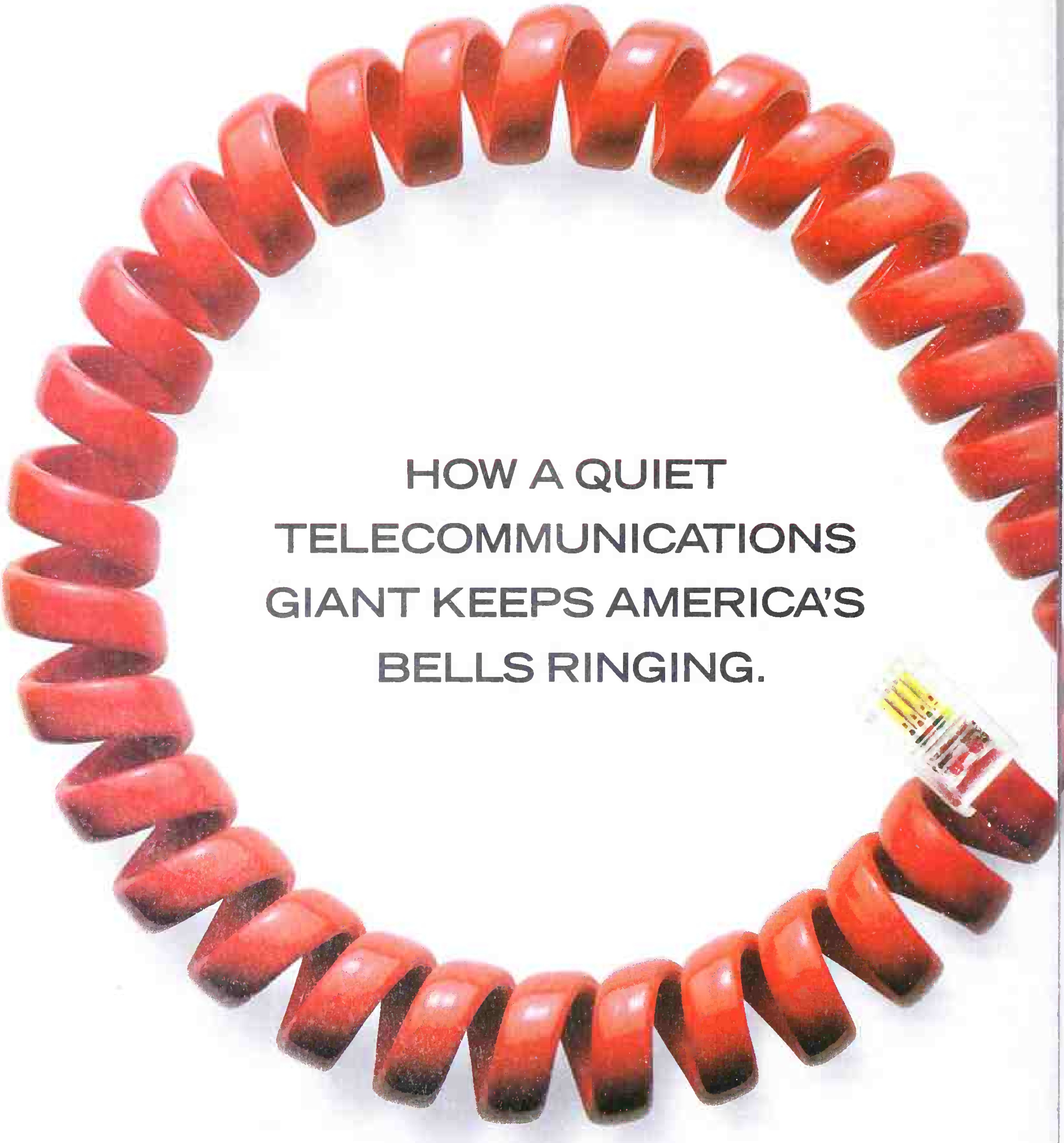


De Beers
The 25th Anniversary Diamond Necklace.
For a brilliant celebration of your loving marriage.
Diamond center stone of 2.00 carats.
For the jeweler nearest you call 1-800-624-5448.
A diamond is forever.



DANIEL MINK
SWISS
HANDCRAFTED RADICA WOOD COLLECTION
RETAIL $1395
TOURNEAU
New York • Geneva • Palm Beach • Bal Harbor • Costa Mesa
NEW YORK ☐ MADISON AVE. - 52ND ST. ☐ MADISON AVE. - 59TH ST. ☐ 34TH ST. - 7TH AVE.
FLORIDA ☐ PALM BEACH - WORTH AVE. ☐ - BAL HARBOUR - BAL HARBOUR SHOPS
CALIFORNIA ☐ COSTA MESA - SOUTH COAST PLAZA
SHOP AT HOME: (212) 758-6234 / 1-800-348-3332

HOW A QUIET TELECOMMUNICATIONS GIANT KEEPS AMERICA'S BELLS RINGING.



We've learned something over the last half century about fitting new telecommunications systems into existing ones. Even more than technology, it takes ingenuity. And that keeps the entrepreneurial juices flowing. ∞ Fujitsu technology and timing made the first self-healing SONET fiber optic ring network in the U.S. a reality for Cincinnati Bell Tele-hone. And made America's first high-bandwidth urvivable ring network achievable for New Jersey Bell. Making costly ervice interruptions caused by natural or man-made disasters virtually bsolete. ∞ When NYNEX called, we installed for joint trials the world's irst switching system capable of handling everything from narrowband voice to broadband video. ∞ And with higher technology we offer higher service, including the industry's longest warranty on our F9600 ISDN platform PBX. ∞ Matching resources with resourcefulness has helped make us a world leader in communications and computers. Now it's helping us provide the answers when America's Bells ring.

FETEX-150
B-ISDN

FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

DEC. 31 DEADLINE

REDUCE YOUR 1994 TAXES WITH THE SIMPLIFIED KEOGH

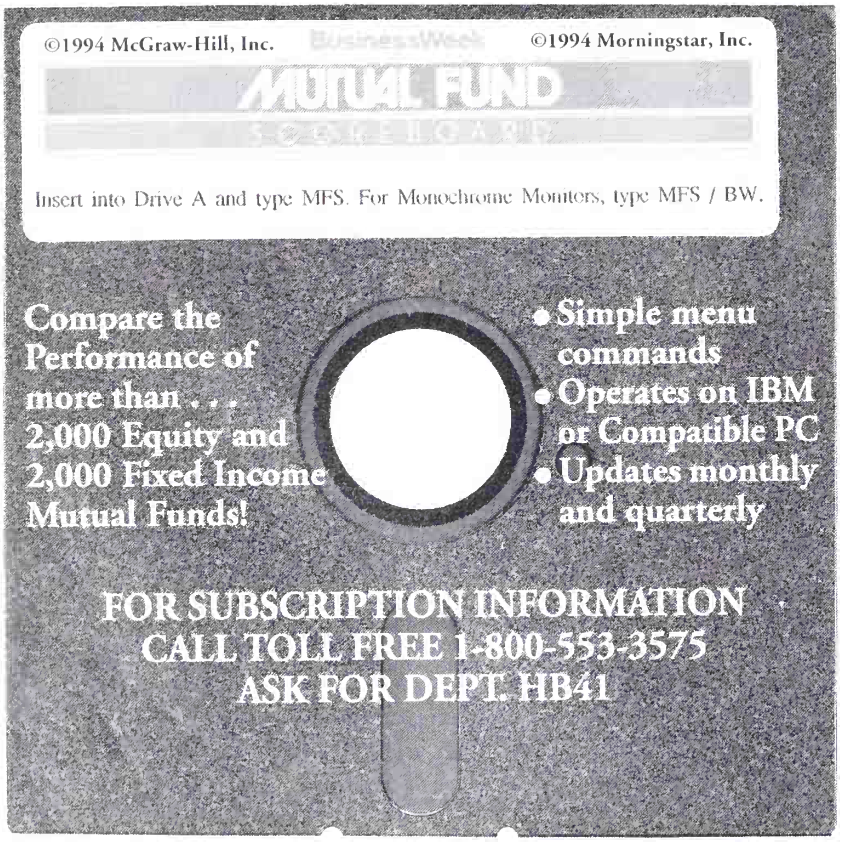
The T. Rowe Price Simplified Keogh®: Tax advantages and flexibility. Professionals, self-employed individuals, and small-business owners: You may be able to contribute pretax income of up to $30,000 to your retirement account. And you can defer taxes on your contributions and any earnings until withdrawal. You can choose from 42 no-load mutual funds to invest in.

Comprehensive, yet easy to implement and run. The T. Rowe Price Simplified Keogh has a short, easy-to-complete application and step-by-step setup instructions. Running it is easy and cost-effective. And when you have investment questions, a simple phone call to our retirement specialists will get you answers.

Call today for a free kit
1-800-831-1461

Invest With Confidence
T. Rowe Price

T. Rowe Price Investment Services, Inc., Distributor. KEO024098



©1994 McGraw-Hill, Inc. BusinessWeek ©1994 Morningstar, Inc.

MUTUAL FUND SCOREBOARD

Insert into Drive A and type MFS. For Monochrome Monitors, type MFS / BW.

Compare the Performance of more than . . . 2,000 Equity and 2,000 Fixed Income Mutual Funds!

- Simple menu commands
- Operates on IBM or Compatible PC
- Updates monthly and quarterly

FOR SUBSCRIPTION INFORMATION
CALL TOLL FREE 1-800-553-3575
ASK FOR DEPT. HB41

dozen moves ahead, the software compiler would keep a lookout for instruction that could be run in one fell swoop. Th chip's pesky scheduling circuits coul then be eliminated.

VLIW is no shoo-in, though. It coul get short-circuited by the same soft ware-incompatibility problem tha blocked speedier RISC chips from grab bing more of Intel's market. This tim in fact, the software issue looms large To realize its potential, a VLIW chip mu be fed instructions in a very precise o der. Any change in silicon design coul require all software to be "recompiled, or re-sorted. And not many custome will upgrade to a new computer if means trashing their existing program

PARALLEL APPROACH. Intel and HP wi pull out the stops to solve that pro lem—and they insist a possible fix is i sight. How it works is the 64-gigab question. One speculation is that VLI chips might include a patch of slowe circuits for running old software. Th could be necessary, say VLIW skeptic because conventional programs, such spreadsheets and database softwar may not be predictable enough for i structions to be arranged in VLI strings. In any case, no existing com piler could do the job.

This superspeedy new chip is no shoo-in: It may be incompatible with existing software

Some experts believe a better solu tion is to gang up multiple microproce sors in one computer. This parallel-pr cessing approach is already a maj trend in scientific computing, which w the prime market for Multiflow's VLI systems. The next step, according consultant Deutsch and others, could to slap multiple processors on the sam slice of silicon.

Still, no microprocessor hopeful c ignore the possibility that the Intel-H partnership will hit a home run—a supe speedy VLIW chip that handles existi software. Such a breakthrough could c ment Intel's near-monopoly for year Eric Harslem, senior vice-president Dell Computer Corp., gulps at the pro pect. Are computer makers about to e up with a "single microprocessor source he wonders. Intel hopes so—and warming up in the batter's box.

By Robert D. Hof in San Francis

TECHNOLOGY GUIDE

Technology continues to change the way we do business and conduct our lives. That is why BUSINESS WEEK is offering the Technology Guide, a directory of technology marketers that readers can contact to help gain the competitive edge.

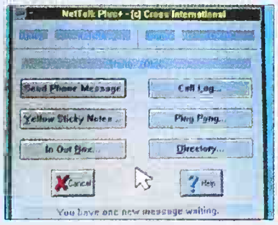
For fast response, call the phone numbers within each advertisement or mail in the reader response card provided for your convenience.

Advertisers who want more information about this new direct response opportunity should contact BUSINESS WEEK at (212) 512-3598.

Say Good-bye to Telephone Tag

Don't lose the customer because you missed the phone call!

Starting at $99, NETTALK™ provides screen-to-screen communications on your LAN from within all applications with: (1) Popup YellowSticky™ Pads, (2) Phone Intercom–the receptionist can immediately notify you on your screen, (3) In/out box and "if" messages, (4) LAN Chatting (5) Action Item Manager, (6) Company and Personal Calendars, (7) Company Telephone Directory and (8) Call Log–every call is date and time stamped.



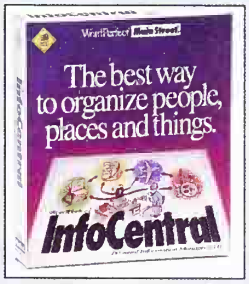
You have one new message waiting.

According to **LAN TIMES**, "NETTALK™ is a small price to pay for network users who need to stay in touch with one another." **BusinessWeek** added that it is "simpler and easier to use than standard electronic mail systems!" **Call Cross International today at 303-440-7313 or FAX 442-2616.**

InfoCentral™

InfoCentral Organizes It All!

Get organized with InfoCentral—the revolutionary and award winning software that makes it easy to plan daily activities, prioritize tasks and keep track of valuable information. InfoCentral's advanced iConnect™ technology makes it a breeze to organize your information — from CD collections to files created in WordPerfect, Microsoft and Lotus products. Then simply remember one detail about a piece of information, and InfoCentral will retrieve it instantly! With InfoCentral, you'll never miss a meeting, birthday or doctor's visit; or misplace a client's number or important notes again. Purchase InfoCentral today by contacting your local reseller or calling 1-800-526-9887.



WordPerfect®
Main Street.

If Hansel & Gretel had P>NAV™

instead of breadcrumbs, they wouldn't have gotten lost...

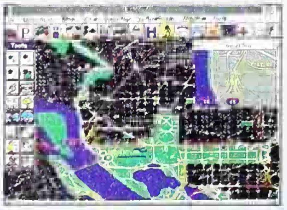
Complete cross country and in-city driving directions for 40 major U.S. metro areas

Mobile Yellow Page listing to help you find ATMs, gas stations, parking lots, restaurants, hotels, emergency help, etc., along the way

Global Positioning System (GPS-Navigation by Satellite) to locate and track your progress

Voice Output to talk you through the directions every step of the way

P>NAV...We know where you are going



To order CALL (800) 349-1231

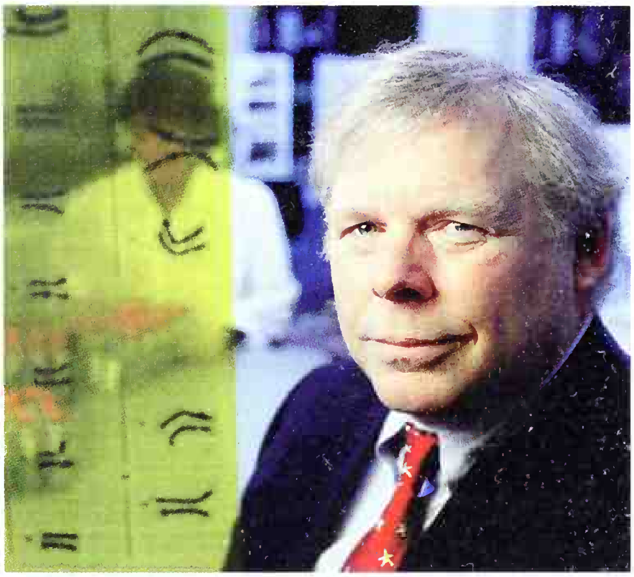
Get P>NAV, the North American highway map and an available city for $149.95 plus shipping and handling

Personal Travel Technologies, Inc.

BIOTECHNOLOGY

THE GENE-TESTING BOOM IS STILL SET FOR SOMEDAY

Many startups have vanished and most survivors are in the red



SEED MONEY: *IG's Hillback is spending big on research*

America's gene sleuths are a prolific lot. Hardly a day goes by without a discovery of a new strand of DNA that leads to cancer, heart disease, or some other deadly affliction. And no sooner are new genes discovered than companies spring up with diagnostic tests to reveal which individuals harbor a fateful genetic flaw.

Demand for that knowledge will someday fuel an explosion in gene testing, experts predict. But the boom is taking longer to materialize than anyone anticipated. Prenatal tests such as amniocentesis have blossomed into a $270 million market. The rest of the gene-testing industry is minuscule, however, and littered with corpses of startups.

BIG HURDLE. The obstacles are varied and complex. Controversies swirl over the ethics and accuracy of tests that predict incurable diseases. That has slowed acceptance among doctors and potential patients. Cash-strapped gene-test startups are also floundering under heavy development costs, while battling with large hospitals that offer similar tests. Thus, one of the most heralded medical gold mines of the late 20th century will be lucky to achieve $1 billion in revenues by the year 2000. "The market has been much slower to materialize than anyone expected," says John P. Richard, former sales vice-president of Collaborative Diagnostics Inc., a now-defunct gene startup.

The biggest hurdle for fledgling gene-testers is acceptance among doctors, who must grapple with painful questions. How can they reassure patients who learn that they are carrying a deadly gene, such as the one for Huntington's disease? What kind of counseling is needed? Should family members be informed of test results? And how will insurance companies and employers react? "The real problem is that primary-care physicians know little about genetics," says Dr. Philip R. Reilly, executive director of the Shriver Center for Mental Retardation in Waltham, Mass. Uncertain of how to manage the results, most doctors still don't promote the tests unless they yield information vital to treating patients who are already sick. "The industry is too wrapped up in mystique to take off," says Harvard business school professor Elizabeth Olmsted Teisberg, a specialist in emerging technologies.

Questions about test accuracy have also slowed popular acceptance. Consider the case of Vivigen Inc. in Santa Fe, N. M. By performing prenatal tests for Down's syndrome and other chromosomal disorders faster and more cheaply than hospitals, Vivigen grew into America's largest genetic testing lab, with more than $12 million in sales in 1991. But the market grew more competitive, and the company stumbled when its new test for cystic fibrosis, rolled out in 1990, achieved just 70% accuracy. The American Society of Human Genetics squelched the test with a cautionary statement, and with no other blockbusters in the pipeline Vivigen was sold to competitor IG Laboratories Inc. in 1992 "When the CF gene was discovered thought we were going to roll, but [the ASHG] took me to the woodshed," says Vivigen founder Tom Reed.

A Slow Start for Genetics Testing

	1993 REVENUES MILLIONS	ANNUAL VOLUME	COMMERCIAL INTRODUCTION*
PRENATAL TESTS	$270	2,400,000	1975
POSTNATAL CHROMOSOME TESTS	20	40,000	1970
CANCER TESTS	30	42,857	1975
DNA TESTS FOR INHERITED DISEASE	6	5,000	1985
PATERNITY AND IDENTITY TESTS	50	500,000	1988

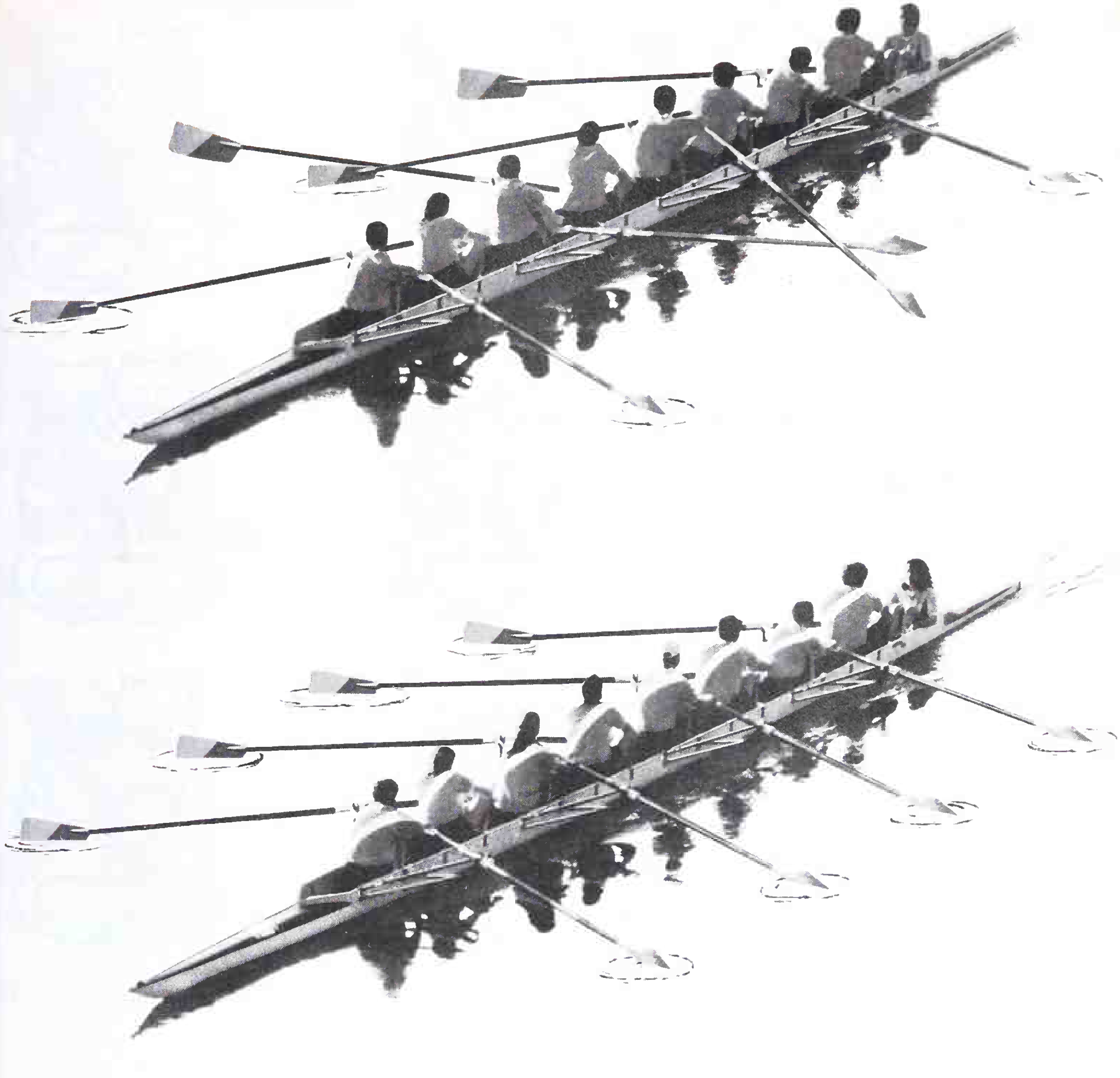
* BW ESTIMATES

DATA: ELIZABETH OLMSTED TEISBERG, HARVARD BUSINESS SCHOOL

MANY WOES. Vivigen is a microcosm of the tumultuous gene-testing industry. Doctor look forward to a day when low-cost DNA tests of the sort Reed targeted will be available for common diseases such as breas and colon cancer—potentially huge market. But today, suc tests can only tag relatively rare hereditary diseases, such as CF. Combined industry sales in this segment will be jus $7 million in 1994. Because volume is s small, big players—including some 45 hospital and research labs—use profit from high-volume medical tests to subsidize DNA tests. Small startups can duplicate those funds.

Even larger, more established players have financial woes. IG, for example, i the leader in both prenatal procedure and ID tests for paternity and law enforcement. Its revenues are expecte to jump 24%, to $51 million, this yea But IG is spending heavily on new technology, including a test to predict disorders such as Down's syndrome from fetal cells in the mother's blood. The tes will eliminate the need to insert a needle in the uterus and could be a blockbuster. With development costs reachin into the millions, however, IG doesn't expect to break even until at least 1996.

Meantime, delays and disappoin ments have triggered a wave of conso idation. Dianon System Inc. in Stra ford, Conn., bought Collaborativ Diagnostics Inc., a small maker of DN tests for lymphoma and leukemia, i



The Result of Pulling Together.

When your job is on the line every day, it's critical to see a team of experienced hands working together. Pulling for you. Helping you get ahead.

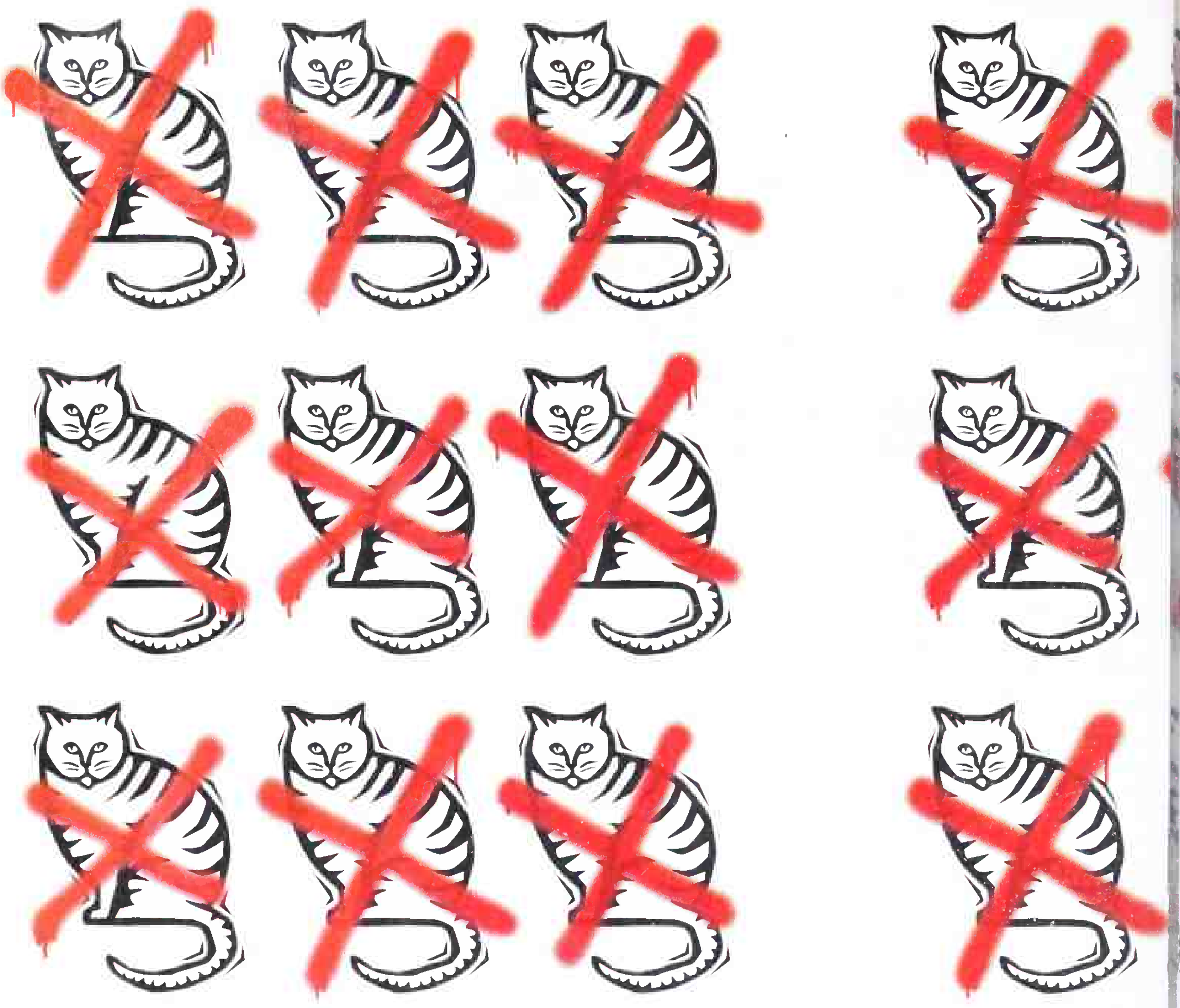
S&P's ability to swing into action comes from long practice, analytical skill and proven teamwork.

This team approach gives you easy access to our credit ratings, our rationales, and direct contact with our analysts. Their experience and willingness to share in-depth knowledge can help you set the pace when it comes to today's complex investment strategies.

You'll see a difference with S&P pulling for you. We really put our backs into it.

Standard & Poor's
A division of McGraw-Hill, Inc.

Corporate Finance *212 208-8931*
Financial Institutions *212 208-1836*
Insurance Rating Services *212 208-1367*
International Finance *212 208-1912*
Public Finance *212 208-1723*
Publishing Services *212 208-1146*
Structured Finance *212 208-1399*



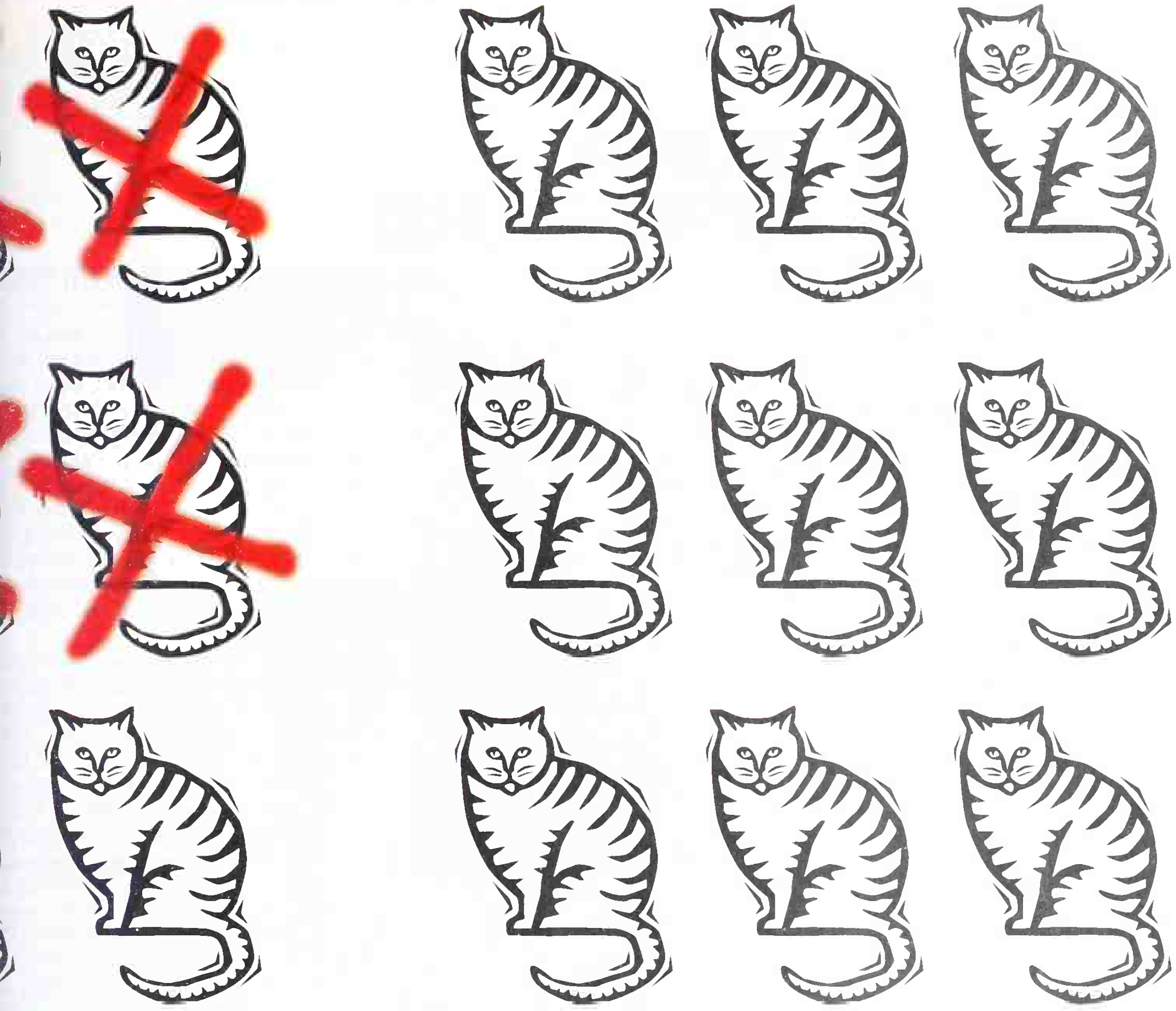
Let's say comput

intel inside
pentium
PROCESSOR

Some computers have nine lives left. Others don't. That's why if you're buying a PC today, you should only be considering Pentium™ processor-based PCs.

The reason is simple. A more power PC lasts longer, since it will still have plenty of horsepower when tomorrow's applications come along. And most new Pentium processor-based systems also include the latest PC technology — like

© 1994 Intel Corporation



have nine lives.

I local bus for high-speed graphics and ug and Play technology for easy expansion the years to come.

That, plus the fact that these PCs are now affordable, makes this a great time to buy a ntium processor-based PC. Especially when you'll be getting a system that performs so well. Today. And several lives from now. For more information call 1-800-626-6788, Ext. 213.

intel®

1992. Last September, Corning Inc.'s medical testing division, MetPath, bought Nichols Institute, a large genetic testing lab. And IG is using the deep pockets of its majority owner, Genzyme Corp., to buy gene-testing outfits around the U. S. "When the market finally takes off, we want to be there with a broad, strong base," says IG CEO Elliott D. Hillback Jr.

Still, limited funds narrow the options of small players. Dianon rakes in $30 million a year from specialized, nongenetic cancer tests, administered through oncologists and gynecologists. Now, it plans to use that network to expand the market for its newly acquired DNA tests, hoping for about $300,000 in sales this year. Another approach is to pick a big niche. Startup Genica Pharmaceuticals Corp. of Worcester, Mass., wants to corner the market on neurological genetic tests. It has exclusive rights to a promising new Alzheimer's test that was to be announced Nov. 10. Founded in 1989, Genica should gross $9.3 million this year and is in the black.

LONG WAIT. Success stories, however, remain the exception. More common are companies such as Myriad Pharmaceuticals Inc. in Salt Lake City, which acquired exclusive rights to develop diagnostic tests for the breast cancer gene called BRCA1 but won't market a product until 1996. And a DNA test for hereditary colon cancer developed by Oncormed Inc. in Gaithersberg, Md., backed by $7 million from a public offering in October, may not find a mass market for years, concedes the company's president, Dr. Doug Dolginow.

Once profits do start to flow, giants of the medical testing industry such as Roche, SmithKline, and MetPath will pounce. A likely route for expansion is new automated testing techniques, which they could license or buy from innovators such as Affymetrix Inc. in Santa Clara, Calif., and Molecular Tool Inc. in Baltimore. Both are developing techniques that simplify DNA testing by etching thousands of gene mutations onto tiny silicon chips and comparing those with samples from human blood. Such techniques could make test results available in minutes, rather than weeks, and bring costs down from several hundred dollars to less than $100.

Such advances, placed in the hands of large players, will speed consolidation, predicts Dr. Kim D. Lamon, senior vice-president of MetPath. "It will be difficult for DNA labs with a narrow focus to survive." The future of the Genetic Age is still bright. But for a few more years, companies that sell gene tests will continue to grope in the dark.

By Geoffrey Smith in Boston

LUXURIES

TRENDY? HEAVEN FORBID!

TAG Heuer's watches are all the rage in the down-to-earth '90s

"WE SELL IMAGE": *TAG Heuer's Viros*

Filmmaker Steven Spielberg saw an ad recently for a sporty wristwatch he couldn't resist and sent an aide to buy one: the first gold model from Switzerland's TAG Heuer. This $15,000 bauble almost didn't make it to Spielberg's wrist. TAG Heuer's chief executive, Christian R. Viros, had initially vetoed gold cases as clashing with his company's sober, stainless steel culture. Only after distributors screamed for a model to compete with rival Rolex' precious-metal watches did he give in. "We like understatement," says Viros, who drives a black Porsche and shudders if you call his watches "trendy."

Trendy they are, nonetheless. Just as glittery Rolexes defined the high-flying 1980s, TAG Heuer's chunky, brushed-steel watches with big numerals are becoming an emblem of the down-to-earth 1990s—even though the average price is $1,200. The stand-out styling has pushed the company into the big time. It now ranks fifth in dollar sales among Swiss watchmakers, behind Rolex, Swatch, Cartier, and Omega. Only five years ago, it was 15th. Its sales have nearly tripled in that period, to $212 million.

The company is a striking example of the power of marketing. It's run by Viros and two fellow consultants fron Booz, Allen & Hamilton Inc., all of ther French. They were hired to reviv Heuer after a Saudi family bought it i 1986. Viros built dams in Pakistan before getting an MBA at Columbia University and then consulting for S. C Johnson & Son Inc., Courvoisier cognac and a Greek yogurt maker. Viros quickly divined the secret of the watch trade "We don't sell products to tell time," h says. "We sell image."

SAFE ZONE. Heuer's image had woun down. Its midpriced lineup was diffuse from sports models to dressy evenin watches. Ad spending was tiny. Viro dumped all but sports models and hire designers to come up with a commo style for new products. All Heuer watches have rotating "bezels" for ocean divin and resist 200 meters of water pressure

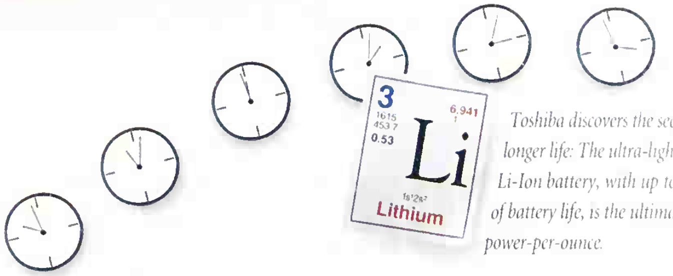
From consulting, Viros knew that th safe zones in consumer products are either luxury or mass-market goods. H picked the former, dropping Heuer $100 models and moving gradually up scale. Soon he'll kill TAG Heuer's cheapest watch, a $250 model with a fiber glass case. A $700 model will then b its least expensive. Viros is big on promotion, pouring 17% of sales into advertising and an additional 8% into sponsoring sports events. Even so, afterta profits are a huge 25% of sales.

From now on, growth will be harder, s Viros is plotting a new "micromarketing strategy to build clout in existing markets. In trend-conscious Japan, he'll soo open a "TAG Heuer Space" for art exhibits—and watch sales. If it pays off, he' open 10 more in Singapore, New Yor and elsewhere. He'll sponsor more loc events, such as this month's New Yor Marathon, where TAG Heuer was offici timekeeper. And new products are coming, including a watch with a blue fac

Viros hopes the next decade won bring a new watch ethos. "We want t become an institution," he says. That's tough order, but Viros at least know the formula: image, image, and image

By Stewart Tc
in Neuchâtel, Switzerlan

The new AccuPoint™ isometric pointing device works in conjunction with click and drag buttons located comfortably beneath the thumbs.



Toshiba discovers the secret to longer life: The ultra-lightweight Li-Ion battery, with up to 6 hours of battery life, is the ultimate in power-per-ounce.

DEFY THE LAWS OF SPACE AND TIME.

Generous 8.4" and 7.8" active matrix displays (on the T3600CT and T3400CT, respectively) deliver 256 SVGA colors.

PORTÉGÉ

T3600CT

- 50MHz i486™DX2
- 8.4" dia. color TFT-LCD active matrix display—256 color SVGA
- 8MB RAM (expandable to 24MB)

T3400CT

- 33MHz SL Enhanced i486™SX
- 7.8" dia. color TFT-LCD active matrix display—256 color SVGA
- 4MB RAM (expandable to 20MB)

BOTH MODELS

- 250MB HDD
- Lithium-Ion battery
- Type II (5mm) PCMCIA slot
- 4.4 lbs.—7.9" x 9.9" x 1.8"
- AccuPoint™ integrated pointing device
- Integrated BitBLT graphics accelerator
- VL local-bus video
- Ports: serial, parallel, FDD, and VGA adapter
- Optional Port Replicator
- MS-DOS®, Microsoft Windows™, and CommWorks™ for Windows

3 YEAR LIMITED WARRANTY

INTRODUCING THE ULTRAPORTABLE PORTÉGÉ.

Never before have computers so perfectly balanced mass and speed. Now you can travel with a system smaller than a notebook—yet graced with the power and feel of a full-size computer. The ultraportable Portégé™ is driven by the full force of a high-performance i486™ processor, is equipped with a 250MB HDD and a high-endurance Lithium-Ion battery, and shines with Toshiba's renowned color active matrix display. There's even an optional Port Replicator for simple, single-point connection to your desktop environment. See how far we've taken every aspect of portable computing. Then, think where it can take you. **Call 1-800-457-7777 for your nearest dealer.**

THE SHAPE OF THINGS TO GO.℠

intel inside®

In Touch with Tomorrow
TOSHIBA

© 1994 Toshiba America Information Systems, Inc. All products indicated by trademark symbols are trademarked and/or registered by their respective companies. The Intel Inside logo is a trademark of Intel Corpo

INSTITUTIONS

WHEN A BROKER FEELS BETRAYED BY HIS FIRM

Howard Clark quit PaineWebber, claiming that it led him to push a disastrous investment

Every broker knows the cardinal rule of the industry: Be loyal to your firm. But as any experienced broker knows, obeying your employer can sometimes mean hurting your customers.

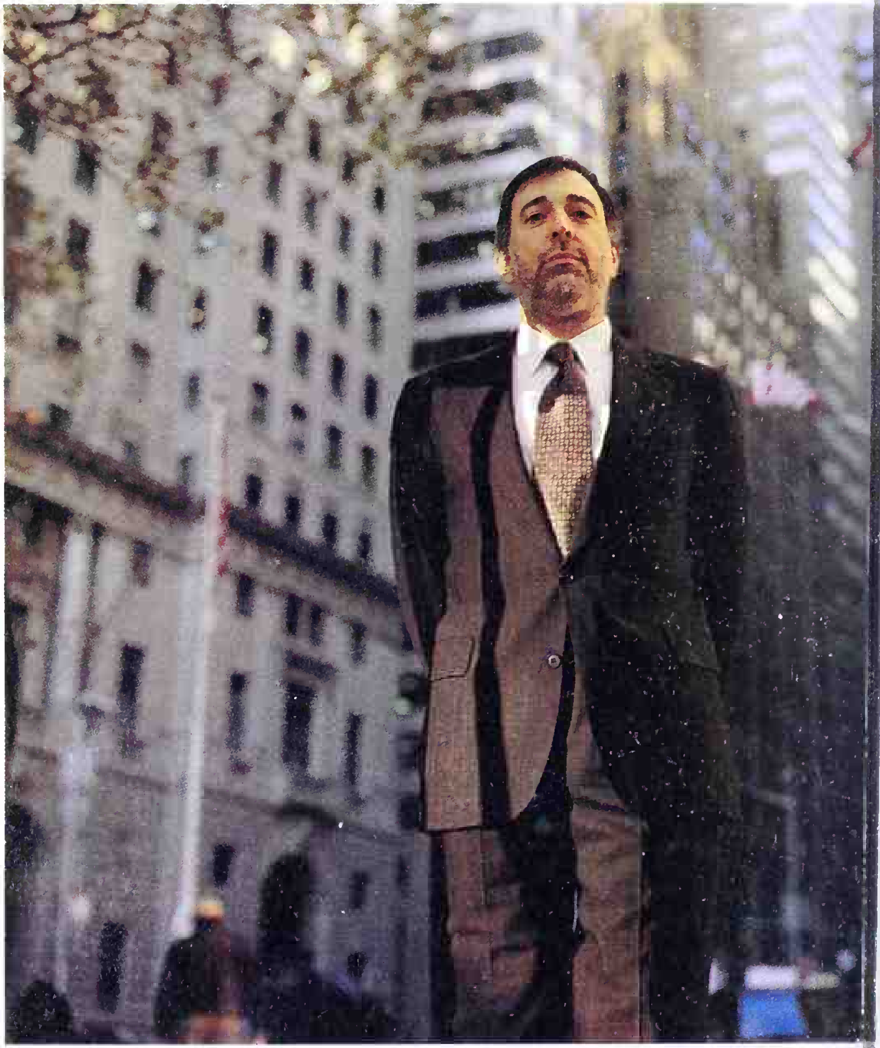
Howard J. Clark learned this lesson the hard way. He has been waging a bitter battle against PaineWebber Inc., his former employer, to protect the interests of his customers who lost money in a troubled limited partnership. Essex Financial Partners LP, was sponsored by PaineWebber, and its goal was to buy savings and loan associations. Essex, though, produced huge losses for the 2,700 customers who bought $40 million worth of Essex during 1989-90. After Clark failed to persuade top PaineWebber officials to compensate 27 of his clients who invested in Essex, he quit the firm. In an act of disloyalty to PaineWebber—but loyalty to his customers—he is supporting his clients in a New York Stock Exchange arbitration action filed against PaineWebber in 1993. The case is pending.

NO REPORT. For PaineWebber, the Essex affair is an embarrassing black eye, an aggressive marketing campaign to attract investors that turned out to be mostly fantasy. In pitches to the firm's brokers, PaineWebber said Essex, which was listed on the American Stock Exchange, was a stable investment for income-seeking investors—"well suited for pensions." The firm said it would pay an immediate 8% annual return and an additional 7% down the road. PaineWebber, which had oversight over the LP, said it had chosen an experienced management team to run Essex. And it said the firm's analysts would issue regular research on the investment.

In fact, Essex turned out to be a speculative, high-risk proposition. It began trading at 20, then sank sharply below 1—and now trades at around 3. The luckiest investors got little more than their money back, while others suffered an estimated $37 million loss. PaineWebber ousted Essex's management team in 1992. And the firm never issued a research report on Essex.

The Essex episode comes at a difficult time for PaineWebber. The firm is acquiring Kidder, Peabody & Co. and is trying hard to stop competitors from luring away Kidder's top-producing brokers. Those brokers may think twice before opting to stay and sell PaineWebber products. They might also be influence by Clark's experience at the firm. "The are trying to portray me as a rogue broker," Clark says. "They are rogue senio managers. They don't serve the public."

Nonsense, says J. Richard Sipes, PaineWebber executive vice-presiden who was on Essex' oversight committee. "We are guilty of a bad economi investment," he concedes. But "we ar not guilty of what one dissident alleges"—referring to Clark. Sipes attrib



UNCERTAIN FUTURE: *Clark is fearful of a PaineWebber vendetta* es Essex' plight to poor management Essex, an unexpectedly sharp drop in erest rates, and overzealous regula- s, who hobbled the Essex business n. Says Sipes: "I don't think any mar- ting material, any prospectus, any ersight board can control what hap- ned there."

IGH ROAD." Sipes insists that Paine- ebber has acted more than respon- ly to help its customers. It removed sex management as soon as it could, der the terms of the partnership. And her than walk away from Essex, the m put in more than $20 million to keep afloat. "We conceived it, stuck with and took the high road," he says. "We re by far the biggest losers." Al- ough Essex investors lost money, es points out that they were free to l their holdings at any time.

Getting into a public battle with ineWebber is something Clark, 40, ver would have dreamed of back in 86, when he signed on with the firm in Pearl River (N. Y.) office. Over the xt three years, he worked his way up PaineWebber's Pacesetter Club for okers making at least $250,000 a year in commissions, a modest but respectable level. His clientele consisted of conservative investors looking for income.

Although the LP boom was well under way when Clark joined PaineWebber, it wasn't until 1988 that the firm stepped up efforts to originate and market partnerships by hiring a team from E. F. Hutton Group Inc. Limited partnerships are vehicles that make direct investments in areas such as real estate and equipment leasing. In a PaineWebber magazine, Stephen Hamrick, head of the direct-investment department, noted that while 49% of Wall Street's retail clients had invested in LPs, only 13% of PaineWebber clients owned direct investments. "That spells real opportunity for our brokers," Hamrick said. Hamrick didn't return calls from BUSINESS WEEK.

A SORRY SAGA

Sept., 1989 PaineWebber begins selling retail clients $40 million worth of interests in Essex Financial Partners LP, which will buy savings and loans. The marketing pitch: 8% annual return and a further 7% later, plus management by Lawrence Smith, a veteran banker.

July, 1990 Essex is listed on the American Stock Exchange. Starts trading at 20.

Jan., 1991 PaineWebber raises $23.4 million for Essex by selling notes to its richest investors.

May, 1992 With losses at Essex mounting , PaineWebber ousts Smith. Stocks sink to 6.

Apr., 1993 Near bankruptcy, Essex is unable to pay interest on notes. PaineWebber bails Essex out by buying up notes. Affluent investors come out whole. LP investors suffer big losses.

Dec., 1993 Broker Howard Clark, who resigned from PaineWebber in September, supports arbitration action before the New York Stock Exchange for 27 clients who invested in Essex. Lawyers file a class action in Texas.

Oct., 1994 PaineWebber settles Texas case, boosting Essex stock slightly. NYSE arbitration pending.

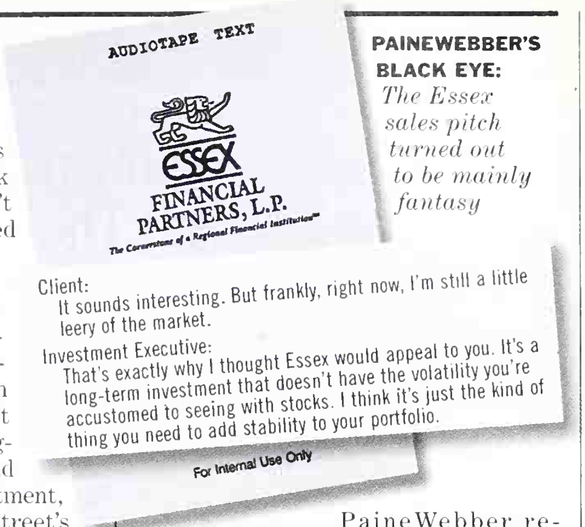
DATA: ESSEX FINANCIAL PARTNERS LP., BUSINESS WEEK

Essex was one of Hamrick's first ventures. The idea was sound: The partnership would buy undercapitalized but otherwise healthy thrifts on the cheap, assemble them into a larger regional bank, and then sell it, reaping a handsome premium for investors—as much as $60 a share, compared with its initial $20 price, according to Essex' pitch to brokers.

PaineWebber knew little about banking ventures. But it figured it could rectify this by teaming up with a seasoned banker, Lawrence N. Smith, who had been president of United Virginia Bank, now Crestar Bank, a large regional outfit in Richmond, Va. In 1984, Smith and his team bought its first property, a small Elizabeth City (N. C.) thrift named Essex, which became the LP's core holding. PaineWebber, says Sipes, did exhaustive background checks on Smith and found his credentials "pristine."

Next, PaineWebber whipped up its brokers to sell Essex. In addition to "low volatility," a skilled management team, and the LP's liquidity as an Amex stock, the Essex marketing material cited the lush 15% annual return: 8% initially, then an additional 7% after Essex had created and sold the regional bank, plus 45% of any additional appreciation.

Essex' prospectus emphasized that PaineWebber, as a "special limited partner," would watch over the investment and intervene if Essex ran into trouble. Brokers were told in an internal brochure that Essex would "be followed by PaineWebber research," which presumably would provide quasi-independent oversight. In 1990, the firm's savings and loan analyst, Gary Gordon, issued a positive opinion on Essex in an audio tape to brokers.



AUDIOTAPE TEXT

ESSEX
FINANCIAL
PARTNERS, L.P.
The Cornerstone of a Regional Financial Institution™

Client:
It sounds interesting. But frankly, right now, I'm still a little leery of the market.

Investment Executive:
That's exactly why I thought Essex would appeal to you. It's a long-term investment that doesn't have the volatility you're accustomed to seeing with stocks. I think it's just the kind of thing you need to add stability to your portfolio.

For Internal Use Only

PAINEWEBBER'S BLACK EYE: *The Essex sales pitch turned out to be mainly fantasy*

From September to December, 1989, Clark sold $400,000 worth of Essex shares to his customers, mostly in chunks of $6,000 to $30,000. When representatives of the direct-investment group urged him to sell more, Clark decided to investigate on his own: Along with his branch manager, he visited Smith at Essex headquarters in Virginia Beach, Va.—at PaineWebber's expense. "Smith reassured me," recalls Clark. "He said, 'I'm a very conservative banker. You have nothing to worry about.' " Back in New York, Clark sold an additional $240,000 worth of shares.

NO DICE. But disasters began buffeting Essex almost as soon as it was listed in July, 1990. A commercial loan went bad, requiring a big increase in the loan-loss reserves. Earnings for 1990 were a mere $476,000, or 3¢ a share—$1.57 shy of the $1.60 needed to pay an 8% return.

Furthermore, consolidating the thrifts Essex acquired in Florida, North Carolina, and Virginia proved impossible, says Sipes. While the Federal Home Loan Bank had approved Essex' business plan, the new Office of Thrift Supervision insisted that each must remain a stand-alone entity, nixing anticipated economies of scale.

The biggest losses were caused by a sharp shift in strategy—a risk not mentioned in the marketing materials. In early 1991, to boost returns, Essex bought more than $20 million worth of mortgage-servicing rights. These entitle the holder to principal and interest payments on existing mortgages. Essex paid for the rights by selling $23.4 million in 11% notes in a PaineWebber private placement to 600 of the firm's richest or "accredited" investors. With interest rates declining, PaineWebber

> "They are trying to portray me as a rogue broker," says Clark. "They are rogue senior managers"

and Essex thought Essex would profit by borrowing at low rates and collecting higher rates on the mortgages.

There was only one problem: Homeowners with high-rate mortgages also took advantage of lower rates, which fell much faster than expected, and refinanced. This left Essex with a rapidly depreciating asset. In 1991, Essex lost $7.4 million. By mid-1992, Essex was trading at 7 and had not paid dividends to investors for three quarters. PaineWebber removed Smith after 2½ years—as soon as they could, says Sipes. "We were not real happy with Lawrence Smith," he says. Smith puts the blame on PaineWebber, which, he says, mismanaged Essex after he left.

But PaineWebber's move came too late. By November, 1992, Essex was on the verge of defaulting on the Essex notes. To avoid bankruptcy, PaineWebber injected money into Essex by buying back the 11% notes.

Throughout this period, says Clark, he was being advised by the direct-investment group to stick with Essex. Sipes denies that brokers were given any such assurance. "We did not suggest to brokers that they buy or sell the security," he says. He adds that the firm never produced a research report because of the departure of several bank analysts. In a note to Clark in late 1992, Hamrick remarked: "Like you, I am exasperated and increasingly embarrassed by the inability to get you information you can use with your clients."

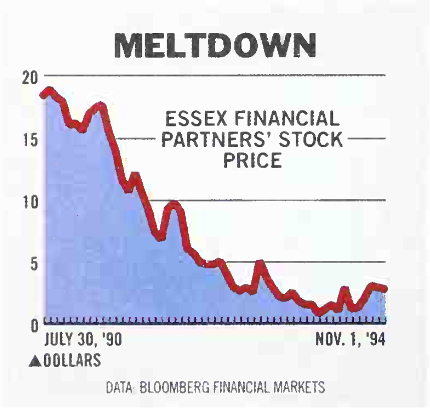
DISTRAUGHT. Clark wasn't the only one concerned about what was going on. On Jan. 11, 1993, in a letter to PaineWebber President Paul Guenther, a PaineWebber broker complained: "I have 43 clients holding the units and 13 clients holding $440,000 of the capital notes. These are among my best and most faithful clients, and if Essex is allowed to fold, I have basically 'burned my customer book' after 30 years in the business. Please do what is morally right and ultimately in the best interest of PaineWebber, its clients, and its brokers."

Increasingly distraught, Clark wangled a meeting in January, 1993, with Joseph J. Grano Jr., head of PaineWebber's retail brokerage division. Clark says he complained about Essex' performance and said he had been misled by the private investment group. Grano was sympathetic and said a solution was at hand.

That turned out to be the buyback of the Essex notes, which not only kept Essex afloat but also gave the accredited customers who held the notes 100% of their money back. But the move did little for Clark's clients who owned the rapidly depreciating LP interests. "That's when I realized I was going to stand up for my clients," says Clark.

CAROLINA THRIFT: *Consolidating banks was a risky venture*

Clark resigned in September, 1993, and referred his clients to another PaineWebber client who was organizing an arbitration action with the NYSE against the firm. Although he wouldn't be part of the arbitration, he knew he couldn't work with his clients and their lawyer against PaineWebber while still employed there. In December, Nev York lawyer Bruce S. Schaeffer filed th case on behalf of 27 of Clark's client who owned Essex.



DATA: BLOOMBERG FINANCIAL MARKETS

"A TRAVESTY." In January, 1994, Richar L. Coffman, a Texas lawyer at Provos & Umphrey, filed a class action in feder al court against PaineWebber on behal of 13 PaineWebber client accounts. Th suit was settled in October. The settl ment's main feature wa that PaineWebber forgav the outstanding $20 millio in Essex notes. Tha strengthened Essex' anemi balance sheet, causing th stock to rise from 2 to which modestly helped th LP investors. Investors wh had already sold Essex wer promised $1 million. Cof man says that he i "thrilled" with the settl ment, while Schaeffer cal it "a travesty." Schaeffer b lieves his clients will do be ter in arbitration.

Essex is now reorgani ing and trying to raise mor money. Its architects hav gone on to other pursuits: Smith is ru ning Resource Bank, a community ba in Virginia Beach. Hamrick has jump to Wall Street Investor Services, whi markets investment products to bank

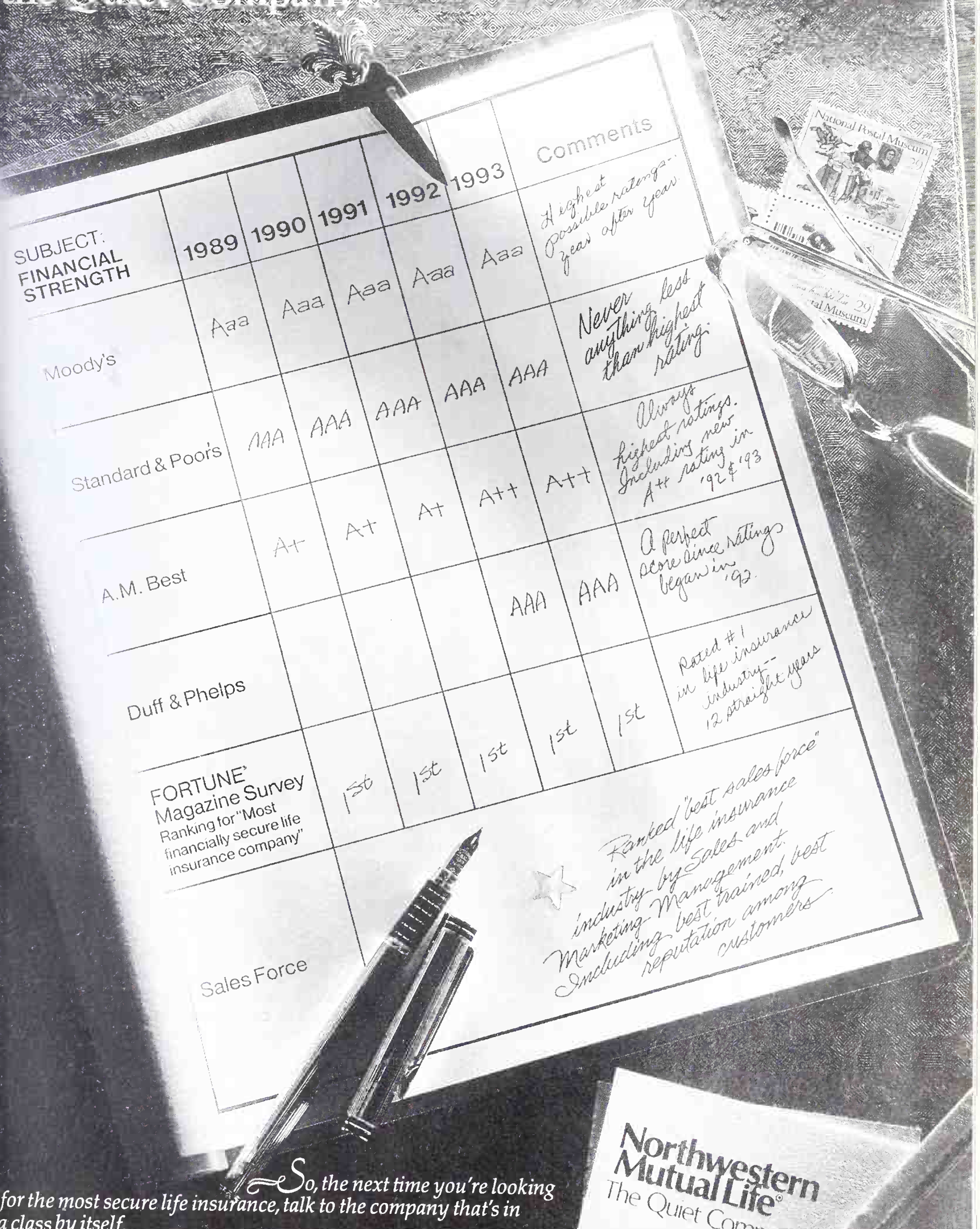
Clark faces a more uncertain futur Now at an independent broker-deale he is making only one-third of his form income. He is fearful of a PaineWebb vendetta, a possibility the firm dismis es. In February, PaineWebber filed a amendment to Clark's U-5, an impo tant employment record maintained b the National Association of Securiti Dealers. The amendment erroneous said that he had been the subject of customer arbitration complaint. Pain Webber withdrew the amendment whe Clark protested. But a NASD investig tion is still pending, Clark says. An Sipes suggests that Clark may be guilt of misrepresenting Essex' prospects clients. Says Clark: "I was doing exac ly what the firm was telling me to do

In the end, the Essex saga is a ca tionary tale for investors. In choosi his clients over his firm, Clark fou himself with very little to gain and great deal to lose.

By Leah Nathans Spiro in New Yo

PHOTOGRAPH BY CHARLES GUPTON. CHART BY ERIC HOFFMANN/BW

If life insurance companies got report cards, this would be the Quiet Company's.



SUBJECT: FINANCIAL STRENGTH	1989	1990	1991	1992	1993	Comments
Moody's	Aaa	Aaa	Aaa	Aaa	Aaa	Highest possible ratings-- year after year.
Standard & Poor's	AAA	AAA	AAA	AAA	AAA	Never anything less than highest rating.
A.M. Best	A+	A+	A+	A++	A++	Always highest ratings. Including new A++ rating in '92 & '93
Duff & Phelps				AAA	AAA	A perfect score since ratings began in '92.
FORTUNE® Magazine Survey Ranking for "Most financially secure life insurance company"	1st	1st	1st	1st	1st	Rated #1 in life insurance industry-- 12 straight years
Sales Force	Ranked "best sales force" in the life insurance industry by Sales and Marketing Management. Including best trained, best reputation among customers					

So, the next time you're looking for the most secure life insurance, talk to the company that's in a class by itself.

Northwestern Mutual Life®
The Quiet Company®

COMMENTARY

By Kelley Holland

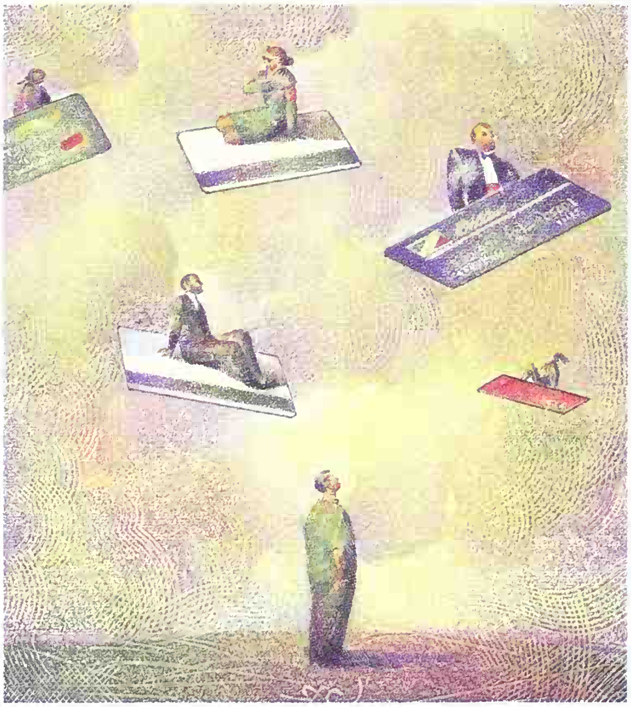
THE POOR NEED ACCESS TO DIGITAL BANKING, TOO

Community reinvestment. For years, that has been a hallowed goal of reform-minded bank regulators who think banks have neglected their responsibility to reinvest reasonable amounts in the neighborhoods, even low-income ones, that give them deposits. Recently, regulators have become increasingly optimistic that wrongs perpetrated for years will be righted. In a controversial case settled last August, the Justice Dept. required Maryland-based Chevy Chase Federal Savings Bank to open new branches in low-income areas.

The reenergized regulators have been missing a crucial trend, though. Even as they lean harder on banks to get more involved in low-income communities, often by opening branches or offices, banks are shunning brick-and-mortar banking and going electronic. And the new high-tech products and services are often almost entirely bypassing low-income neighborhoods and the customers there. Ironically, though, skipping low-income areas actually hurts the banks: Low-income customers can be surprisingly profitable. One reason is that they are inexpensive to serve—and serving them electronically is even cheaper than using branches.

SCARCE ATMs. The growth in electronic banking services has been breathtaking. There were 109,000 automated-teller machines in the U. S. in September, 1994, up from 80,000 in 1990, according to *Bank Network News*. Small wonder: Processing a teller transaction costs more than double what an ATM transaction costs. And now, banks are gearing up to offer even higher-tech banking services, from PC-based home banking to banking that uses telephones with CRT screens and keyboards attached.

You wouldn't know it from a trip to the South Bronx, though. A study by Mark J. Green, public advocate for the City of New York, found just 1 ATM per 117,676 residents there. But he found an ATM for every 8,294 residents in middle- and high-income parts of Manhattan—quite a difference, even allowing for banks' legitimate crime fears. "There's a low-income and slight racial bias that leads traditional bankers to think there is not as much money to be made in low-income neighborhoods," Green says. The disparity is even more acute for services such as PC banking. Home banking is still not widespread, but it is growing rapidly. Since low-income consumers are unlikely to own PCs, they are completely shut out of those services.



RAUL COLON

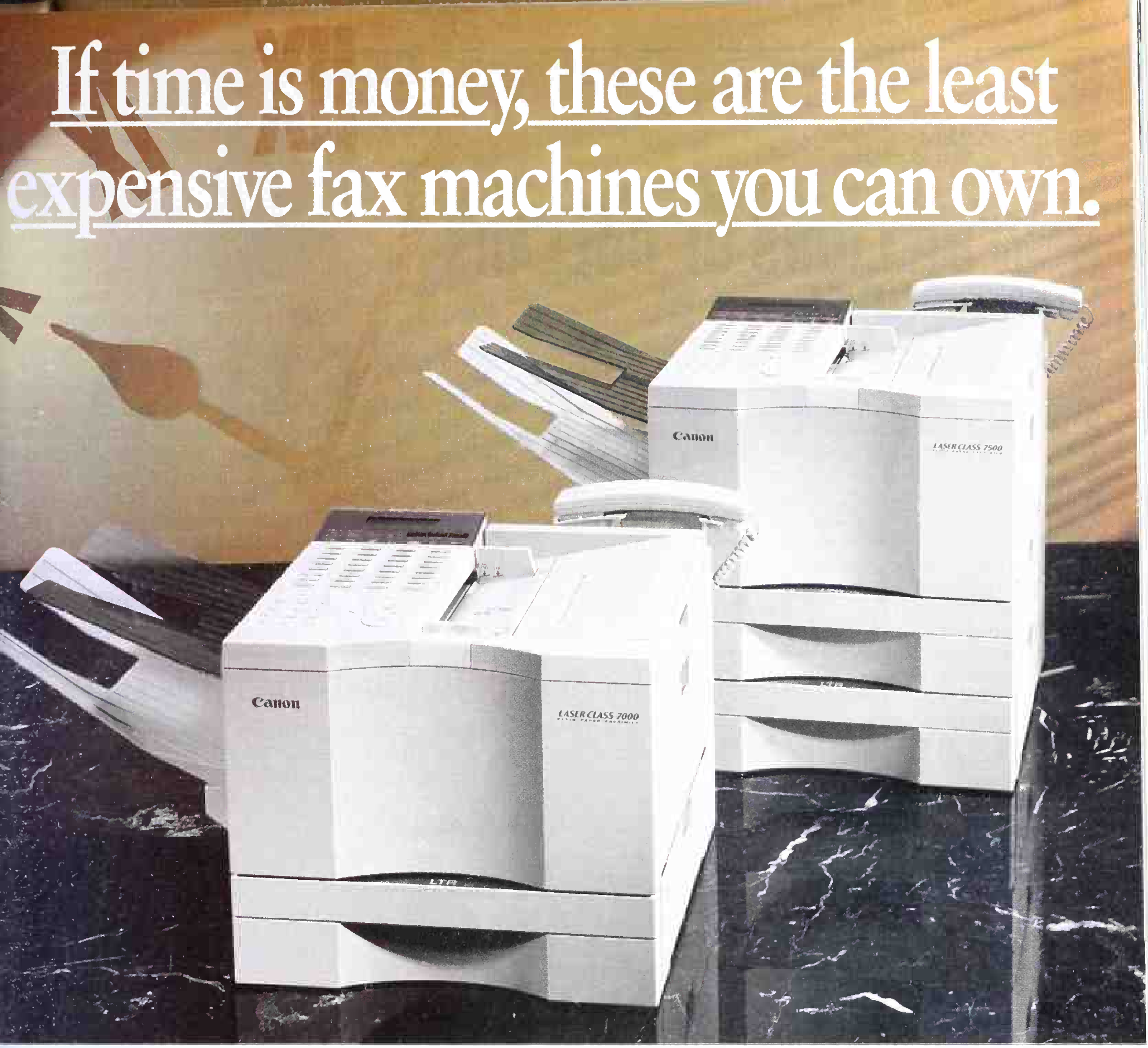
The gaps in electronic banking offerings wouldn't be so bad if ATMs and other services were mere supplements to bank branches. After all, banks are not required to offer every service they have to every one of their customers, and they can point to crime and vandalism statistics in many low-income areas that argue against installing ATMs there. Moreover, current federal rules emphasize lending over convenient cash access in low-income neighborhoods. But many banks are moving toward replacing branches with electronic systems that can provide all the services of a branch. Some ATMs now let customers open accounts and apply for loans. That means that in a community with relatively few branches, omitting ATMs seriously limits residents' access to a wide variety of bank services.

WORRIES. Leaving ATMs out is also shortsighted for banks. A study by First Manhattan Consulting Group Inc. showed that while low-income customers' accounts are less profitable than those of the wealthy, they are more profitable than accounts of suburban middle-income customers. Largely because of fewer transactions, low-income accounts cost an average of $250 per year to service, while middle-income accounts average $350.

Some productive ventures are already under way to increase access to bank services and address worries about crime. In a number of cities, drugstores and supermarkets house ATMs in moderate-income neighborhoods. These are only accessible when the stores are open, but they help. In Chicago, banks are installing a few ATMs in or near police stations in high-crime areas, and a few other cities have similar programs. These programs should be expanded across the country. Banking PCs could be installed in facilities such as public libraries and schools. Regulators, further, should make sure to take electronic services into account when they complete revisions to the community reinvestment regulations late this year or next.

By expanding their electronic reach, banks would be in the enviable position of doing well by doing good.

Holland is BUSINESS WEEK's banking editor.



If time is money, these are the least expensive fax machines you can own.

Introducing the top of the line plain paper facsimiles from Canon.

In business, it's a fact that the less time you spend, the more money you save. Which is recisely the idea behind our new 7500 and 000 LASER CLASS® fax machines.

Each offers advanced features that reduce he time people spend on the phone line and t the machine. Features like connectivity apabilities that let you send and receive doc-ments without ever leaving your desk. And memory capacity of up to 288 pages so you an deal with volumes of documents at your onvenience, not the machine's. You'll also have olumes more paper at your disposal with a aper capacity of up to 1,100 sheets.

And because time can also affect your fax line charges, we reduced the amount of it you'll spend on transmissions to a mere six seconds per page.*

The 7500 and 7000 are just part of our full line of LASER CLASS facsimiles including the 5500 and the 5000.

Of course, whichever model you choose, Canon's exclusive UHQ™ image processing and laser technology give you consistently high-quality output. And every model delivers the kind of reliable performance that has made Canon #1 in plain paper facsimile 5 years running.

When the rest say you can't, Canon says you can.

Call 1-800-OK-CANON for more information. You'll find it's time well spent.

NOW YOU CAN

ASER CLASS is a registered trademark of Canon Inc.
HQ is a trademark of Canon Inc. © 1994 Canon U.S.A., Inc.

*Based on CCITT #1 chart (standard mode).

LASER CLASS®
LAIN PAPER FACSIMILE

Canon

MUTUAL FUNDS

HOW BILLIONS OF DOLLARS WENT POOF!

Many bond funds are using capital to boost interest payouts

Call it the mystery of the missing bond-fund assets. Nobody knows exactly how much has vanished, but the number is in the billions. To be sure, the fund managers haven't run away with the money. However, try telling that to shareholders who have seen the net asset value of their fund shrink over the years.

The puzzle: Interest rates today are about the same as they were eight years ago. And since the value of a bond remains the same if rates are unchanged, a bond mutual fund's principal, or net asset value, should be little changed as well. Then why have the NAVs of bond funds dropped 7.6% during this period (table)? What's worse, some large funds dropped in excess of 15% without taking any hits in derivatives or other exotic investments.

The clue: Over the years, many bond funds paid out interest income that seemed well in excess of the going rate in the bond market.

The solution: These funds were pursuing an investment strategy that paid out a higher current yield at the expense of the fund's capital. So at the end of the period, NAVs had suffered a large decline. Such losses have not gone unnoticed by the fund managers, especially as investors are yanking billions out of bond funds this year. The managers are taking steps to change past practices, hoping to restore investor confidence in their products.

GOOD BUY? Funds were able to hype their yields by investing in what is called "premium" bonds—bonds that were issued when interest rates were very high and now sell way above par. Take the Treasury bond maturing in February, 2015, with an 11.25% coupon, which pays $112.50 a year in interest. That's about three percentage points higher than the current rate. Of course, you can't expect to pay only $1,000 for that plum return. In fact, that bond is trading at 129.44, or $1,294, even though its face value is just $1,000.

Even so, it looks like this bond is a real buy, because the current yield is 8.7% ($112.50 divided by $1,294). But here's the rub: Each year, the value of that bond declines as it gets closer to maturity. By 2015, it will be redeemed at just $1,000. So the yield to maturity is in fact much closer to 8%—the current rate in the market.

But premium bonds were just what many bond funds were looking for to perform their sleight-of-hand. Because the current yield was higher, the fund was able to pay out more income even as the NAV was melting away.

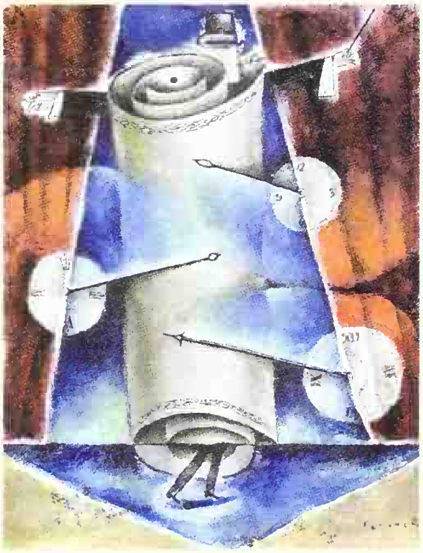
For sure, this high-yield strategy doesn't mean the funds lost money for their shareholders. What's most important to mutual-fund investing is total return—the yield plus any changes in net asset value. And some of the funds that have suffered major losses in NAV, such as the Lord Abbett U. S. Government Securities Fund (down 17.9% during that eight-year period), have deliv ered good total returns because of thei high payouts. In total return, the Lor Abbett fund ranked No. 1 among com parable funds for the 10 years endin Sept. 30, according to Morningstar Inc the fund data service. That, says portfo lio manager Robert S. Dow, validate the high-yield strategy. "Get the tot return right, and everything else fal into place," says Dow.

Not everything. Investors could hit with higher tax bills. That's becaus they receive higher current interest i come on which they pay taxes and buil in long-term capital losses. It's hardl a tax-wise strategy. That higher incom is taxable when it's paid out. (Unles of course, it's deferred under a qualifie retirement program.) Capital losse have value, too, but not until the fund sold, and that could be years away.

The emphasis on income is simple explain: Yield sells. It's no accident th the funds that have done the poore job of preserving NAV were load fun sold through brokers and financial pla ners. "The expertise of some sellin agents is talking about yield and nothin more," says Barry P. Barbash, direct of the Division of Investment Manag ment at the Securities & Exchang Commission. Load funds also emphasi income because they often need it pay the brokers' fees. No-load fund

The Big Shrink In Bond-Fund Asset Values

What would have happened to your principal if invested in a government or investment-grade bond fund on Nov. 1, 1986, when interest rates were roughly the same as they were at the end of the third quarter of 1994? You might think your principal–net asset value in mutual fund terms–should be about what it was in 1986. But for many large funds, it's actually a good deal lower–in excess of a 15% decline.



FUND*	CHANGE IN NET ASSET VALUE (% Nov. 1, 1986 – Sept. 30, 1994
THOMSON INCOME B	–26.6
MAINSTAY GOVERNMENT	–20.8
KEMPER U.S. MORTGAGE B	–20.5
TRANSAMERICA U.S. GOVERNMENT A	–19.0
PILGRIM GNMA	–18.3
PUTNAM AMERICAN GOVERNMENT INCOME	–18.2
LORD ABBETT U.S. GOVERNMENT SECURITIES	–17.9
SUNAMERICA U.S. GOVERNMENT SECURITIES	–17.8
TRANSAMERICA GOVERNMENT SECURITIES A	–17.8
DEAN WITTER U.S. GOVERNMENT SECURITIES	–17.6
ALLIANCE BONO U.S. GOVERNMENT A	–17.3
THOMSON U.S. GOVERNMENT B	–17.3
KEYSTONE CUSTOOIAN B-1	–16.8
PUTNAM U.S. GOVERNMENT INCOME	–15.7
AVERAGE OF 181 FUNDS	–7.6

*Excludes short-term and zero-coupon bond funds

DATA: MORNINGSTAR INC

Before you *go*

Be reachable in unreachable places.

wireless,

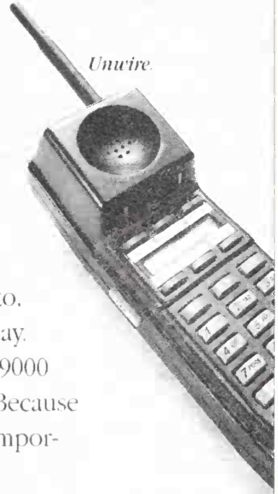
Cut the cord; keep the connection.

make *sure* there

If plans change, phones move in a snap.

are *strings*

attached.



Unwire.

Entering the world of wireless means greater flexibility for your entire office.

But you shouldn't go untethered until you find the right company to plug into. With people who understand your business. People who can guide you through the swift, technological changes transforming your world. People who can give you the freedom not merely to grow, but to soar.

No one can do all this better than AT&T Global Business Communications Systems. Because our wireless products are designed to help you work the way you want to, not the way you have to.

Call 1 800 325-7466, ext. 564, today. Find out about the AT&T TransTalk™ 9000 System and our vision of the future. Because even in the wireless world, it's still important to make the right connections.

AT&T. Where innovation leads.

AT&T

© 1994 AT&T

which are bought by investors and not sold by salesmen, have done a much better job of preserving capital, according to John Rekenthaler, editor of *Morningstar Mutual Funds*, which conducted the study of NAV erosion.

It's tough for investors to pierce the bond-fund prospectuses and financial statements to learn if yield is eating into the NAV. Investment policy statements can be vague, and funds often say they attempt to preserve capital when their actions suggest otherwise. "Even if the information is disclosed, is it disclosed in a way the investor is going to understand?" asks the SEC's Barbash.

HARDER TASK. Some fund companies are changing their ways. Portfolio managers at Putnam, SunAmerica, and Transamerica say they've reduced their monthly income distributions rather than pay out higher returns that could result in NAV loss. Putnam's Michael Martino says his four funds have switched to a flexible distribution policy—keeping the monthly payout as close as possible to the bond market's current rate of return. "Government funds have always tried to maintain a consistent payout," says Warren F. Schmalenberger, director of fixed-income at Transamerica Fund Management Co. "That's going to change."

Some fund-watchers believe it will get tougher for funds to pay high yields. Allen Goldstein, a national director for mutual-funds services at Price Waterhouse, says changes in tax and accounting rules will make taxable bond funds adopt more realistic payouts. Taxable funds might start operating more like muni funds, which must amortize bond premium and deduct it from income, not from capital. Muni funds, notes Morningstar's Rekenthaler, have not suffered the large NAV losses that plagued taxable funds.

> It's tough for investors to learn if yield is coming at the expense of capital

To be sure, many fund companies will be paying more attention to capital preservation in the future. But investors still have to cast a critical eye on bond funds that promise high yields. The extra cash a fund might be putting in one pocket might have been deftly picked out of another one.

By Jeffrey M. Laderman in New York

GOVERNMENT SECURITIES

TREASURIES WITH A TWIST

Indexed bonds could save the government a bundle on interest

Inflation has remained at 3% for the past three years, but bond traders are convinced that won't last. Fearing that a price surge lurks around the corner, the credit market is demanding a hefty five-percentage-point premium on long-term government bonds. That has sent Treasury yields above 8% and become a source of mounting frustration for the Clinton Administration. Confident that inflation is well in check, it frets that high bond yields will slow economic growth and drive up the government's cost of borrowing even further.

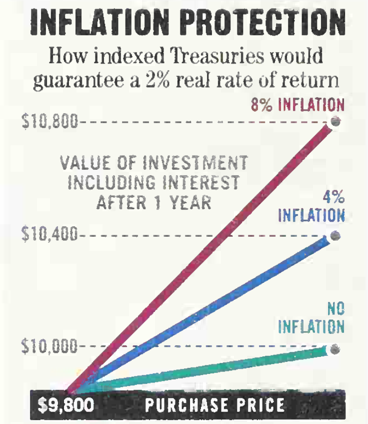
What to do? The Clintonites are now studying a debt instrument used by Britain: inflation-indexed bonds. By 1996, Treasury may begin issuing some long-term debt with a guaranteed real rate of return. The yield on the debt would be linked to a common inflation measure, such as the consumer price index, and would probably bring investors a real return of 2% to 4%.

STREET SKEPTICS. Administration proponents of the plan believe that by providing investors with ironclad assurance that inflation won't erode the purchasing power of their bonds, bills, or notes, Treasury could finance part of the federal debt at a lower rate than it could obtain on conventional debt, especially if inflation remains tepid.

The Reagan Administration briefly considered issuing indexed debt during the early 1980s. But it dropped the plan in the face of stiff opposition from Wall Street, which still doesn't like the idea. Dealers fret that if inflation risk is eliminated, bond holders will then lessen the pressure on the government to hold prices and the national debt in check. They also worry that indexed bonds could significantly reduce the trading volumes and sales of profitable hedging instruments.

INFLATION PROTECTION

How indexed Treasuries would guarantee a 2% real rate of return



DATA: TREASURY DEPT., BUSINESS WEEK

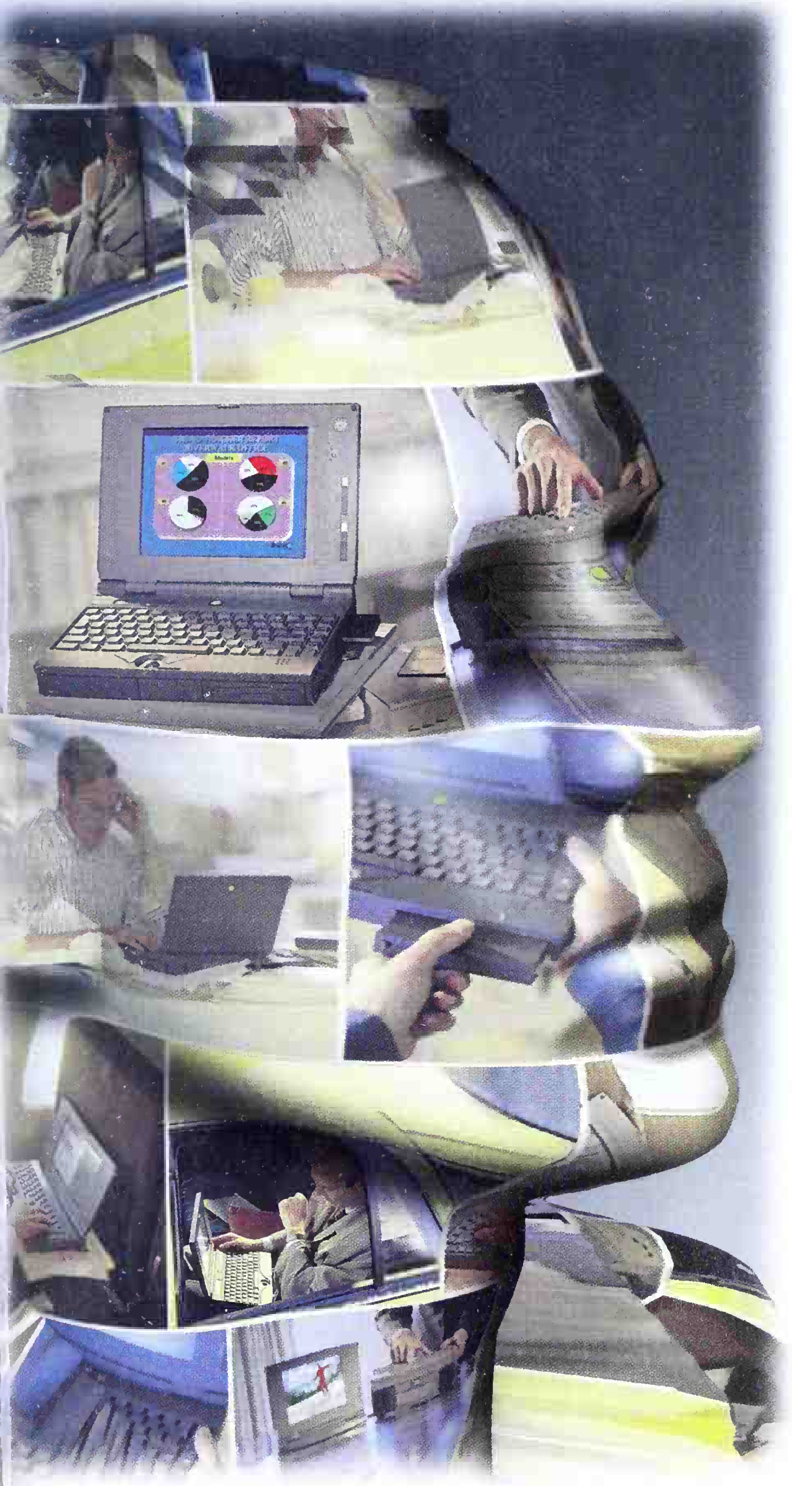
Treasury officials believe that the opposition from the dealers will be offse by the desire of pension-fund manager to protect their vast portfolios from inflation. Mutual-fund operators includin Fidelity Investments and Benha Group have indicated interest in marketing indexed-bond funds to an agin population, whose paramount conce is guarding long-ter savings from the ravages of inflation. Because of the rece growth of mutual a pension funds, "th market has chang rather dramaticall since the mid-'80s says Deputy Assista Treasury Secreta Darcy Bradbury.

Indexation also e joys support from Fe eral Reserve Chai man Alan Greensp and Vice-Chairm Alan S. Blinder, wh has taken to peppering Wall Street e ecutives and money managers wi questions on the plan. Fed officials, wh Blinder says "have been spending a l of time since February wondering wh was behind the runup in bond yields think indexed debt might give them clearer view of real rates and inflati expectations than they currently c obtain.

Before indexed bonds can hit t street, Treasury will have to resol technical questions about auction met ods, tax treatment, and what inflati measure to use. As a result, Bradbu says, no sales are likely before 1996. that, Treasury would begin with a sm issue—perhaps $1 billion. But index tion "has a better chance than at a time in the past," says Blinder, a f mer Clinton economic adviser. If so, t Clinton Administration could change t face of how the government raises mo ey. And, for that matter, how investo hedge against inflation.

By Dean Foust in Washington, wi Bill Javetski in Paris

Z-NOTEFLEX. The One Computer For All Of You.



Decisions, decisions. Finding a notebook computer is simple. Finding one to handle all the things you do, isn't.

Zenith Data Systems' Z-NOTEFLEX, however, delivers everything you need—high performance, long battery life, upgradability and modularity—in a notebook that won't be obsolete tomorrow.

For example, when you're away from the office, remove the floppy drive and insert a second battery pack and, wham, twice the computing time!

But that's ZDS for you. Who else would build a computer versatile enough to tackle every part of your job?

After all, Connected Computing—making computers and people work better together—is just what Zenith Data Systems is all about. Call now to learn why the Z-NOTEFLEX is the one computer for you, wherever you go, whatever you do.

Z-NOTEFLEX™
Up to IntelDX4™ 100MHz processor
Up to 520 MB hard drive
16-bit business audio
Active-matrix, color LCD
Two Type-II PCMCIA slots*

FLEXSITE
LCD video display stand

FLEXBAY
Battery charging bay
Floppy drive bay

FLEXDOCK
Enhanced port replicator
Two Type-III PCMCIA slots*

FLEXSHOW
MPC2-compliant
Double-speed CD-ROM drive
Amplified stereo speakers
Two Type-III PCMCIA slots*

intel inside®

1-800-289-1279, Ext. 5160

ZENITH
DATA SYSTEMS

Make The Connection™

yright © 1994 Zenith Data Systems Corporation. Zenith Data Systems Corporation is a Bull company. *Z-NOTEFLEX supports two Type-I, two Type-II or one Type-III
CIA card and FLEXDOCK and FLEXSHOW support two Type-I, Type-II or Type-III PCMCIA card. Z-NOTEFLEX, ZDS and "Make The Connection" are trademarks of

Inside Wall Street

BY GENE G. MARCIAL

FIVE RISING STARS CATCH A PRO'S EYE

Investment manager John Moore prides himself on being a long-term investor with a seven-year focus on stocks. "I'm no value player," says the director of asset management at Value Line. "I'm strictly an earnings-and price-momentum investor: Give me a stock that has come off its bottom—and that is clearly on the rise—and I'll grab it."

So what is Moore grabbing right now? These stocks top his list:

- Andrew, a supplier of electronic gear, such as satellite, cellular, and microwave antennas and radar and navigational systems.
- Dollar General, operator of 1,900 discount stores in 24 states, mainly in the South, East, and Midwest.
- EMC, designer and maker of data-storage equipment for computers.
- Gillette, the razor people, who also make stationery items, including the Paper Mate pen.
- Loral, a defense contractor supplying systems for combat and training, intelligence, and surveillance.

MOORE'S TOP PICKS

STOCK	P-E	HIGH	LOW	RECENT PRICE
ANDREW	31	50½	24	50½
DOLLAR GENERAL	24	29	19	29
EMC	19	23	12	21
GILLETTE	23	73	57	72¾
LORAL	18	42	33	39

DATA: VALUE LINE ASSET MANAGEMENT

Andrew has been a highflier, climbing from 24 a share early this year to 50½. Apart from surprising earnings gains, Andrew is a play on the new alliances being formed in telecom, cable TV, and software, says Moore.

Dollar General is a stock that has come off its bottom and, since January, risen 10% in price, to 29. Even though the retail trade is lackluster and competition stiff, Dollar General has posted strong gains in recent years.

EMC, on the other hand, headed south when a glitch in second-quarter shipments crimped earnings. Moore quickly bailed out of the stock, which fell from 22 to 13. But he started moving back in when it rallied—to 17—as earnings started to firm up again last quarter. The stock is now up to 21. He is impressed by its long-term outlook.

Gillette and Loral are examples of companies that have consistently exceeded earnings forecasts. Gillette, whose stock has tripled in the past five years, continues to chalk up big earnings increases. And Loral is benefiting from the consolidation in aerospace.

On the whole, says Moore, the market "will hit new highs as interest rates peak in the fourth quarter. That's when investors will again focus on the good earnings we've been seeing."

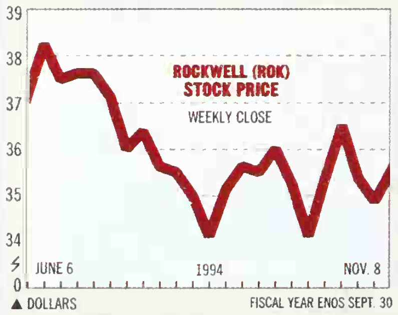
A NEW ROCKET IN ROCKWELL'S POCKET?

The Street is unsure how Rockwell International's hostile, $1.5 billion, surprise bid for Reliance Electric will play out. But some pros think the game is over. Rockwell's top brass concurs. It thinks Rockwell will edge out General Signal, with whom Reliance had agreed to merge.

This acquisition will make Rockwell—the $11 billion producer of rocket engines, automotive and automation systems, and the Space Shuttle—"a much more attractive company," says one manager at a mutual-fund investor that owns more than 1 million Rockwell shares. He notes that the stock has started moving up instead of down: from 33 to 36 since the bid was announced in late October. Usually, an acquisitor's stock sags.

The buyout would bolster Rockwell's strong, profitable Allen-Bradley electrical-products and factory-automation division, which pulled in revenues of $2 billion last year. "The acquisition would increase the company's commercial profit mix by 2% to 3%," says analyst Cai von Rumohr of Cowen & Co.

RELIANCE MAY PROVIDE A LIFT



DATA: BLOOMBERG FINANCIAL MARKETS, COWEN & CO.

The takeover would also improve Rockwell's valuation, says von Rumohr. He notes that similar outfits, such as Emerson Electric and W. W. Grainger, have p-e ratios of 14 to 15, vs. Rockwell's 11.

So von Rumohr is maintaining his buy recommendation on Rockwell, whose stock, he thinks, will hit the mid-40s sometime in the next 12 months. Reliance, with sales of $1.2 billion, is about 55% to 60% the size of Rockwell's Allen-Bradley unit. Reliance is strong in motors and drive systems, while Allen-Bradley leads in programmable controllers, sensors, and software applications, notes von Rumohr. "Their merger will further strengthen Allen-Bradley—Rockwell's most profitable unit," says one Rockwell insider.

TARGET SEES A FACE ON YOUR PC SCREEN

With personal computers now a fixture in the office, what's next? How about picking up the phone and seeing the person you're calling on your screen? That's what Target Technology got a patent for—a so-called C-Phone that would let PCs function as a video phone system. Some investors have snapped up shares of Target, which went public on Aug. 19 at 7 and has since risen to 8.

David Hillson of Josephthal Lyon & Ross, the New York securities firm that underwrote the initial public offering, insists Target could hit 20 in 1½ years. "We believe video telephone for business will be truly revolutionary," he says. "And the C-Phone is right in the middle of this new communications wave."

If Target can translate its lead into even a small share of the market, its sales should soar, says Hillson. He concedes that the competition is stiff, with Intel, AT&T, PictureTel, Compression Labs, and Datapoint very much in videoconferencing, too. Nevertheless he foresees sales of 10,000 C-Phones in the year ending February, 1995, and 30,000 the following year. For 1996, he forecasts revenues of $14 million and earnings of 20¢ to 25¢ a share; for 1997 revenues of $35 million, and earnings of $1.10 to $1.25.

Target has attracted investors overseas. Lars Kallhol of Ohman Securities in Stockholm says he's "thrilled" by Target's technology and has bought stock.

ELECOMMUNICATIONS

FEEDING FRENZY N EUROPEAN TELECOM

ne old state-run monopolies are facing a swarm of nimble rivals with deep pockets

n Duisburg, in the heart of Germany's Ruhr valley, steelmaker Thyssen forges 10 million tons of steel sheets a year. But 15 miles ay in Düsseldorf, the 103-year-old, 2 billion giant is trying something w—running a mobile-phone network. ief Executive Dieter H. Vogel says at by 2010, telecom and related ser- es may outstrip steel as the company's mary source of revenues. "We're put- g our stake in the ground now," says ans-Peter Kohlhammer, head of the w telecommunications division. "In 10 ars, this industry could be bigger than tos. We'll invest whatever it takes."

Thyssen isn't alone. Old-line compa- es all over Europe are investing bil- ns to transform themselves into to- rrow's telecom giants (table, page 2). They come from construction, wa- ; chemicals, energy, rail, and steel, t they want to participate in what's coming the world's largest industry. 2005, market researcher Arthur D. tle Inc. estimates, telecom revenues l total $516 billion in Europe, vs. $390 lion for autos.

The size and deep pockets of the new yers mean trouble for Deutsche Bun- spost Telekom, France Telecom, and ecom Italia. Instead of thinly capi- ized startups, the phone monopolies e Europe's industrial giants. And the v players have impressive partners, luding savvy foreign telecom compa- s such as the seven Baby Bells, which bring knowhow, money, customers, l industry contacts. "Whatever we it will be with knowledgeable part- s," says Kohlhammer.

RENCHING." Already, Thyssen has med up with German energy con- merate Veba, BellSouth, and Voda- e to build Germany's third digital cel- r network. Computer maker Olivetti Bell Atlantic, German machinery ker Mannesmann, Pacific Telesis, and eden's Telia on board to launch Italy's ond mobile network.

Vhen these combines swing into ac- 1, "It will be wrenching" for the phone monopolies, says Kathy Burrows, senior industry analyst at market researcher Dataquest Europe Ltd. They stand to lose 15% of their markets by 2000, she figures. In Britain, where limited competition has existed since 1984, British Telecommunications PLC's share has fallen to 83% and could hit 75% or less by 2000.

FIRST SHOT: *The battle for the cellular market has already begun in earnest*

PATRICK LABANCA

The threat has finally galvanized the monopolies, which face a 1998 European Union deadline to open their markets. They are racing to cement international alliances, cut costs, and develop new multimedia services. None is hustling more than Deutsche Bundespost Telekom. It plans to start privatizing in 1996 by selling shares worth up to $12 billion. It's charging into the private corporate network market for multinationals via an alliance with Sprint and France Telecom. It has spun off units for such networks and for cellular phones, and it is leaping into multimedia with Europe's largest interactive TV pilot. "We are not waiting until 1998," says management board member Carl-Friedrich Meissner.

> "We're putting our stake in the ground now.... We'll invest whatever it takes"

Changes are long overdue. Graham Hanson, British Telecom's director of strategy in Europe, says Germany and France "missed the boat" by not deregulating sooner, cutting staff, and launching new businesses. As a result, they "will suffer a much greater loss of market share," says Hanson.

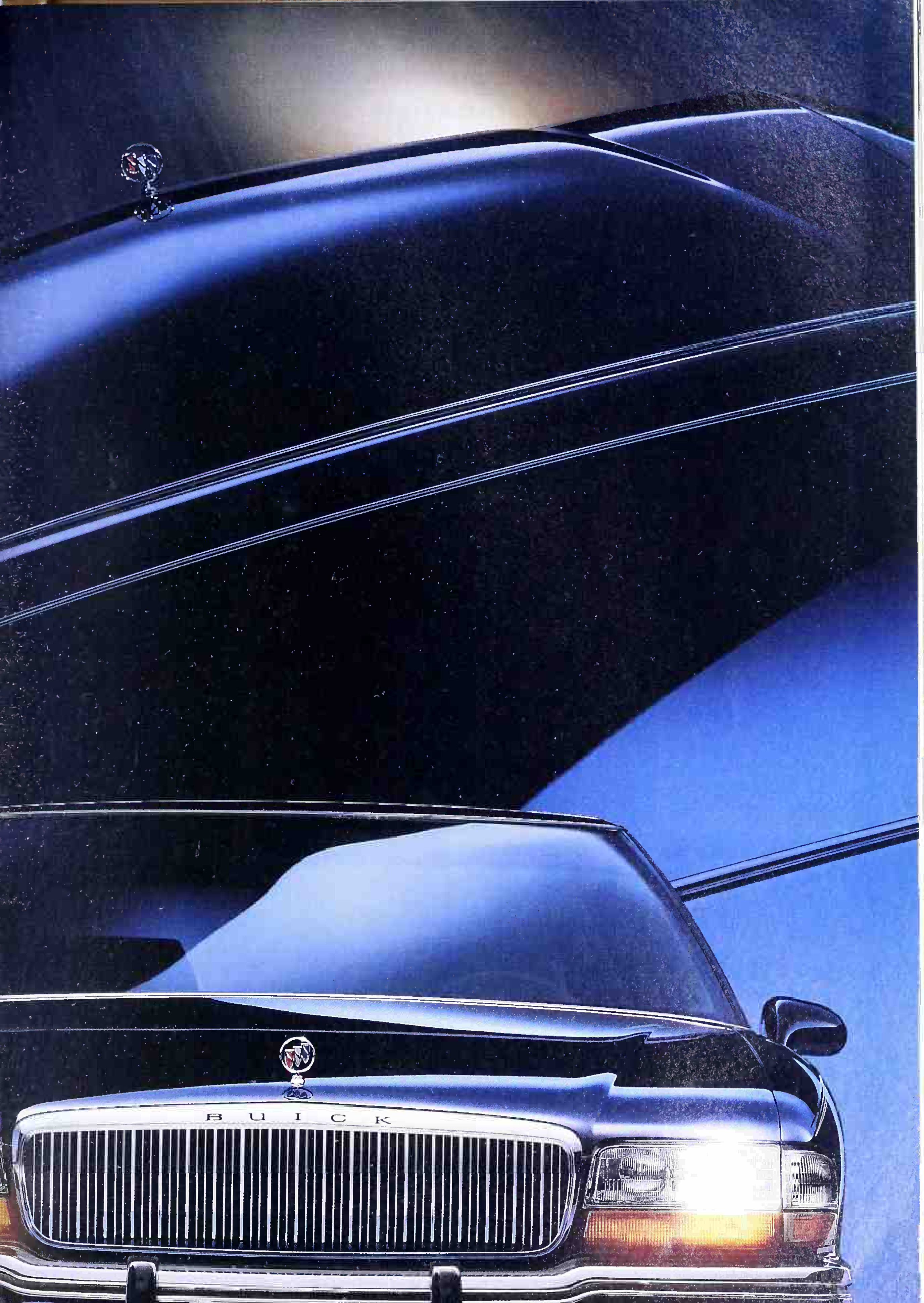
The battle is already on in less-regulated markets such as cellular and private networks. In France on Oct. 7, a consortium led by construction giant Bouygues won the bid to run a third

Park Avenue Ultra.
The view from the top.

Self-assured elegance. The quiet confidence of every driving amenity, at your fingertips. Luxury personified by leather seating areas, and six-way power seats. And Buick's reliable 3800 V6, supercharged for seamless acceleration and passing power. To get a better idea what the view from the top is like, call 1-800-4A-BUICK.

BUICK®
The New Symbol For Quality
In America.

GM
©1994 GM Corp. All rights reserved.
Park Avenue is a registered trademark of GM Corp.
Buckle up, America!


BUICK

cellular network. In Germany, Mannesmann Mobilfunk and Thyssen's satellite service, Spaceline Communication, compete with the monopolies. The cities of Cologne and Düsseldorf are building their own networks to bypass Deutsche Telekom. "There's a gold-rush mentality," says Volker Hoffmann, chief executive at RWE Unitel, a subsidiary of $6.6 billion RWE Energie, a German energy conglomerate.

RWE already has 9,000 miles of phone lines and can reach more than 50% of the German population. It has upgraded a third of its network with fiber optics and is investing $1 billion to become the No. 2 telephone company in Germany by 2000. In October, RWE Unitel purchased Preussag Mobilfunk for $259 million, netting 100,000 cellular customers as well as paging and satellite services. With Deutsche Bank and Mannesmann, it has launched corporate private network services, a venture that is expected to generate revenues of $60 million in 1994. RWE may also join Teledesic, a proposed $14 billion satellite project.

Even more ambitious are the plans of German oil, chemical, and energy conglomerate Veba. Germany's fourth-largest company, it aims to invest $4 billion in telecom over the next 10 years. Veba has an agreement with the German Federal Railway to lay fiber-optic cables along its tracks to challenge Deutsche Telekom. Both Veba and partner Thysse own 28% stakes in Germany's third cellu lar operator, E-Plus Mobilfunk. Veba is partner of Bouygues in the new Frenc cellular network, and its telecom subsic iary, Vebacom, paid $160 million for 10 of Iridium, a global satellite telecor group led by Motorola Inc.

The monopolies are doing what the can to slow the revolutior They are stalling deregulati and using their clout to get leg up in such new markets a cellular. France Telecom, fo one, is using the high acces fees it charges rivals to dom nate the French mobile-phor market.

But once markets are tru open, the monopolies, saddle with a civil-service mentalit may be hard-pressed by th new rivals. "We simply have be better and more custome friendly," says RWE Unitel Hoffmann. In Europe, that ba tle cry is long overdue.

By Gail Edmondson in E sen, Julia Flynn in Londo Karen Lowry Miller in Bon and Patrick Oster in Brusse

THE NEW PLAYERS

BOUYGUES: French construction company, with Cable & Wireless, Veba, and U S West, will invest up to $3 billion in a new cellular network.

COMPAGNIE GENERALE DES EAUX: French water company invests $2.9 billion in a digital cellular network.

RWE ENERGIE: German electric utility spending $1 billion to expand its telecom network.

VEBA: German energy conglomerate investing $4 billion in a fiber-optic network, cellular services, and satellite services.

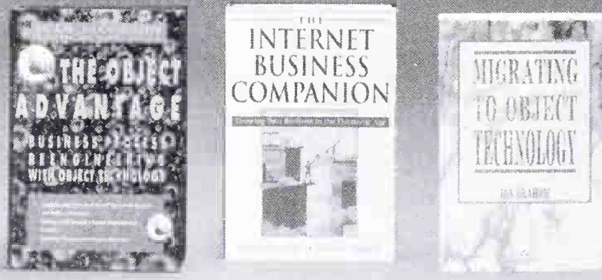
THYSSEN: German steelmaker will spend "whatever it takes" to become Germany's No. 2 telecom operator by 2000.

ENERGIS: British electric utility is investing $400 million to launch a telephone service on Britain's electricity grid.

DATA: BUSINESS WEEK

GET THE TECHNOLOGY ADVANTAGE

WITH TITLES FROM ADDISON WESLEY


THE OBJECT ADVANTAGE
BUSINESS PROCESS REENGINEERING WITH OBJECT TECHNOLOGY
INTERNET BUSINESS COMPANION
MIGRATING TO OBJECT TECHNOLOGY

THE OBJECT ADVANTAGE
Business Process Reengineering with Object Technology
Ivar Jacobson, Maria Ericsson & Agneta Jacobson
From an international pioneer in the field—the first book to combine object-oriented technology and what *Business Week* dubbed today's "key management trend," Business Process Engineering.

THE INTERNET BUSINESS COMPANION
Growing Your Business in the Electronic Age
David Angell & Brent Heslop
The Internet offers tremendous commercial possibilities—strategically plan your Internet future!

MIGRATING TO OBJECT TECHNOLOGY
Ian Graham
You can get there from here! Includes valuable process-automation software.

Clip or copy this coupon and fax or mail to:
McGraw-Hill Bookstore, 1221 Avenue of the Americas, New York, NY 10020. Order by phone in NY at 212-512-4193; outside NY call toll free (800) 352-3566; or fax this coupon to us at 212-512-4105.
Fax or phone orders delivered within 10 days!

☐ Yes! Please rush me:
___ THE OBJECT ADVANTAGE, *296 pp., 0-201-42289-1, $29.25*
___ THE INTERNET BUSINESS COMPANION, *304 pp., 0-201-40850-3, $19.95*
___ MIGRATING TO OBJECT TECHNOLOGY, *320 pp., 0-201-59389-0, $42.25*
☐ Check or money order: please add applicable sales tax, plus $3.50 for U.S. postage and handling.
Credit cards accepted: ☐ Visa ☐ AMEX ☐ MasterCard ☐ Discover

Account No. __________ Exp. Date __________
Name __________
Address __________
City __________ State __________ Zip __________

McGraw-Hill
BW1194

THE McGRAW-HILL BOOKSTORE—SERVING TODAY'S PROFESSIONALS

TO FULLY UNDERSTAND THE DIFFERENCE BETWEEN INSURANCE COMPANIES, YOU COULD GO THROUGH THIS AD. OR GO THROUGH SHEER HELL.

As anyone who's faced disaster certainly knows, some insurance companies go out of their way to help you pick up the pieces. And some will leave your temper smoldering. To avoid making the wrong choice, you have to select a company for its service. Its reliability. And most importantly, its solvency. So you can be certain it's not only willing to pay its claims, but able.

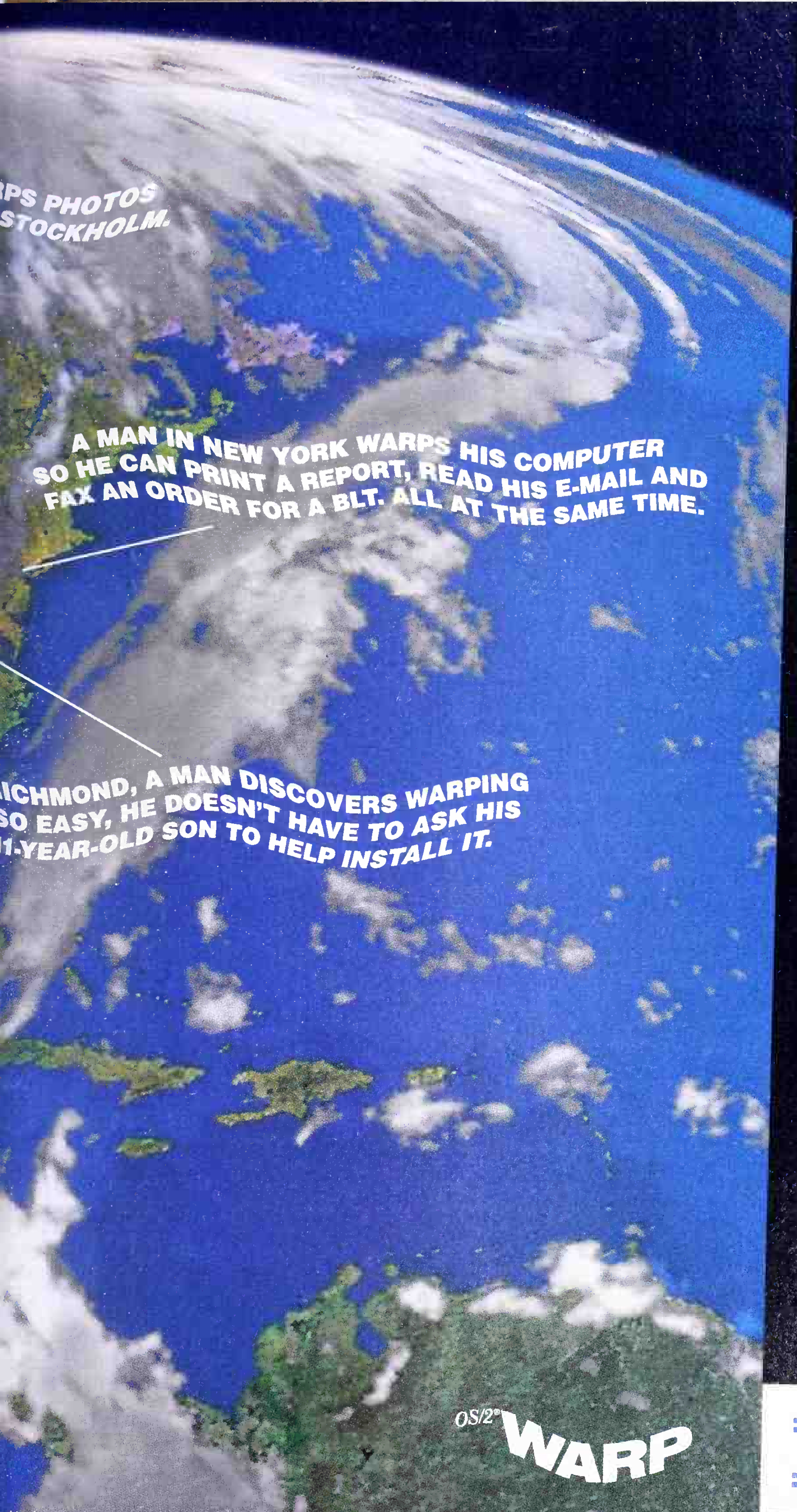
Look up General Accident Insurance in your Yellow Pages and call your Independent Agent about our entire line of commercial insurance products. You'll find we have over $5.6 billion in assets. And that we have an A+ (Superior) rating from A.M. Best, a nationally recognized insurance rating service. And when the heat is on, that kind of security can help you keep a cool head.

GA GENERAL ACCIDENT INSURANCE

We'll See You Through

A WOMAN IN TORON
OF THE KIDS TO GRAN
BECAUSE HE GOT WARPED, A STOCKBROKER IN
SAN FRANCISCO SURVIVES A CRASH INTACT.
AN ASTRONOMY STUDENT IN OHIO
WARPS ONTO THE INTERNET, AND
DISCOVERS A WHOLE NEW WORLD.
AN UP-AND-COMING ARTIST IN SANTE FE WAS AMAZED
THAT HE COULD GET WARPED FOR UNDER $90.
A MAN IN NEW ORLEANS WARPS HIS WINDOWS
INTO POWER WINDOWS.

OS/2 Warp is available from IBM for $89 by calling 1 800 3 IBM-OS2. Other prices may vary. OS/2 Warp consists of BonusPak and OS/2 Version 3. OS/2 logo is a trademark and IBM, Operating


PS PHOTOS
STOCKHOLM.
A MAN IN NEW YORK WARPS HIS COMPUTER
SO HE CAN PRINT A REPORT, READ HIS E-MAIL AND
FAX AN ORDER FOR A BLT. ALL AT THE SAME TIME.
ICHMOND, A MAN DISCOVERS WARPING
SO EASY, HE DOESN'T HAVE TO ASK HIS
1-YEAR-OLD SON TO HELP INSTALL IT.
OS/2®
WARP

Introducing
OS/2 WARP

The new 32-bit,
multitasking,
multimedia,
Internet-accessed,
crash-protected,
Windows™-friendly,
easy-to-install,
totally cool way
to run your computer.

Available for
under $90.

OS/2 WARP
from IBM.

It's here.

See your local dealer
today. Or, call
1 800 3 IBM-OS2.

IBM®

ed trademarks of the International Business Machines Corporation. Windows is a trademark of Microsoft Corporation. © 1994 IBM Corp.

STOP THE PRESSES: *“Right now, the world is sold out of every grade of printing and writing paper,” says one distributor*

PAPER

SUDDENLY, PAPER IS ON A BURN

Demand is white-hot, prices are up–and the cycle just began

Anyone who doubts the strength of the recovery should consider this: Six months ago, the paper industry was mired in its longest downturn in decades. Today, prices of some grades of paper are jumping by 25% in a month, and there's panic buying: Newspaper and magazine publishers, small print shops, and manufacturers are stocking up before prices rise further. “I don't know anybody who planned for this,” says John Clifford, president of Clifford Paper Inc., a large U.S. distributor of papers used for books, magazines, and catalogs. “Right now, the world is sold out of every grade of printing and writing paper.”

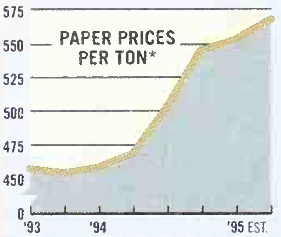
Papermakers, of course, couldn't be happier. Their latest downturn, which began in 1990, was unusually severe, even for the notoriously cyclical industry. Earlier this year, inflation-adjusted “prices reached 50-year lows in pulp and paper,” says A. D. Correll, chairman and chief executive of Georgia-Pacific Corp. By then, companies such as Boise Cascade, Champion, and Stone Container had bled lots of red ink, while others with large wood operations, such as Weyerhaeuser and International Paper, eked out profits mainly because of rising lumber prices. But now, papermakers are humming at nearly 96% of capacity vs. 93% last year, and their inventories are the leanest in 40 years.

The startling turnaround began with rising demand for linerboard, used for corrugated boxes. Manufacturers needed more cartons, and U.S. exports of linerboard surged, especially to rapidly growing markets in Asia and Latin America. As a result, prices have jumped nearly 50% since late last year. Pulp, the basic raw material, also took off. Last December, prices were so low that some manufacturers briefly shut mills rather than run at a loss. And new mills scheduled to open in Malaysia and Indonesia were delayed, keeping expected supplies off the market. So pulp has nearly doubled, to $700 a ton. “Prices are going to the moon by a missile,” says analyst George B. Adler of Smith Barney Inc.

PULP FRICTION. The biggest surprise has come since August. The price of basic uncoated white office paper has jumped on three occasions since then, to nearly $700 a ton. Coated-paper supplies are also tight, as increased advertising has fattened magazines and mail-order companies have sent out larger holiday catalogs. As long-term contracts come up for renewal, buyers face hikes of as much as 25%. “Demand is stronger and stronger,” says L. Scott Barnard, executive vice-president of Champion International Corp.

That's partly because paper buyers, who once counted on instant delivery, are trying to build inventory. “We're seeing a change in inventory policy as well as a real acceleration in demand,” says Dean Witter Reynolds Inc. analyst Evadna Lynn. Excess capacity and price war have kept down prices of toilet pap and diapers. But rising pulp costs ma push up tissue prices next.

SOARING PRICES



*WEIGHTED AVERAGE OF 15 GRADES OF PAPER AND PAPERBOARD

DATA: DEAN WITTER REYNOLDS INC.

Corporate earnings may soon refle all this. Third-quarter paper profits r mained modest, but far bigger gains ar expected for the fourth quarter and i 1995. “We're looking at two to thre years of guaranteed tight markets, a long as we don't go into recession,” say John Maine, a paper analyst with R source Information Systems Inc., a Be ford (Mass.) consultancy.

In fact, the biggest threat to the i dustry may be its penchant for overi vesting as profits grow. So far, howeve only a few companies have announce new capacity, mainly in linerboard. I stead, many need time to repair balan sheets and pay off debt. Says Uni Camp Corp. planning director C. St art Howell: “Given the depth of the c cle, there's going to be a lot of reasses ment before people invest.”

Indeed, the U.S. industry has spe $7.5 billion in the past five years f equipment needed to process recycl papers. About 30% of the material us in corrugated boxes and about 40% newsprint is recycled. Demand has li ed wastepaper prices, too. Old newsp per has almost quadrupled this year, more than $80 a ton. That means prof for such waste collectors as Brownin Ferris Industries Inc. but higher ra materials costs for papermakers.

With global demand growing, esp cially in China and Lat America, most analys expect paper's upturn be as prolonged as the cent downturn. For t industry, it's a breath fresh air. For paper bu ers, however, it cou mean that tight-che feeling for months come.

By Dori Jones Yang
Seattle, with Tim Sm
in New Haven

PHOTOGRAPH BY ED LALLO/GAMMA-LIAISON CHART BY ERIC HOFFMANN/BW

A Brilliant Deduction℠

Searching for a way to round out your corporate giving–with a program that earns tax deductions of up to twice cost? Discover product giving through Gifts In Kind America.® Our free donation management services make it easy for companies to donate inventories of everything from computers to clothing, highchairs to hardware…helping worthy charities nationwide and around the globe. Let us help you explore a giving program that can benefit your company's bottom line…while opening up a whole new world for others.

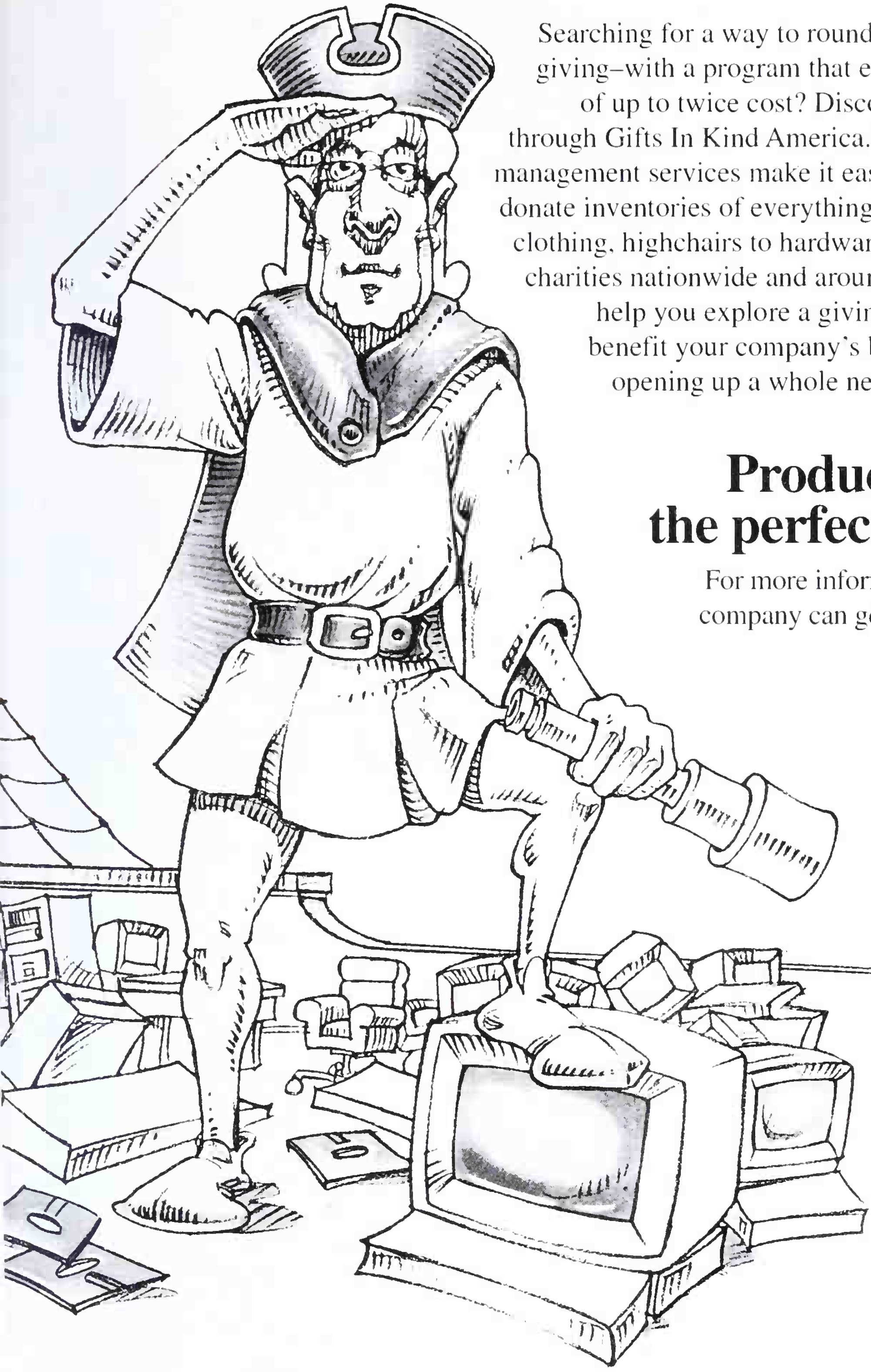
Product giving – the perfect solution!

For more information on how your company can get involved, contact:

GIFTS IN KIND®
AMERICA

700 N. Fairfax Street
Suite 300
Alexandria, VA
22314

703-836-2121

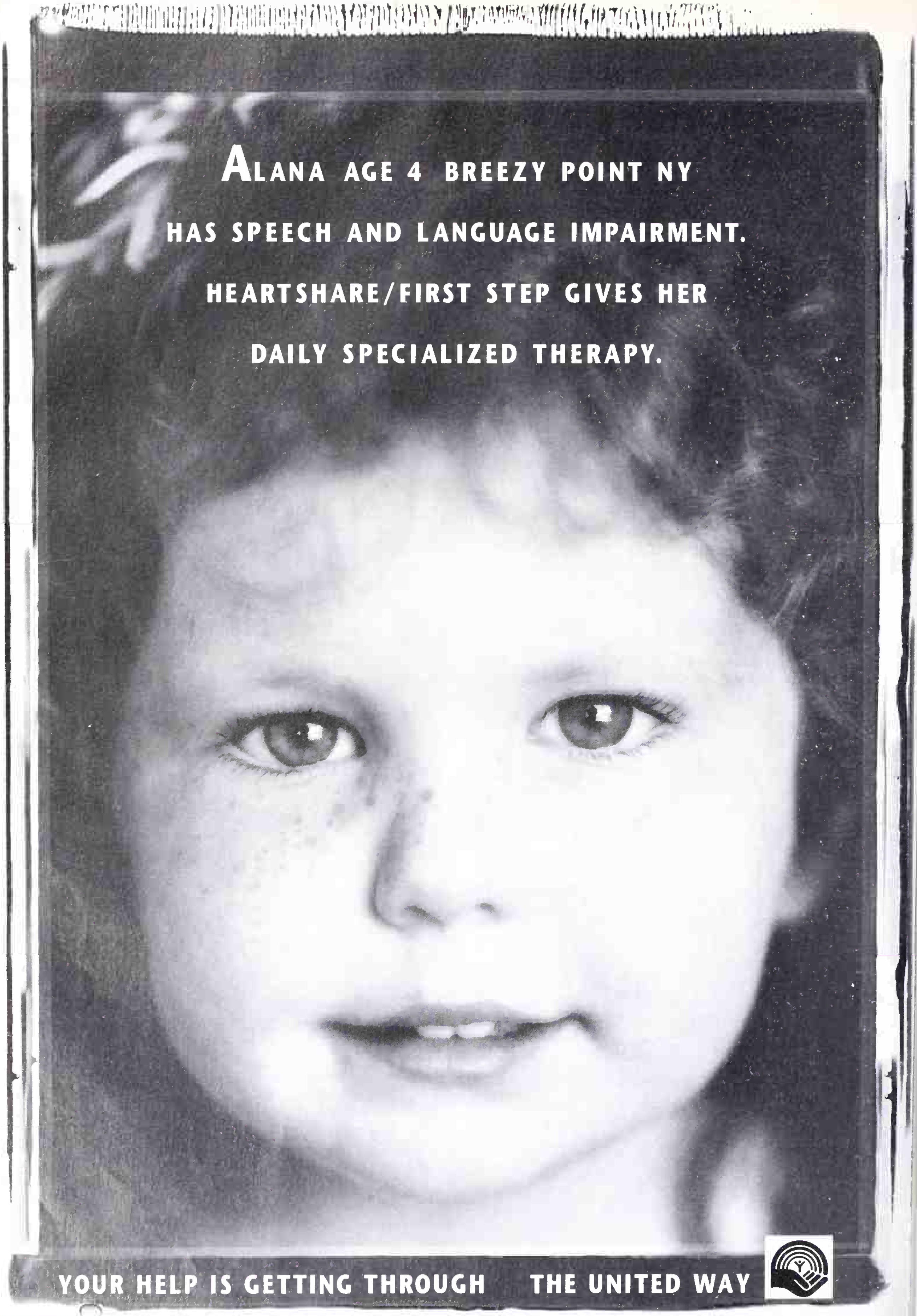


Christopher Columbus, Explorer, 1451-1506.

©1994 Gifts In Kind America

Gifts In Kind America…for more than a decade, helping hundreds of leading companies contribute half a billion dollars in products to tens of thousands of charities.

Photographer Frank W Ockenfels 3



ALANA AGE 4 BREEZY POINT NY
HAS SPEECH AND LANGUAGE IMPAIRMENT.
HEARTSHARE/FIRST STEP GIVES HER
DAILY SPECIALIZED THERAPY.
YOUR HELP IS GETTING THROUGH THE UNITED WAY

Public service announcement courtesy of McCann-Erickson and this publication.

BROUGHT TO YOU BY

BusinessWeek

Beyond news. Intelligence.

EXPORT HOTLINE

Only One Information Source Can Deliver the World by Fax... Anytime...Anywhere... Free and Instantly.

BUSINESS WEEK IS BRINGING YOU THE OPPORTUNITY TO ADVERTISE YOUR COMPANY TO THE 1,000 BUSINESS CALLERS WHO USE THE EXPORT HOTLINE DAILY. FOR AN ANNUAL FEE OF ONLY $50, YOU CAN LIST YOUR COMPANY ON THE LARGEST FAX RETRIEVAL SERVICE IN THE COUNTRY,

THE EXPORT HOTLINE.

CALL OUR 800 NUMBER FOR BUSINESS WEEK READERS AND WE'LL FAX YOU A BROCHURE WITH EVERYTHING YOU NEED TO GET STARTED.

1-800-760-1111

IT'S THAT SIMPLE!

A COMMITMENT TO BUSINESS FROM OUR SPONSORS

AT&T • BUSINESS WEEK • DELTA AIR LINES • KPMG PEAT MARWICK • THE JOURNAL OF COMMERCE

THE NATIONAL ASSOCIATION OF MANUFACTURERS • U.S. COUNCIL FOR INTERNATIONAL BUSINESS

IN COOPERATION WITH THE U.S. DEPARTMENT OF COMMERCE. DEVELOPED & MANAGED BY INTERNATIONAL STRATEGIES, INC.

EDITED BY AMY DUNKIN

ARE YOU READY FOR A PENTIUM POWER TRIP?

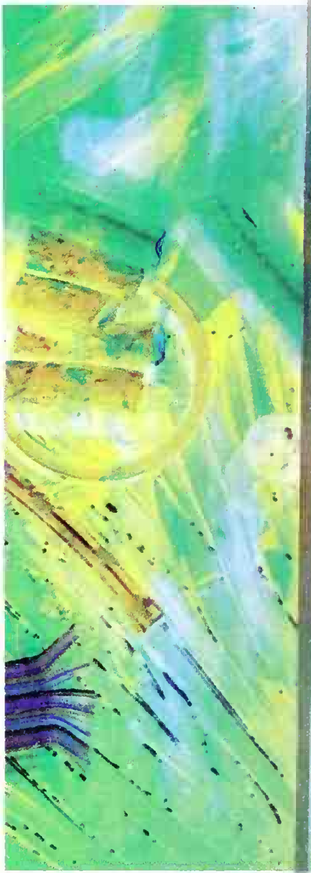
COMPUTERS

So you thought the 486 DX2-66 would give you all the computer you would ever need. Now along comes Intel, making a big push on the tube to get you to buy a brainy personal computer built around its Pentium microprocessor. Never mind that 486-based computers housing Intel and other companies' chips are relatively cheap and powerful enough to run all the latest gee-whiz multimedia software. Or that for as little as $1,500, you can buy a computer packed with a CD-ROM drive, sound card, and other features that make techies drool. If you can squeeze just a little bit more out of your budget, you can afford a Pentium.

Is Pentium worth it? With prices falling as quickly as they have, it's certainly worth considering more machine than you need—or think you need—right now. Intel insists that "all PC software runs best on a Pentium processor," with "faster response time" and full-screen video. Of course, it's one thing to say that the new Pentium chips are speedier; it's another to get across what the horsepower means in practical terms. That's why, in stores such as CompUSA, Intel is demonstrating how long it would take to do basic tasks using a 60-Mhz Pentium processor as compared with a 486 DX2 chip.

For example, a Pentium owner running 3D Home Architect from Broderbund could display a three-dimensional view of a house and then zoom to a kitchen view in around 13 seconds. The same task takes roughly twice as long with the 486. Indeed, independent tests by National Software Testing Laboratories, which, like BUSINESS WEEK, is owned by McGraw-Hill, confirmed a discernible speed advantage on Pentiums. NSTL found that a 60-Mhz Pentium's performance is roughly 30% faster than a 66-Mhz 486 machine.

SWEET SPOT. For more mundane software, the speed difference might not matter. In a less formal test, I didn't detect much of difference playing solitaire on a Pentium, as compared with the 486 33-Mhz machine I use in the office. The 386 SX 16-Mhz dinosaur I still crank up at home was a different matter. NSTL tests on Windows applications such as Microsoft Word, Microsoft Excel, and Lotus 1-2-3 found that Pentiums outpaced 486 DX2s by about 40%. Generally, programs that rely on intensive graphics can take advantage



of the Pentium's so-call
"floating point processor" a
perform even faster.

Pentium machines ha
gotten to mass-market pr
ing levels more quickly th
earlier-generation models d

How Five Multimedia Pentiums Stack Up

KEY: ***** EXCELLENT **** GOOD *** AVERAGE ** FAIR * POOR

NAME/MODEL	RATING	PRICE	TECHNICAL INFORMATION	COMMENTS
GATEWAY 2000 P5-90	*****	$3,798	90 Mhz with 1-gigabyte hard drive, 16 megabytes of RAM. Comes with 17-inch, high-resolution color monitor and software that includes Microsoft Office and Microsoft Money.	System is well-suited for a home office. Large tower chassis offers ample room for expansion.
ZEOS PANTERA 90	*****	$3,365	90 Mhz with 730.8-megabyte hard drive, 16 megabytes of RAM. Includes SmartSuite software.	Excellent sound system features powered subwoofer. Provided bes disk drive and CD-ROM performanc
DELL DIMENSION XPS P90	****	$3,140	90 Mhz with 540-megabyte hard drive, 16 megabytes of RAM.	Slower video than others tested impedes game play. Provides space-saving minitower chassis
PACKARD BELL EXECUTIVE 5190CDT	***	$2,300-2,500	90 Mhz with 850-megabyte hard drive, 16 megabytes of RAM. Includes front-end Navigator software.	Comes with collection of games and multimedia titles, but overa performance is average.
AST ADVANTAGE! ADVENTURE 8060P	**	$2,199	60 Mhz with 540-megabyte hard drive and 16 megabytes of RAM. Comes with gobs of software including Microsoft Cinemania, Lotus Organizer, and Quicken for Windows.	Low price but slower processor than others tested.

DATA: NATIONAL SOFTWARE TESTING LABORATORIES

Intel's account, it took the 5 DX computer systems, in- duced in 1985, five years drop from $8,000 to $2,000. e 486 DX chip took four rs to strike that level from tarting point of $5,300. But Pentium, which was born 1993 with around a $4,000 ce tag, has taken just a r. In fact, many Pentium tems that run at speeds of Mhz cost in the $1,800 to 200 range—a sweet spot some buyers.

DED ATTRACTIONS. Some he newest Pentium PCs, ch run at 75 Mhz, 90 Mhz, 100 Mhz, are also ap- aching tempting price lev- In November, Gateway 0, which sells a popular of computers by mail or- unveiled the $2,500 P5- amily PC, a 75-Mhz multi- lia Pentium, complete h a 730-megabyte hard e, 8 megabytes of ran- -access memory, and a dle of CD-ROM software includes the Microsoft arta '94 encyclopedia and rosoft Cinemania '95 movie guide. For an extra $400, consumers can trade up to a 90-Mhz model, with a 1-gigabyte hard drive.

Intel's attempts to usher in the Pentium age mean lower prices for all PCs. A quick glance at the classified ads shows full-fledged 486-based multimedia computers—machines propeller-heads would have killed for only a year or so ago—are selling for as little as $1,450. With at least a $1,000 difference between an entry-level 486 and a top-flight Pentium, consumers can reasonably ask the question: Why splurge now? One answer is that ever-popular multimedia and "edutainment" software place greater demands on a home computer than word processing or spreadsheet programs exact on an office system. Software publishers write programs with the latest technology in mind. "There's so much more you can do with the extra horsepower" of a Pentium PC, says Tom Zito, chief executive of Digital Pictures, a software developer in San Mateo, Calif.

Buyers who skimp too much on price may come to regret their decision. "I've seen, over and over again, people who end up getting less memory or buying a lower system," says Richard Zwetchkenbaum, research director at International Data Corp. in Framingham, Mass. "And within a very short amount of time after their purchase, there is remorse that they didn't buy better."

COOL RUNNING. Those who choose not to pay the premium for a Pentium won't feel deprived with a 486, though. The machines still run most programs at a fast enough clip to satisfy all but the most power-thirsty users. "It's not analogous to when Windows came out and the 286 was just plain and simple inadequate," says Mike Feibus, a principal at Mercury Research, a market-research firm in Scottsdale, Ariz. The next-generation Windows 95 is designed to run smoothly on the 486. Of course, Windows 95 users should benefit from the extra processing power of a Pentium.

One major player isn't even offering a mass-market Pentium now. Compaq Computer, which produces the popular Presario line, is holding off until early next year. The company believes most consumers will strike in the $1,500 to $1,800 range. "It's difficult to justify to your spouse why Johnny or Susie needs this horsepower today when they can do most of what they need to for hundreds of dollars less," says Kevin Bohren, Compaq's vice-president for desktop PC marketing.

Also on the long-range horizon are computers built around competing microprocessors. An immediate alternative to Pentium for Apple Computer diehards are muscular Power Macintoshes, based on the PowerPC chip that is jointly produced by Apple Computer, IBM, and Motorola. But the partners are only now agreeing on a common hardware design for all PowerPC-based machines that will not hit the market until 1996. For people buying an IBM-type computer, Advanced Micro Devices and Cyrix are also coming out with Pentium rivals next year.

Many experts advise consumers who want a Pentium PC to consider the latest 75-Mhz, 90-Mhz, and (if you can find them) 100-Mhz versions. The older 60-Mhz Pentium chips were plagued by concerns over heat buildup. The new versions use lower-voltage, cooler-running technology and are better designed. The computers they're in boast more generous hard drives and other more powerful components. "The 90-Mhz Pentium is going to last for years," says Feibus.

Buyers who opt for a speedy 486 instead of a Pentium won't likely be visiting the PC scrap heap any time soon, either. Meanwhile, those who put off buying a computer of any kind now because they expect Pentiums to be better and cheaper in six months will probably be right—$2,000 tomorrow will surely buy a more robust computer than $2,000 does now. Compaq will have jumped in, and Intel will continue to drop Pentium prices. But that's a convenient excuse for not buying anything; there's always something better just down the pike. Indeed, for people who want their kids to run nifty multimedia educational programs or who need to cart work home from the office, now is as good a time as any to take the plunge. *Edward Baig*

Buyers who skimp too much on price now may regret it

HOW TO FOIL PHONE-CARD FRAUD

TELEPHONES

As a frequent flyer, I have become sensitized to the dangers of calling-card fraud. I have scrupulously followed the advice of other passengers who had their numbers ripped off and used to rack up unauthorized calls. Yet I still got burned on a recent trip to New York.

While my card provider, AT&T, didn't make me pay for the $1,225 in calls charged to my purloined number, I did lose time and money making phone calls and sending faxes to let AT&T and Visa (to which my calls are billed) know which calls weren't mine.

I also learned that I and other phone customers indirectly pay for $2 billion in annual fraud as AT&T, MCI Communications, and other companies pass losses on. So I checked into what else I might do to foil the crooks. As far as I can remember, I had minded all the basic precautions, such as blocking the phone keypad when dialing, but somebody "clocked" my number anyway. "They are pretty clever," says Richard Petillo, director of AT&T corporate security. "They won't look like what you'd expect. They might even be in suits."

Petillo and other security experts advise these extra measures to thwart shoulder surfers:

- If available, use a "swipe" phone with a magnetic strip reader that registers the card electronically.
- Ask your long-distance carrier to block use of your card for countries or continents you're unlikely to call. A large number of unauthorized calls get placed to Africa, Pakistan, Colombia, Mexico, and the Middle East. Or put a dolla amount ceiling on charges.
- Memorize your numbe so you don't have to tak your card out. AT&T offers TrueChoice Calling Card tha lets you pick any numbe combination.
- Move your body to a slightl different position after punc ing in half your code numbe This foils any in-lin view crooks may have the keypad.
- Order a calling ca without your four-di pin number print on it.

Chances are, yo card provider will be t first to notice fraud ter the company co puter detects "unusu call activity," and it w alert you (as happen when $476 worth of ca were placed with card from Israel in thr days). Better, though, prevent those calls fr being made in the fi place. *Patrick Os*

A PENSION PLAY FOR SMALL FRY

SMALL BUSINESS

A controversial approach to setting up retirement plans that is highly advantageous to business owners but criticized for being discriminatory to employees has been given a green light by Congress. Much to the surprise of pension experts, proposed language that would have disallowed "age-weighted" plans was stricken from pending legislation earlier this fall. For the time being, certain small-business owners can set up retirement plans that shelter a great deal of their own income from taxes while making minimal contributions for their employees.

Whether you install a defined-benefit plan that pays workers a fixed amount once they retire or a defined-contribution plan where you make payments into a retirement account while the employee is working, pension laws require that owners treat employees fairly. But there are several ways to test what is fair. By using a method usually reserved for defined-benefit plans called cross-testing, defined-contribution plans can be judged nondiscriminatory because the benefits provided at retirement are comparable.

Cross-testing is the genesis for age-weighted profit-sharing plans, a type of defined-contribution retirement plan. The reasoning goes that younger employees have more time to accumulate benefits and therefore deserve smaller contributions each year than employees with fewer years until retirement. That way, business owners—assuming they are among the oldest employees—not only get to set aside more pretax money for themselves (which grows tax-deferred) but are required to spend less on contributions for their employees (table).

For an age-weighted plan to make sense, "the dem graphics have to be righ says Len Carusi, director retirement plans consulti for Hirschfeld, Stern, Moy & Ross in New York. Su plan are often used in the p vate practices of doctors architects. They also wo best for co panies small that staff memb don't expect retirement b efits and will be happy w the plan, even if the ow benefits much more than t do. "If you're using the p to motivate employees, t is hardly the way to go," s Israel Lustig, a New York nancial planner.

If this type of plan appe to you, there's a reason make the change soon: P documents have to be ame ed by the end of 1994 to c form with recent change pension law. The law n change, yet it's unlikely IRS will be able to take a the extra rewards you h gained while the plan was sidered legal. *Amey St*

HOW AN AGE-WEIGHTED PLAN WORKS

	AGE	COMPENSATION	PROFIT-SHARING CONTRIBUTIONS TRADITIONAL	 AGE-WEIGHTED
OWNER	**55**	$150,000*	$22,500 (15%)	28,874 (19.2%)
EMPLOYEE	**45**	40,000	6,000 (15%)	3,395 (8.5%)
EMPLOYEE	**35**	30,000	4,000 (15%)	1,126 (3.7%)
EMPLOYEE	**25**	20,000	3,000 (15%)	600 (3%)

*Maximum that can be used for calculating contributions to a plan.

DATA: ISRAEL LUSTIG, CLU, CFP

ALK ABOUT IQUID ASSETS

SMART MONEY

onservative inves- rs who are feeling urned by electric ilities might consid- cooling off with water-com- ny stocks. These are sta- , dividend-paying invest- nts with a projected erage annual total urn of 8.5% over next three to five ars.

Of the 60,000 water stems in the U.S., ly 17 are publicly ned, and the biggest has a market capi- ization of $750 mil- n. These serve about % of the nation's oulation. The rest of systems are run by odgepodge of local nicipalities and pri- e developers.

Recent water-qual- scares in Milwau- , Washington, D.C., New York City fueling environ- ntal regulation—to detriment of many ncially strapped local wa- operations. But the larger estor-owned water utilities e been gearing up for nges and are seizing the nce to buy or service the ller systems.

n addition, the threats of egulation and competition t are tearing up electric ities don't exist in water tems because companies limited by the geograph- cation of their reservoirs pipelines.

SURPRISES. With divi- ds of around 6%—com- d with 7% for electrics— water rates rising at e times the rate of infla- , "water is good for some- who doesn't want any rises but has a very long- bullish outlook," says er Conrad, editor of investment newsletter *Utility Forecaster*.

HAYES HENDERSON

The biggest of the water utilities, American Water Works in Voorhees, N.J., is a tightly run ship, serving more than 5 million people in 21 states. This geographical diversification makes it a good play because water usage is dependent on the weather: Too little or too much rain, and people stop washing cars and watering lawns. American is now trying to buy a big water system in prosperous and fast-growing Orange County, Calif.

American has a potential annual total return of 11%, says Jim Krekeler, an investment banker who raises money for water utilities at Edward D. Jones in St. Louis. Its current 4% yield is low, but Krekeler projects its dividend will grow 7.5% a year for the next five years—considerably more than the 2% average for all utilities (including electric, telecommunications, and gas). American is trading close to its 52-week low of 26. Revenues grew 9% last year, and earnings per share rose 10.6%. And its price-to-earnings ratio of 11.3 falls below the industry average of 12.

TOP PROSPECTS. Other good dividend-growth stories, says Krekeler, are Philadelphia Suburban and Connecticut Water Service. Philadelphia, a $200 million company that is expanding into nearby municipal systems, is yielding 6.4%, and its dividend should grow 3% a year. Trading near its 17⅛ 52-week low, its p-e is 13.4. Connecticut, a $55 million company that runs three systems in that state, yields 7.0% and should grow 2% to 2.5% a year. It's cheap at 23½. Although these utilities lack American's diversity, "all three are at the top of the industry in terms of quality and management," says Krekeler.

Other companies worth a look include United Water Resources in Harrington Park, N.J. It recently became the second-largest water utility, at $250 million in market capitalization, when it merged with General WaterWorks. This puts United in 14 states, serving some 2 million people. Selling at around 13¾, its yield is 7%. Although it has bullish long-term prospects, dividend growth should stagnate for a while, says NatWest Holdings utility analyst Ed Tirello. Some smaller companies with decent yields are E'Town and Middlesex Water in New Jersey and California Water Service.

Investors should be wary of companies with payout ratios of over 90%, such as Aquarion in Bridgeport, Conn., and IWC Resources in Indianapolis, because they have little cushion between their earnings and dividend. By comparison, American's payout ratio is 47%. And though many water utilities have met the standards of the Safe Drinking Water Act, more regs are in the offing. That means companies face ongoing nonrevenue-producing construction costs. However, they can apply to the state for permission to raise rates, and most states have been accommodating.

Perhaps the greatest near-term risk of investing in water companies is rising interest rates. Like electric utilities, water companies have an inverse relationship to rate levels, so you might want to wait to buy. Even so, the pressure is on for the industry to keep consolidating and creating greater and more profitable economies of scale. And regardless of interest rates, water rates aren't likely to decline. *Pam Black*

A Stream Of Water Stocks

COMPANY	STOCK PRICE*	52-WK. HIGH	P/E**	DIVIDEND YIELD
AMERICAN WATER WORKS	26⅞	32¼	11.3	4.0%
CONNECTICUT WATER SERVICE	23½	30¼	11.4	7.0
E'TOWN	25⅝	32⅝	12.1	8.0
PHILADELPHIA SUBURBAN	17⅝	19⅝	13.4	6.4
UNITED WATER RESOURCES	13¾	15⅛	13.5	6.7
AVERAGE			12.0	6.0

*11/7/94 **11/7/94 price/1994 estimated earnings per share DATA: EDWARD D JONES & CO.

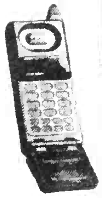
FOR AD RATES AND INFORMATION
PHONE: (312) 337-3090
FAX: (312) 337-5633 OR WRITE:

BUSINESS WEEK MARKETPLACE

BUSINESS WEEK MARKET-PLACE
100 EAST OHIO STREET SUITE 632
CHICAGO, ILLINOIS 60611

Telecommunications Products

Two Cellular Phones – One Number —



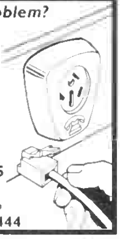
Order this handheld MOTOROLA phone and we will put it on the same number as your existing cellular phone!

No second bill, no second number to give out!

Only $495 Programmed to your existing cellular number!

Spy Supply, Inc.
1212 Boylston St. #120
Chestnut Hill, MA 02167
(305) 340-0579 • (617) 327-7272

Travel Abroad with a PC & fax/modem?

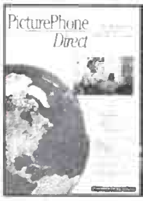


Recognize this problem?

TeleAdapt provides solutions which enables you to connect & communicate from ***anywhere*** in the world

Contact us now for more information!

USA Tel: 408-370-5105
Fax: 408-370-5110
CompuServe ID: 72623,706
UK Tel: +44 (0)81 421 4444



FREE
VIDEO CONFERENCING CATALOG
Call (800) 521-5454

Health/Nutrition

Customized Vitamins

We measure your antioxidants, vitamins, minerals, and energy-giving amino acids–over 150 tests–to analyze your disease risk. Based on your results, we design an optimal supplement program to maximize your health and energy levels. Formerly available only to professional athletes.

Get the only complete nutritional supplement program that is designed for your unique biochemical needs.

CALL TODAY FOR MORE INFORMATION
EMCS 1-800-466-EMCS
Ergogenic & Metabolic Consulting Services
3000 Peachtree Ind Blvd., Norcross, GA 30071

Contact Lenses

CONTACTS AT LOWEST PRICES!

- Same Day Shipment Via Federal Express
- All Major Brands And Prescriptions
- All Lenses 100% Guaranteed

For a FREE Catalog Call
1·800·571·LENS
INTERNATIONAL ORDERS:
(305) 422-8181

LENS EXPRESS

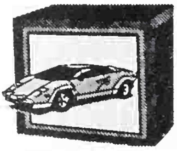
"I Don't Trust These Baby Blues To Just Anyone"

Doctor's Prescription Required

350 S.W. 12th Avenue Deerfield Beach, Flori

Computer Equipment

CUSTOM COMPUTER SCREEN SAVERS



Turn your favorite photos into screen savers. Makes a great gift. For *only* $25.00.

Please specify for PC/MAC Computers

Send photos to:

ONTAR Corporation
9 Village Way North Andover, MA 01845
TEL. 508-689-9622 FAX 508-681-4585

MC/VISA Accepted

HEWLETT-PACKARD

Buy–Sell–Trade

LaserJet	ColorPro
DeskJet	Draft Pro
RuggedWriter	Draft/Master
Electrostatic Plotters	DesignJet

HP 9000 Workstations and Vectras also available.

Ted Dasher & Associates
4117 Second Ave., S. Birmingham, AL 35222
Phone: 205/591-4747 Fax: 205/591-1108
800/638-4833

PC/Telecommunications

DON'T LET THIS HAPPEN TO YOU!

Breakage and Theft Insurance

One policy insures all your portable equipment: laptop computers, cellular phones, beepers, cameras, presentation devices and dictation machines. As low as $75/year for $5,000 coverage. Call 24 hrs. for application.

1-800-432-5901
Data Security Insurance

Telecommunications Services

Wholesale Long Distance

Domestic $.08 to $.16 per min
800 rates $.08 to $.17 per min

Flat Int'l Rates 24 x 7
U.K. $.38/min, Japan $.58/min
Hng Kg $.63/min, Frnc $.52/min
Call 800/800-3773

Unlimited Free E-Mail & Internet

when you Save $$$ with our low cost fiber-optic long distance phone service,
Domestic 7.5-14.5 cents per min.
Call UK for $.29 Japan $.39 Canada $.22
From IDT the 8th Largest Int'l Carrier

Call: 1-800-FREE-MAIL

Direct Marketing/Mailing Lists

SALES LEADS

The hottest 15,000 people in high technology are in the ***Microquest Directory.*** Find the top 100 execs at leading companies like Microsoft, Intel, Apple, Compaq, IBM, HP, and more...

For free information, call:
Microquest Information Tools
(415) 479-4723

SALES LEADS & MAILING LISTS

- 10 Million Businesses
- 90 Million Households

"Never Pay Retail Prices For Mailing Lists"

WHOLESALE LIST MARKETING
1-800/800-5940
P.O. Box 24151
OMAHA, NE 68124

Videos

TomKat PRODUCTIONS

The TEN COMMANDMENTS OF NETWORKING

Who do you know?
Who knows you?

POWER NETWORKING secrets from the master, Sandy Vilas. ONLY $39.95 VISA & MasterCard Accepted

(800) 580-0857

Education/Instruction

—*a*—
COLLEGE DEGRE
will enhance your career potentia

Earn your no-classroom, *fully-accredited* degree
Business, Nursing, or Liberal Arts using Moore's
successfully refined study program • Earn credits
toward your degree from *The University of the State*
New York/Regents College • With our materials y
will tackle the necessary exams with confidence an
ease • Apply for our *interest-free financing*

FOR FREE INFORMATION OR A TRANSCRIP EVALUATION, CALL OR WRITE TODAY!

Moore Educational PUBLISHERS
3202 Belmont Blvd., Nashville, TN, 37212-600
(615)383-5633 • FAX (615)383-6559
1-800-737-2222

SPEAK BETTER

Complete audio programs for
- VOICE IMPROVEMEN
- ACCENT REDUCTIO

by David Alan Stern, PhD
$29.95 each
1-800-753-1016

JAPANESE RUSSIAN
or any of 81 Languages.
FREE CATALOG
Audio Language & Knowledge Institute, I
1202 Lexington Avenue Suite 272-BV
New York, NY 10128
800 722 6394
212 343 1203

University Degrees

Approved Self Paced Home Stu
Associate Bachelors Masters Doc
Business Admin, Public Admin, H
Care Admin, Human Resources, Finar
International Business, Tech Mgmt, I
Paralegal, Psychology. Call for broch
(800)477-2254 (24 hrs)
Southern California University for Professional Studies
1840 E. 17 St-BW, Santa Ana, CA 92

• FREE VIDEO

EXTERNAL DEGREE
BA/BS MS/MBA PhD/JD
Credit for work./life exp. • Accredi
(800) 444-8569 (24 hrs.)
LASALLE UNIVERSITY
Dept. 569 Mandeville, LA 70470-4

MBA by Distance Learni

- No Bachelor's degree required.
- Major British university
- Chosen by The Economist Intellige Unit as one of the world's best M

HERIOT-WATT UNIVERSIT
North American Distributor
1780 Shattuck, Suite 2, Berkeley CA 94
1-800-MBA-0707, Ext. 20

Trade Shows/Exhibitions

WINDOW OF AMERICA - BEIJING EXPO APRIL/1995

A COMPLETE MARKETING PACKAGE FOR US PROD. & TECH.

6 day exhibit / 1 yr. showcase / Chinese gov't (SSTCC) co-sponsor / Meet Chinese counterpart in show / Interpreter / Catalog / Travel / +more / Your strategic move to China / Guide Business Group **800/965-0570 Ph** 818/965-5540 Fax

WE HAVE THE EXPERTISE TO GUIDE YOU THRU CULTURAL BARRIERS

FOR AD RATES AND INFORMATION
PHONE: (312) 337-3090
FAX: (312) 337-5633 OR WRITE:

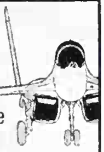
BUSINESS WEEK MARKETPLACE

BUSINESS WEEK MARKET-PLACE
100 EAST OHIO STREET SUITE 632
CHICAGO, ILLINOIS 60611

Travel

Peter-Hughes Diving INC.
he World Standard for
E-ABOARD EXCELLENCE
800-932-6237
AU - BELIZE - TURKS & CAICOS

A MiG IN MOSCOW



ak the sound barrier
MiG-21. Climb to
edge of space in
iG-25.
erience the incredible
lide in the MiG-29.
need not be a pilot. **MIGS *etc.***
rs a variety of planes and flight
kages. Packages start at $5500.
for a free brochure.

MIGS
MIGS *etc.*, Inc.
800 MIGS ETC (USA)
813 923-0607

Art/Collectibles

GALERIE D' SPORT
RESENTING WEARABLE
SPORTS FINE ART
clothing for people who love the game
ts, Sweatshirts & Jackets of the highest
y depicting visions of sport by some of
ıost respected artists in the country.
For Free catalog call
erie d' Sport 1-800/299-3399
Fax: 714/457-9106

Business Services

ESEARCH REPORTS
,850 academic topics available!
nd $2.00 for the 290-page catalog.
stom-written reports also available.
RESEARCH ASSISTANCE
11322 Idaho Ave., #206BF,
Los Angeles, CA 90025
ll Free Hotline: 800-351-0222
(California: 310-477-8226)

Exclusive
eal Estate Trends!
ble for **first time,** twice yearly
1994-1995 senior-level hiring trends,
ts. Prepared by Ferguson Partners.
$195 (checks only) for midyear
NOW, year-end report to come:
arks Communications
420 Frontage Road
Northfield, IL 60093
For Info: 708/446-8155

Financial Services

CAPITAL AVAILABLE

Attention: Public and Private Companies. NASDAQ member firm has mega sales force and millions available for successful growth companies. We also offer an opportunity to raise funds through private and/or public offerings. Our recent new issue is one of the three most successful of '94. All inquiries kept strictly confidential.

Send responses to:
P.O. Box 3892
Hollandale, FL 33008-3892

BUSINESS OWNERS
We will pay your bills by
negotiating with your creditors.
Save 40% to 80%
1-800-560-9955 (call 24hrs/7days)
We settle business disputes
OUT OF COURT
NO RESULTS - NO COSTS
Free information

"Destiny" Makes Business Sense
"Simple & Powerful" - PC Magazine
Expert Business Plan Writing,
Financial Analysis Software,
Setup Budgets, Forecast,
Manage Cash Flow
Money Back Guarantee, Toll free 800/366-5111
Order Today! or Contact your dealer

Investment Services

INVESTMENT LOSSES?
Get back your money even if you knew or agreed to risks!
Free recorded information
1-800/345-6800 Ext. 18

Growling bear eating your investments?

Protect yourself. Read the *Agressive Investor*

Three months	$ 55
One year	$ 195

The Agressive Investor
P.O. Box 4011
Cerritos, CA 90703-4011

Sports Equipment

IN-LINE SKATING ACCESSORIES

LOW DISCOUNT PRICES
All Wheels $3.99 Each
- Wheels
- Bearings
- Safety Equipment
- Helmets

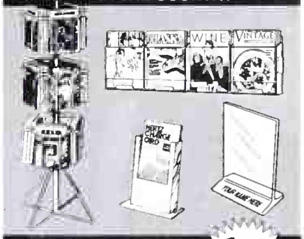
THE WHEEL FEDERATION
You Name It We Got It!
1-800/488-7144 free catalog

Sales Promotion/Display Products

12"x18"
Corrugated Plastic Signs

As Low As 99¢ each
Signs of Imagination
800-MOOSE90
Low Cost Screenprinted Signs & Displays

Literature Displays
SIEGEL DISPLAY PRODUCTS
LARGEST SELECTION IN THE COUNTRY



SIEGEL DISPLAY PRODUCTS
800-538-6583
Free 52 PAGE CATALOG

Business Opportunities

$10,000+ PER MONTH
Potential
Earnings Collecting
Judicial Judgments Locally.
Free Information 24 hours
Call 1-206/863-7827

TELECOMMUNICATIONS
OWN PART OF AN SMR TELECOMMUNICATIONS WEST COAST NETWORK PRESENTLY UNDER CONSTRUCTION IN CALIFORNIA & NEVADA
$10,000 risk capital required
IRA & Self-directed pension plan qualified
Cova Communications
800 723 1338, FAX 407 844 5844

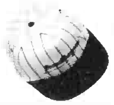
Corporate Gifts

PROMO GEAR

YOUR LOGO HERE

IMPRINTED PORCELAIN MUGS
AS LOW AS 99¢ EACH QTY. 1008
AS LOW AS $1.89 EACH
IMPRINTED SOLAR CALCULATORS
1-800-936-5646
LOGOGEAR USA
FAX: (415) 579-5534 • FREE BROCHURE

WHY PAY MORE???
FACTORY DIRECT!!!
Free Set-up, Die, Artwork, Shipping



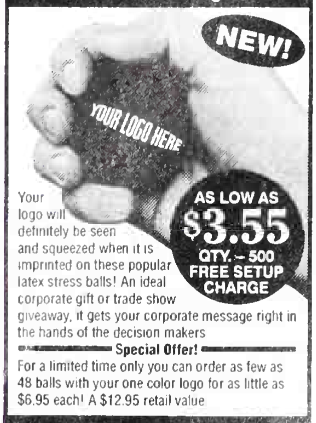
Embroidered Caps as low as	**$3.55**
Embroidered Jackets as low as	**$26.50**
Embroidered Polo Shirts as low as	**$13.90**
Patches 3" as low as	**$ 0.37**
Lapel Pins 3/4" as low as	**$ 0.55**

800/775-7722
for free catalog
Best Greetings, Inc.

Businessman's Pedometer
(Ultra Small Step Counters)
Doubles as a Tie-Clasp
Wear on a necktie!
$39.95 Plus $3.00 S/H
Send Check or M.O. to:
BITS, P.O. Box 1331,
Brentwood, TN 37024

CORPORATE SQUEEZE

NEW!



Your logo will definitely be seen and squeezed when it is imprinted on these popular latex stress balls! An ideal corporate gift or trade show giveaway, it gets your corporate message right in the hands of the decision makers

AS LOW AS $3.55 QTY. – 500 FREE SETUP CHARGE

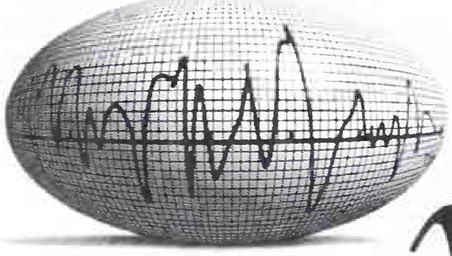
Special Offer!
For a limited time only you can order as few as 48 balls with your one color logo for as little as $6.95 each! A $12.95 retail value

1-800-936-5646
LOGOGEAR USA
FAX: (415) 579-5534 • FREE BROCHURE

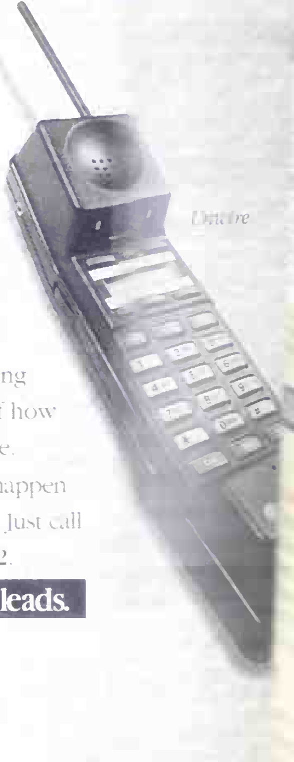
The *highway* is open. The *speed* limit will be up to *you.*

Communicate with vision.

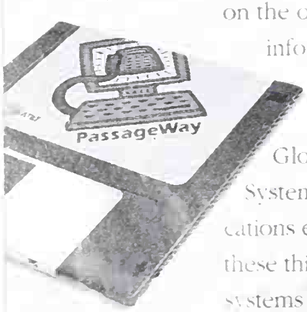
Get integrated.



Dial calls with your voice.



Untetre



Let your computer work the phones.

Where does your business want to go? And what do you want to do?

Want to roll out a better way to work in over 70 countries, without leaving headquarters? Go to a conference, right now, on the other side of the country? Pop up information on your customers, the second you take their calls?

With a little help, *you can.* AT&T Global Business Communications Systems can give you the communications equipment and support to do all these things today. And we can take your systems and make them do things you never imagined. Because the future is about turning what's possible into what's *real.* Working the way you *want* to, instead of how you have to. Anytime, anywhere.

You can make great things happen for your business. Starting now. Just call AT&T at 1 800 325-7466, ext. 382.

AT&T. Where innovation leads.

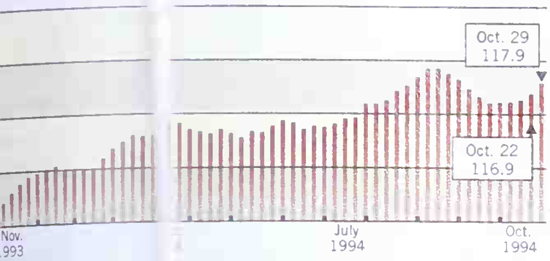
AT&T

©1994 AT

usines Week Index

ODUCTION I EX

Change from last week
Change from last year:



e **production** index during the week ended Oct. 29 as seasonally ad-
ed output of cars and t revved up in full force. Elsewhere, production of
l, coal, and lumber and reight traffic also increased. Electric power and
de-oil refining output dec and paper and paperboard were little changed for
week. Before calculation ne four-week moving average, the index rose to
.1 from 118.3.

BW prod ndex copyright 1994 by McGraw-Hill Inc

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (11/5) thous. of net tons	1,880	1,954#	2.0
AUTOS (11/5) units	136,333	146,862r#	1.3
TRUCKS (11/5) units	121,191	125,003r#	4.8
ELECTRIC POWER (11/5) millions of kilowatt-hrs.	55,850	55,833#	–0.9
CRUDE-OIL REFINING (11/5) thous. of bbl./day	13,462	13,089#	–1.2
COAL (10/29) thous. of net tons	20,502#	20,667	11.5
PAPERBOARD (10/29) thous. of tons	916.3#	914.0	7.2
PAPER (10/29) thous. of tons	827.0#	840.0r	–0.4
LUMBER (10/29) millions of ft.	480.9#	481.1	–0.6
RAIL FREIGHT (10/29) billions of ton-miles	25.7#	25.3	11.7

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

EADING INDICA S

	LATEST WEEK	WEEK AGO	YEARLY % CHG
SINESS WEEK LEADIN DEX* (10/29)	246.9	246.6r	7.9
OCK PRICES (11/4) S&)	467.49	464.92	0.9
RPORATE BOND YIELD, a (11/4)	8.68%	8.65%	26.7
DUSTRIAL MATERIALS ES (11/4)	108.9	107.9	15.9
USINESS FAILURES (10/	298	262	-9.7
EAL ESTATE LOANS (10/2 illions	$445.2	$444.3r	7.5
ONEY SUPPLY, M2 (10/24 ions	$3,559.6	$3,561.3r	1.8
NITIAL CLAIMS, UNEMPL ENT (10/22) thous.	324	325r	-6.9

Sources: Center for Internat usiness Cycle Research (CIBCR), Standard & oor's, Moody's, *Journal of Co e* (index: 1980=100), Dun & Bradstreet (failures f large companies), Federal R Labor Dept. CIBCR seasonally adjusts data on usiness failures and rea estat ns. *Copyright 1994 by CIBCR

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (11/9) $/troy oz.	383.600	383.850	2.3
STEEL SCRAP (11/8) #1 heavy, $/ton	133.50	133.50	-2.9
COPPER (11/5) ¢/lb.	130.2	126.7	57.3
ALUMINUM (11/5) ¢/lb.	91.0	86.5	85.7
COTTON (11/5) strict low middling 1-1/16 in., ¢/lb.	69.79	69.38	24.1
OIL (11/8) $/bbl.	18.45	18.63	10.1

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
FEDERAL FUNDS (11	4.51%	4.76%	2.96%
COMMERCIAL PAPER (11/8) nth	5.73	5.60	3.40
CERTIFICATES OF DEPOSIT 9) 3-month	5.72	5.58	3.36
FIXED MORTGAGE (11/4) 30-	9.18	9.17	7.16
ADJUSTABLE MORTGAGE (1 ne-year	6.07	6.00	4.20

Sources: Federal Reserve HSH iates

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (11/9)	97.77	96.20	106.56
GERMAN MARK (11/9)	1.53	1.49	1.70
BRITISH POUND (11/9)	1.60	1.64	1.42
FRENCH FRANC (11/9)	5.26	5.12	5.91
ITALIAN LIRA (11/9)	1571.0	1538.5	1662.3
CANADIAN DOLLAR (11/9)	1.35	1.36	1.31
MEXICAN PESO (11/9)[3]	3.424	3.436	3.205

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

---

#Raw data in the product nd s are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=Western Wood Prod Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AH D

ETAIL SALES

uesday, Nov. 15, 8:30 a. Retail sales robably increased 0.6% in tober, the ame gain as in Septem er, ys the median recast of economists s rv d by MMS nternational, a unit of McG -Hill Inc. Ex- uding cars, sales likel ro .4% last onth after advancing 0.6% September.

NDUSTRIAL PRODUCTION

uesday, Nov. 15, 9:15 a.m. On the ame day that the Feder l R rve policy- etting committee meets th d will also port on industrial output, h MMS econ- mists expect to have risen t .5% in Oc- ber. That follows no ang September. perating rates for all ust robably averaged 84.8% in October. If so, that lifted capacity usage back up to its August level after slipping to 84.6% in September.

CONSUMER PRICE INDEX

Wednesday, Nov. 16, 8:30 a.m. ▶ Consumer prices likely rose 0.3% in October, a bit faster than September's 0.2% gain. When food and energy prices are excluded, the core CPI probably also increased 0.3% last month after a 0.2% rise in September.

BUSINESS INVENTORIES

Wednesday, Nov. 16, 10 a.m. ▶ The MMS median forecast is that inventories at manufacturers, wholesalers, and retailers probably grew 0.5% in September after jumping 1% in August. However, the gain may not be that large because factories have already reported a 0.2% loss in their September stock levels.

HOUSING STARTS

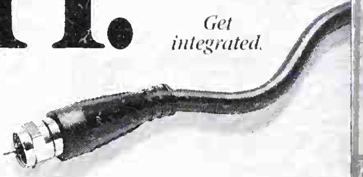
Thursday, Nov. 17, 8:30 a.m. ▶ Starts likely fell to an annual rate of 1.49 million in October, from 1.53 million in September.

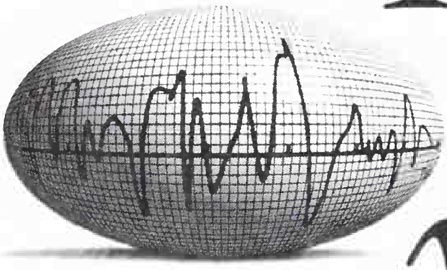
INTERNATIONAL TRADE

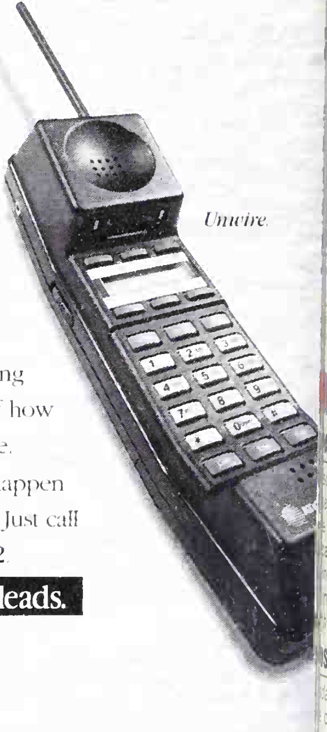
Friday, Nov. 18, 8:30 a.m. ▶ The foreign trade deficit for goods and services in September was probably little changed from August's $9.7 billion. The MMS economists forecast that both exports and imports increased slightly in September.

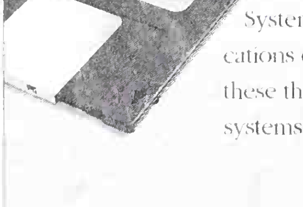
The *highway* is open. The *speed* limit will be up to *you.*

Communicate with vision.


Get integrated.


Dial calls with your voice.


Unwire.



Let your computer work the phones.

Where does your business want to go? And what do you want to do?

Want to roll out a better way to work in over 70 countries, without leaving headquarters? Go to a conference, right now, on the other side of the country? Pop up information on your customers, the second you take their calls?

With a little help, *you can.* AT&T Global Business Communications Systems can give you the communications equipment and support to do all these things today. And we can take your systems and make them do things you never imagined. Because the future is about turning what's possible into what's *real.* Working the way you *want* to, instead of how you have to. Anytime, anywhere.

You can make great things happen for your business. Starting now. Just call AT&T at 1 800 325-7466, ext. 382.

AT&T. Where innovation leads.

AT&T

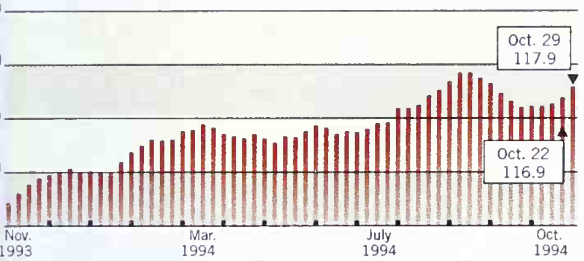
©1994 AT&T

Business Week Index

RODUCTION INDEX

Change from last week: 0.9%
Change from last year: 7.8%

1992=100 (four-week moving average)



e **production index** increased during the week ended Oct. 29 as seasonally ad-
ted output of cars and trucks revved up in full force. Elsewhere, production of
el, coal, and lumber and rail-freight traffic also increased. Electric power and
de-oil refining output declined, and paper and paperboard were little changed for
week. Before calculation of the four-week moving average, the index rose to
.1 from 118.3.

BW production index copyright 1994 by McGraw-Hill Inc.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (11/5) thous. of net tons	1,880	1,954#	2.0
AUTOS (11/5) units	136,333	146,862r#	1.3
TRUCKS (11/5) units	121,191	125,003r#	4.8
ELECTRIC POWER (11/5) millions of kilowatt-hrs.	55,850	55,833#	–0.9
CRUDE-OIL REFINING (11/5) thous. of bbl./day	13,462	13,089#	–1.2
COAL (10/29) thous. of net tons	20,502#	20,667	11.5
PAPERBOARD (10/29) thous. of tons	916.3#	914.0	7.2
PAPER (10/29) thous. of tons	827.0#	840.0r	–0.4
LUMBER (10/29) millions of ft.	480.9#	481.1	–0.6
RAIL FREIGHT (10/29) billions of ton-miles	25.7#	25.3	11.7

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

EADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
SINESS WEEK LEADING INDEX* (10/29)	246.9	246.6r	7.9
OCK PRICES (11/4) S&P 500	467.49	464.92	0.9
RPORATE BOND YIELD, Aaa (11/4)	8.68%	8.65%	26.7
DUSTRIAL MATERIALS PRICES (11/4)	108.9	107.9	15.9
SINESS FAILURES (10/28)	298	262	–9.7
AL ESTATE LOANS (10/26) billions	$445.2	$444.3r	7.5
NEY SUPPLY, M2 (10/24) billions	$3,559.6	$3,561.3r	1.8
TIAL CLAIMS, UNEMPLOYMENT (10/22) thous.	324	325r	–6.9

urces: Center for International Business Cycle Research (CIBCR), Standard &
r's, Moody's, *Journal of Commerce* (index: 1980=100), Dun & Bradstreet (failures
large companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on
iness failures and real estate loans. *Copyright 1994 by CIBCR.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (11/9) $/troy oz.	383.600	383.850	2.3
STEEL SCRAP (11/8) #1 heavy, $/ton	133.50	133.50	–2.9
COPPER (11/5) ¢/lb.	130.2	126.7	57.3
ALUMINUM (11/5) ¢/lb.	91.0	86.5	85.7
COTTON (11/5) strict low middling 1-1/16 in., ¢/lb.	69.79	69.38	24.1
OIL (11/8) $/bbl.	18.45	18.63	10.1

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

TEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
DERAL FUNDS (11/8)	4.51%	4.76%	2.96%
MMERCIAL PAPER (11/8) 3-month	5.73	5.60	3.40
RTIFICATES OF DEPOSIT (11/9) 3-month	5.72	5.58	3.36
ED MORTGAGE (11/4) 30-year	9.18	9.17	7.16
JUSTABLE MORTGAGE (11/4) one-year	6.07	6.00	4.20

rces: Federal Reserve, HSH Associates

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (11/9)	97.77	96.20	106.56
GERMAN MARK (11/9)	1.53	1.49	1.70
BRITISH POUND (11/9)	1.60	1.64	1.42
FRENCH FRANC (11/9)	5.26	5.12	5.91
ITALIAN LIRA (11/9)	1571.0	1538.5	1662.3
CANADIAN DOLLAR (11/9)	1.35	1.36	1.31
MEXICAN PESO (11/9)[3]	3.424	3.436	3.205

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

---

w data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense
pment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

IL SALES

day, Nov. 15, 8:30 a.m. ▶ Retail sales
ably increased 0.6% in October, the
gain as in September, says the median
ast of economists surveyed by MMS
national, a unit of McGraw-Hill Inc. Ex-
ng cars, sales likely rose 0.4% last
h after advancing 0.6% in September.

ISTRIAL PRODUCTION

day, Nov. 15, 9:15 a.m. ▶ On the
day that the Federal Reserve policy-
g committee meets, the Fed will also
t on industrial output, which MMS econ-
s expect to have risen by 0.5% in Oc-
. That follows no change in September.
ating rates for all industry probably averaged 84.8% in October. If so, that lifted capacity usage back up to its August level after slipping to 84.6% in September.

CONSUMER PRICE INDEX

Wednesday, Nov. 16, 8:30 a.m. ▶ Consumer prices likely rose 0.3% in October, a bit faster than September's 0.2% gain. When food and energy prices are excluded, the core CPI probably also increased 0.3% last month after a 0.2% rise in September.

BUSINESS INVENTORIES

Wednesday, Nov. 16, 10 a.m. ▶ The MMS median forecast is that inventories at manufacturers, wholesalers, and retailers probably grew 0.5% in September after jumping 1% in August. However, the gain may not be that large because factories have already reported a 0.2% loss in their September stock levels.

HOUSING STARTS

Thursday, Nov. 17, 8:30 a.m. ▶ Starts likely fell to an annual rate of 1.49 million in October, from 1.53 million in September.

INTERNATIONAL TRADE

Friday, Nov. 18, 8:30 a.m. ▶ The foreign trade deficit for goods and services in September was probably little changed from August's $9.7 billion. The MMS economists forecast that both exports and imports increased slightly in September.

Money Making Discovery For Sales Executives!

Imagine finding a hidden universe with thousands of emerging private firms where last year one in seven expanded employment by over 25%, and the 5,000 fastest growing grew by an average of 23% ... creating 502,000 new jobs and the need for almost every kind of business product or service - everything from office equipment to disability insurance to real estate.

A little known sales tool that tracks these companies is making money for sales executives who use it. Called the CORPTECH DIRECTORY, it's the only resource available that uncovers America's emerging sector of technology manufacturers. Think of it! While most of the economy is hurting, *these companies are growing*. CorpTech gives you their names, geographic location, growth rates for each company, plus names, titles, and responsibilities of their 111,000 key executives.

"Great investment ... made money by quickly and easily identifying customers for specific products," Mike Mueller, Manager, Mitsubishi.

Free fact kit shows 20 money-making ways this sales tool can revitalize *your* selling efforts. Call 1-800-333-8036 or mail name and address to CorpTech, Dept BSW, 12 Alfred Street, Woburn, MA 01801.

TRAVEL NETWORK®

Rated #1
FLY ONCE
EARN TWICE

EARN *MATCHING MILES*℠ EVERY TIME YOU FLY.
ENROLL TODAY AND GET
2500 BONUS MILES.
OVER 300 TRAVEL AGENCIES AND $1 BILLION SALES VOLUME.
CALL NOW TO REACH YOUR LOCAL TRAVEL NETWORK AGENCY:
1(800)222-2220

OWN YOUR OWN TRAVEL AGENCY FRANCHISE

TRAVEL NETWORK

- COMPLETE TURN-KEY
- 5 WEEK TRAINING PROGRAM
- BUYING POWER AND CLOUT
- BACKED BY A $6 BILLION TRAVEL CO./300+ UNITS
- NO % ROYALTY

CALL 1-800-669-9000

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Advanced Micro Devices 128
Affymetrix 100
Alex. Brown & Sons 58
American Express 62
American Sports Data 70
American Water Works 131
America Online 85
Andrew 118
Apex Engineering 82
Apollo Advisors 66
Apple Computer 96, 128
Aquarion 131
Arby's 58
Arthur Andersen 44
Arthur D. Little 119
Artisoft 82
Aspen Press 82
AT&T 46, 52, 118, 130
Autodesk 82
Avon Products 6

B

Bank of Montreal 48
Barnett Bank 47
Barre 66
Barron's Educational Series 62
Bell Atlantic 119
BellSouth 119
Benham Group 116
Boeing 47
Boise Cascade 126
Booz, Allen & Hamilton 106
Borden 47
Bristol-Myers Squibb 82
British Telecommunications 119
Brown & Williamson 16
Brown Brothers Harriman 62
Browning-Ferris 126
Burlington Northern 47
Burns Sports Celebrity Service 70

C

Cablevision Industries 76
Cadence Design Systems 26
California Water Service 131
Cartier 106
CBS 44
Champion International 126
Charles Schwab 46
Chemical Bank 44
Chemical Securities 42
Chevy Chase Federal Savings Bank 112
Citibank 82
Clifford Paper 126
Cognetics 92
Collaborative Diagnostics 100
Comcast 76
Compaq Computer 82, 128
Compression Labs 118
CompUSA 128
CompuServe 85
Computer Associates 82
Connecticut Water Service 131
Continental Airlines 47
Coopers & Lybrand 82
Corning 100
Courvoisier 106
Cowen 118
Cox Cable 76
Crestar Bank 108
Cyrix 128

D

Datapoint 118
Dataquest Europe 119
Dean Witter Reynolds 126
Dell Computer 82, 128
Denny's 47
Deutsche Bundespost Telekom 119
Dianon System 100
Digital Equipment 82, 96
Digital Pictures 128
Dillard Department Stores 82
Dobbs International Services 52
Dollar General 118
Dow Chemical 47
Dow Corning 47
DRI/McGraw-Hill 71
Dun & Bradstreet 82

E

Edward D. Jones 131
E.F. Hutton 108
Electronic Data Systems 52
Ellis Communications 44
EMC 118
Emerson Electric 118
E-Plus Mobilfunk 119
Essex Financial Partners 108
E'Town 131

F

Federal Express 52
Federated Department Stores 66
Fidelity Investments 116
First Manhattan Consulting 112
Ford 48
Four Seasons Hotels 82
France Telecom 119

G

Gap 82
Gateway 2000 128
GE 85
General Nutrition 58
General Signal 118
General WaterWorks 131
Genica Pharmaceuticals 100
Genzyme 100
Georgia-Pacific 126
Gillette 118
Glendale Federal 47
Goldman Sachs 62
Groupe Bull 54

H

Harbour Investment Group 6
Heritage Media 44
Hewlett-Packard 93, 96
Hirschfeld, Stern, Moyer & Ross 130
Home Depot 82

I

IBM 15, 52, 83, 85, 96, 128
IG Laboratories 100
Industrial Compliance 26
Integrated Sports International 70
Intel 96, 118, 128
International Data 128
International Paper 126
Intuit 82
Iscor 50
IWC Resources 131

J

J.C. Penney 82
John Hancock Mutual 70
Johnson & Johnson 6
Josephthal Lyon & Ross 118

K

Kaplan Educational Centers 62
Kidder Peabody 108

L

Ladenburg Thalmann 22
Landor Associates 46
Lands' End 46
Lehman Brothers 52
Liggett & Myers 16
L.M. Ericsson 15
Loral 118
Lord Abbett U.S. Government Securities Fund 114
Lotus Development 15

M

Mannesmann 119
Maybelline 48
McGraw-Hill 128, 135
MCI 46, 76, 138
McKinsey 62
Mercury Research 128
Merrill Lynch 42
MetPath 100
Microsoft 15, 47, 82, 128
Middlesex Water 131
Mikana Manufacturing 82
MIPS Technologies 96
MMS International 135
Molecular Tool 100
Money Store 70
Morgan Stanley 62
Morningstar 114
Motorola 96, 119, 128
Mrs. Fields' Cookies 82
Multiflow Computer 96
Myriad Pharmaceuticals 100

N

NatWest Holdings 131
NatWest Securities 22, 42
NEC 15, 54
Newmarket Software 82
Northern Telecom 92
Northrop Grumman 82
Novell 15, 82
Nynex 6

O

OfficeMax 82
Öhman Securities 118
Olivetti 119
Omega 106
Oncormed 100

P

Pacific Telesis 119
Packard Bell 128
PaineWebber 58, 76, 108
Parametric Technology 82
Park Communications 44
Paxson Communications 44
PDQ Manufacturing 82
Philadelphia Suburban 131
Philips Electronics 96
PictureTel 118
Pizza Hut 16
Polaroid 82
Preussag Mobilfunk 11
Price Waterhouse 114
Princeton Review 62
Pro Image 82
Procter & Gamble 47
Putnam 114

R

R&M Deese 93
Reliance Electric 118
Resorts International 4
Resource Information Systems 126
Rickard Associates 85
RJR Nabisco 62
Roche 100
Rochester Telephone 7
Rockwell International 118
Rolex 106
Rotary Power International 93
RWE Energie 119

S

Salem 6
Sasol 50
SBT Accounting Systems 82
S.C. Johnson & Son 1
Sears 47
Smith Barney 126
SmithKline 100
Sonatrol Security Systems 82
South African Airways
Southwest Airlines 70
Spaceline Communication 119
Sports Venture 82
Sprint 76
Stone Container 126
SunAmerica 114
Sun Microsystems 96
Swatch 106

T

TAG Heuer 106
Tandy 26
Target Technology 118
TECnet 82
Telecom Italia 119
Tele-Communications
TeleGeography 8
Telia 119
Thyssen 119
Time Warner 76
Tower Concepts 85
Transamerica 114
Transnet 50
TWA 6

U

Union Camp 126
Union Pacific 47
Unisys 52
United Water Resources 131
U.S. Capital 44
U S West 6, 76

V

Value Line 118
Veba 119
Visa 130
Vivigen 100
Vodafone 119

W

WAC Consulting 92
Wall Street Investor Services 108
Washington Post 62
Weyerhaeuser 126
W.W. Grainger 118

Z

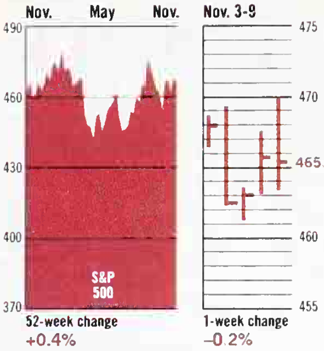
Zale 66

nvestment Figures of the Week

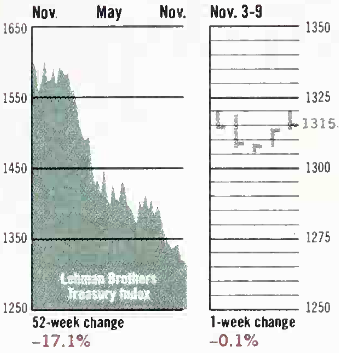
IMENTARY

nother topsy-turvy week in the
icial markets. The biggest
—the Republican juggernaut
ire of Capitol Hill—prompted a
usly blasé reaction on Wall
et. After an initially sharp gain
er in the day, stocks settled
. The Dow Jones industrial aver-
ended the day on Nov. 9 with a
of one point. Earlier in the
, stocks fell because of con-
s that the Federal Reserve may
o boost interest rates. With oil
ks and utilities taking the worst
the Dow took a 38-point decline
ov. 4.

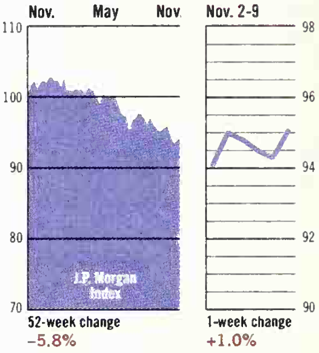
STOCKS



BONDS



THE DOLLAR



ARKET ANALYSIS

STOCKS	Latest	% change Week	 52-week
JONES INDUSTRIALS	3831.8	-0.1	4.6
IZE COMPANIES (S&P MidCap Index)	173.7	-0.9	-0.6
L COMPANIES (Russell 2000)	251.7	-0.8	-2.1
COMPANIES (Russell 3000)	267.1	-0.3	-0.2
EIGN STOCKS	**Latest**	**% change (local currency) Week**	** 52-week**
DON (FINANCIAL TIMES 100)	3099.6	0.6	0.0
O (NIKKEI INDEX)	19,423.9	-1.7	7.2
NTO (TSE COMPOSITE)	4191.4	-0.9	-1.8

FUNDAMENTALS	Latest	Week Ago	Year ago
90-DAY TREASURY BILL YIELD	5.34%	5.21%	3.19%
30-YEAR TREASURY BOND YIELD	8.11%	8.09%	6.21%
S&P 500 DIVIDEND YIELD	2.77%	2.78%	2.75%
S&P 500 PRICE/EARNINGS RATIO	17.3	17.3	22.5
TECHNICAL INDICATORS	**Latest**	**Week ago**	**Reading**
S&P 500 200-day moving average	460.1	460.3	Positive
Stocks above 200-day moving average	33.0%	35.0%	Positive
Speculative sentiment: Put/call ratio	0.76	0.65 r	Positive
Insider sentiment: Vickers sell/buy ratio	1.45	1.44	Positive

BLOOMBERG FINANCIAL MARKETS

NDUSTRY GROUPS

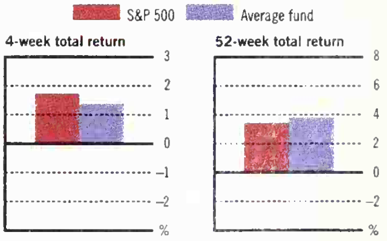
R-WEEK LEADERS	% change 4-week	 52-week	Strongest stock in group	% change 4-week	 52-week	Price
ESTAURANTS	11.4	3.1	RYAN'S FAMILY STEAK HOUSES	18.5	-12.1	$6\frac{13}{16}$
OMPUTER SOFTWARE	11.1	20.8	NOVELL	23.1	-21.2	$17\frac{5}{8}$
EMICONDUCTORS	9.9	12.2	MICRON TECHNOLOGY	22.6	156.3	$40\frac{3}{4}$
STRUMENTATION	9.4	27.6	HEWLETT-PACKARD	10.9	32.3	$97\frac{7}{8}$
ECIALTY APPAREL RETAILERS	9.2	-9.1	GAP	15.9	4.2	$37\frac{3}{8}$
R-WEEK LAGGARDS	**% change 4-week**	** 52-week**	**Weakest stock in group**	**% change 4-week**	** 52-week**	**Price**
NUFACTURED HOUSING	-13.4	-7.2	FLEETWOOD ENTERPRISES	-14.7	-9.3	$19\frac{5}{8}$
PER CONTAINERS	-8.4	24.3	STONE CONTAINER	-12.7	101.5	$16\frac{3}{8}$
LD MINING	-7.6	-12.6	ECHO BAY MINES	-12.2	-6.9	$11\frac{3}{4}$
CHINE TOOLS	-6.8	-14.5	GIDDINGS & LEWIS	-7.4	-33.7	$15\frac{3}{4}$
MEBUILDING	-6.3	-44.9	CENTEX	-8.7	-46.0	$21\frac{1}{8}$

TUAL FUNDS

MORNINGSTAR INC

ERS week total return	%
LIANCE TECHNOLOGY A	10.5
LIGMAN COMMUNICATIONS & INFORM. A	10.3
IST AMERICAN TECHNOLOGY C	10.2
ek total return	**%**
LIGMAN COMMUNICATIONS & INFORM. A	46.9
INVESTMENT LATIN AMERICAN EQUITY	42.4
INGTON STRATEGIC INVESTMENTS	39.6

LAGGARDS Four-week total return	%
CAPPIELLO-RUSHMORE GOLD	-9.2
RYDEX PRECIOUS METALS	-8.1
BENHAM GOLD EQUITIES INDEX	-7.8
52-week total return	**%**
MONITREND GOLD	-46.8
AMERICAN HERITAGE	-32.3
STEADMAN OCEANOGRAPHIC TECHNOLOGY	-29.7



LATIVE PORTFOLIOS

DRI/McGRAW-HILL

amounts represent the
nt value of $10,000
ed one year ago
h portfolio

ntages indicate
ay total returns

Foreign stocks	U.S. stocks	Money market fund	Gold	Treasury bonds
$11,816	$10,331	$10,211	$10,210	$8,895
-1.76%	-0.59%	+0.06%	+0.04%	-0.52%

on this page are as of market close Wednesday, Nov. 9, 1994, unless otherwise indi-
ndustry groups include S&P 500 companies only; performance and share prices are as
of market close Nov. 8. Mutual fund returns are as of Nov. 4. Relative portfolios are valued as of Nov. 8. A more detailed explanation of this page is available on request. r=revised

IN CONGRESS, GIVE PEACE A CHANCE

Gridlock or governance. With the end of the most acrimonious campaign season in recent memory, Washington's politicians must now decide on how to spend the next two years. The resurgent Republicans, with Newt Gingrich and Bob Dole playing the tough guys of the right, can ram through conservative legislation to try to make Bill Clinton look weak. The defeated Democrats, in turn, can hunker down, with President Clinton using the "Harry Truman card" to veto all GOP legislation as dangerous and wrongheaded, making the Republicans look like enemies of the people.

Gridlock or governance. Politicians may believe that partisan showboating is the best way to position their parties for the Presidential election in 1996. But gridlock will bring them all down in the end. The massive middle of America is angry because government isn't working for them. The last thing people want is two more years of bickering, scorched-earth political maneuvering, and legislative lockjaw.

Paradoxically, while Republicans and Democrats claw at each other publicly, there is middle ground on many vital issues. A simple twist of conservative and liberal heads toward the center would show that many positions are reconcilable. And it's not hard to prove that governance is possible:

Start with the General Agreement on Tariffs & Trade. There is broad agreement on the issue between the parties, with the Democrats shifting rightward to the Republicans' stance on free trade. Unfortunately, some newly elected conservatives are toying with extreme isolationism. Dole and Gingrich must crack the whip and get GATT passed immediately. Congress and the President should then act to expand NAFTA to the entire hemisphere.

LOTS TO CHOP

On spending cuts, there is 80% agreement. The budget deficit will start rising again in 1996. Clinton showed courage as a New Democrat by boldly cutting the deficit in his first year. He should do it again. In 1992, there was a battle over raising taxes. This time, the Democrats agree with the Republicans that all cuts must come out of spending. There is much to chop, but it requires an end to Republican hypocrisy. Dole says he wants to cut much of the $24 billion spent on 150 training programs every year. He has a point, since most of the programs are ineffective. But the Kansan is silent on the $68 billion the government spends on farm subsidies annually. In fact, he fights for more farmer pork for his constituents. Senator Phil Gramm, another GOP Presidential hopeful, has also been big on cuts, except when it came to Texas pork such as the Superconducting Super Collider. Western Republican senators hollered about the millions in the crime bill that went to midnight basketball. Fair enough. But they defend the tens of billions that subsidize ranching, mining, and lumbering every year. The hypocrisy on spending must stop.

Then there's the dirty little secret: a growing realization that the growth in Medicare and Social Security spending
must be curbed. Yet both parties lie to the voters about it. Th
Administration is poised to shift to the right on this. Th
Kerrey Commission, which Clinton appointed to come u
with ideas on how to cut entitlements, is scheduled to repor
in December. This is the Republicans' big chance to sho
they can govern responsibly. They should build on the com
mission's conclusions and set the stage for a bipartisan recom
mendation to curb growth in entitlement spending. This is th
most important opportunity of the decade to tame the deficit-
if the two parties take it. If they do, there should be plen
of savings to pay for a middle-class tax cut.

SELF-INFLICTED WOUNDS

On welfare reform, accord drops to 50%. Both agree tha
work has to be the end goal of all welfare. Republicans wa
two years on welfare and you're out, period. The Democra
want two years and you're out—but if you can't get a job
the private sector, you get one in the public sector. The G
sees that as a $10 billion jobs training program masqueradi
as welfare reform. The solution? Punt for now. A number
states are experimenting with both approaches. The Admi
istration should increase the freedom of states to cut benef
and add work requirements as they see fit and let them con
up with the right formula.

The degree of consensus rises again to 80% when it com
to reforming government. Gingrich wants to lead a crusa
against Congress, cutting staff and payrolls and making
subject to all laws of the land. The Republicans want to dow
size government and decentralize power to the states. Fi
Vice-President Gore has been busy "rego-ing," reinventi
government by restructuring and cutting 272,000 federal p
sitions over the next six years. Also fine. Shrinking, restru
turing, downsizing—it all amounts to the same thing, whi
is making government smaller and more efficient.

What's left? Health-care reform. History will probab
show that the attempt to build a heavily bureaucratic soluti
in secret by an elite group of specialists was the dying ga
of old-style Democratic liberalism. Chastened New Dem
crat Clinton now wants a shrunken bill that deals with pr
existing conditions, access to insurance by small busine
portable policies, and protection for kids and pregnant wo
en. In short, the Democrats are prepared to pass Dole's o
1992 health-care reform plan. Bipartisan cooperation betwe
the parties can lift the percentage of people in America c
ered by medical insurance from 85% to about 90%. This is
small deed.

In the end, the casualties of petty partisanship will be t
partisans themselves. If neither party can govern alone or
gether, a third will surely emerge, and the political stabil
this nation has had for two centuries will die. Republicans a
Democrats will rise together in the political center, whe
compromise rules, or fall. The people of America deman
higher level of governance, not a lower level of gridlock.

985RX
FULL
43
MINUTES LEFT
Norelco

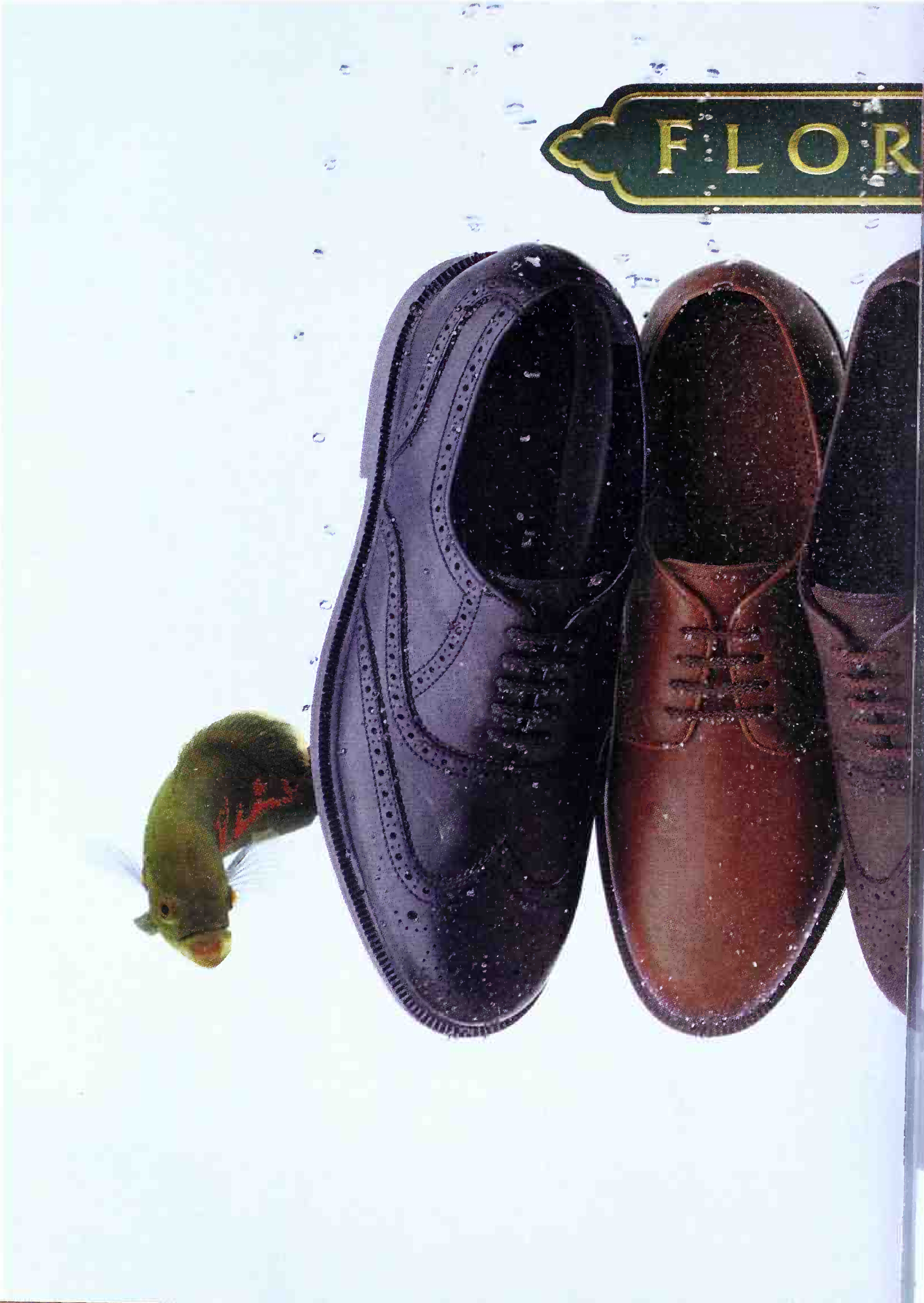
Give her your closest shave. The Norelco Razor.

With our innovative shaving groove to help move your beard closer, the Norelco® "Lift and Cut"™ system can shave substantially closer.

Comfortably.

Still, the most exciting thing about the latest Norelco isn't what happens while you shave, but after.

The Norelco® Razor. Our Closest Shave. Ever.


FLOR

SIA THE $1 TRILLION BUILDING BOOM

MACY'S ALLEN QUESTROM'S FIX-IT STRATEGY

CONGRESS THE GOP'S ECONOMIC PLANS

SINESS WEEK
94 November 28

BusinessWeek

OVEMBER 28, 1994 A McGRAW-HILL PUBLICATION $2.95

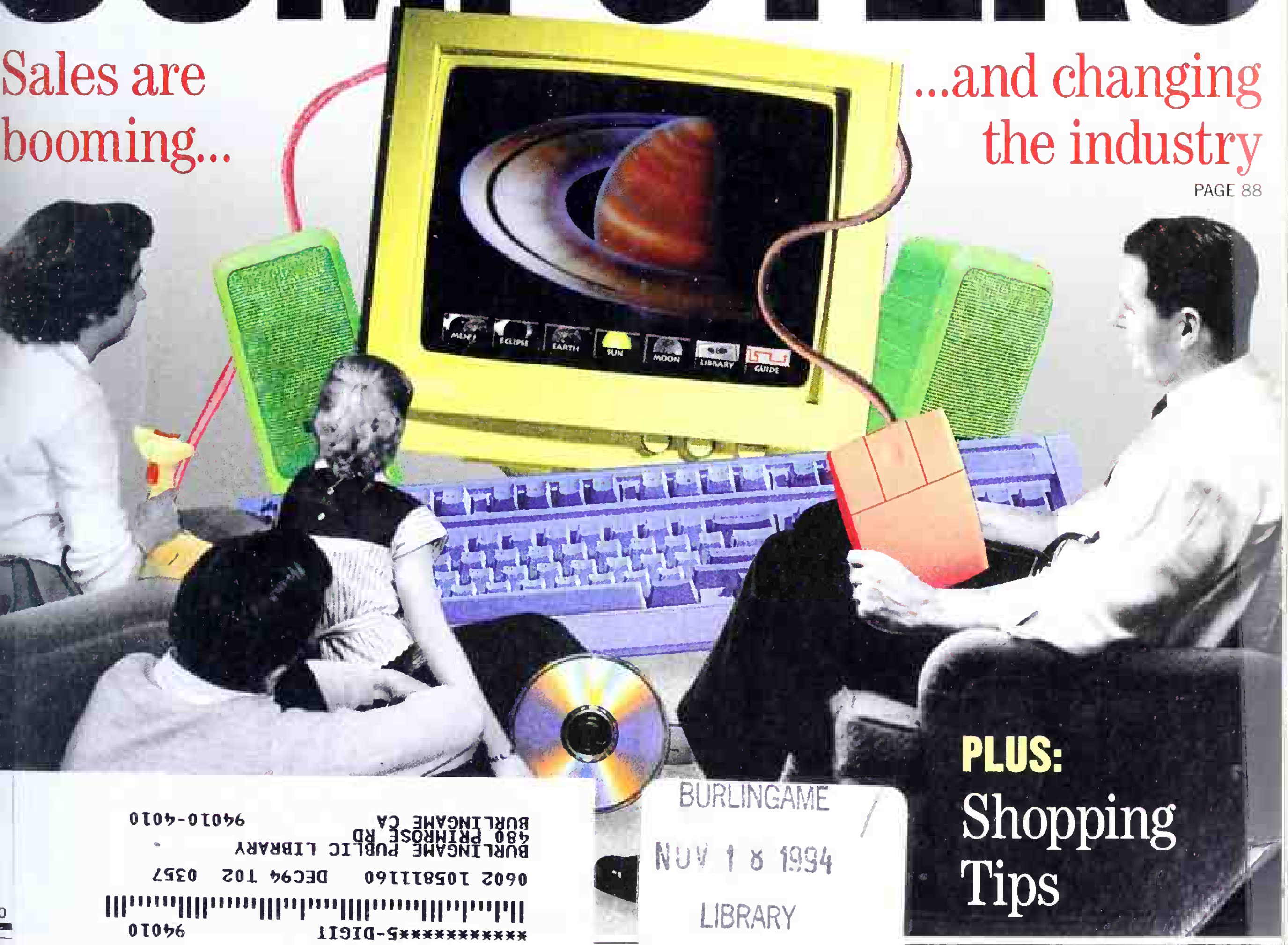
BURLINGAME PUBLIC LIBRARY
3 9042 03747808 5

HOME COMPUTERS

Sales are booming...

...and changing the industry

PAGE 88



PLUS:
Shopping Tips

***********5-DIGIT 94010
0602 10581160 DEC94 102 0357
BURLINGAME PUBLIC LIBRARY
480 PRIMROSE RD
BURLINGAME CA 94010-4010

BURLINGAME
NOV 18 1994
LIBRARY

balance between performance and practicality that defines it as a truly new kind of vehicle. Including a new 24-valve V6 engine and an array of safety features – like dual air bags,† ABS, dynamic side-impact protection, even an available integrated child safety seat. Indeed, over 300 aspects of Cirrus were targeted to meet or exceed current benchmarks in automotive design, right down to the turn signals. It's not just a sports car. Not just a luxury car or family car. It is, in fact, all three. At a price less than you'd expect to pay for just one. At a remarkable $17,970,* including destination charge, it's extremely well equipped. For more information, call 1-800-4-A-CHRYSLER.

Chrysler Cirrus

IT'S NOT JUST A STEP ABOVE.
IT'S THE NEW PLATEAU.

†Always wear your seat belt *Base MSRP *LXi model shown: $19,900* including destination charge Tax extra

COVERING THE LANDSLIDE

GARLAND
SHEP
LMAN

UTTING IT ALL TOGETHER: *Two days after the election, USINESS WEEK editors Dunham, Garland, Shepard, olman, and Zucker gathered to field questions*

On Nov. 8, a political upheaval of a magnitude that is experienced only once in a generation hit Washing- on. The ground opened under the feet of the ruling Demo- rats, and Republicans seized power in Congress for the rst time since 1952. Even before the final votes were llied, BUSINESS WEEK's Washington bureau had swung to action, poring over the early returns and producing The conservative agenda"—last week's cover story, pro- iding a comprehensive analysis of what the GOP's victo- meant for business and the economy.

That was just the beginning. White House Correspon- ent Susan Garland and Capitol Hill Correspondent Rich- rd Dunham teamed up with Chief Economist William Wol- an, Economics Senior Editor Seymour Zucker, and me to eld questions at a panel discussion in New York. The pan- also fielded questions in Houston and Dallas.

As events unfold in Washington, our staff will continue analyze their significance to business.

The linchpin of the coverage, of course, will be our 18- erson Washington crew, whose cutting-edge reporting nd commentary have made the bureau one of the capital's lite news organizations. Headed by Bureau Chief Lee alczak, a 25-year veteran of the Washington wars, our eam will provide BUSINESS WEEK readers with regular sights into the new dynamics along Pennsylvania Avenue. ne key task: distinguish between postelection bravado nd legislative reality.

Washington bureau staffers will plug into key commit- ees and regulatory agencies, sound out top capital lobby- sts, and provide crucial coverage of the shift toward ore conservative policies. We'll also monitor the Feder- l Reserve, which will have to answer to a new set of ommittee chairmen on the Hill.

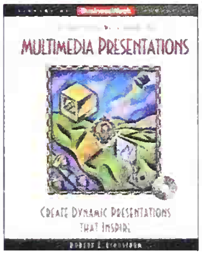
The results can be seen this week in our newly named News: Analysis & Commentary section (page 46). While many in Washington are still struggling to absorb the enormity of the change, our stories gauge the election's impact on taxes, regulation, and the economy.

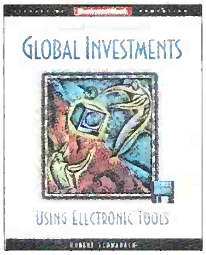
We're proud of our Washington bureau, by far the largest of any business magazine. Count on them to help you make sense out of the historical shifts now under way in Washington.

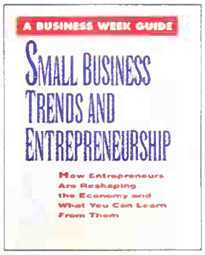
TAPPING INTO HIGH TECH

Whether you're looking for the best MBA program, seeking the best mutual funds, or trying to improve quality in your business, books bearing the BUSINESS WEEK logo have been a useful guide. We're proud to say that we are adding some valuable additions to our bookshelf, particularly a series that combines our expertise on technology with the publishing prowess of another member of the McGraw-Hill family.

Together with Osborne/McGraw-Hill, we are launching the BUSINESS WEEK library of computing. The first two books in the series—*The Business Week Guide to Multimedia Presentations* and *The Business Week Guide to Global Investments Using Electronic Tools*—include special software as well as how-to guidance. The volume on multimedia, for example, includes complete working versions of 15 leading graphics presentations. You may order copies by calling 800 227-0900.



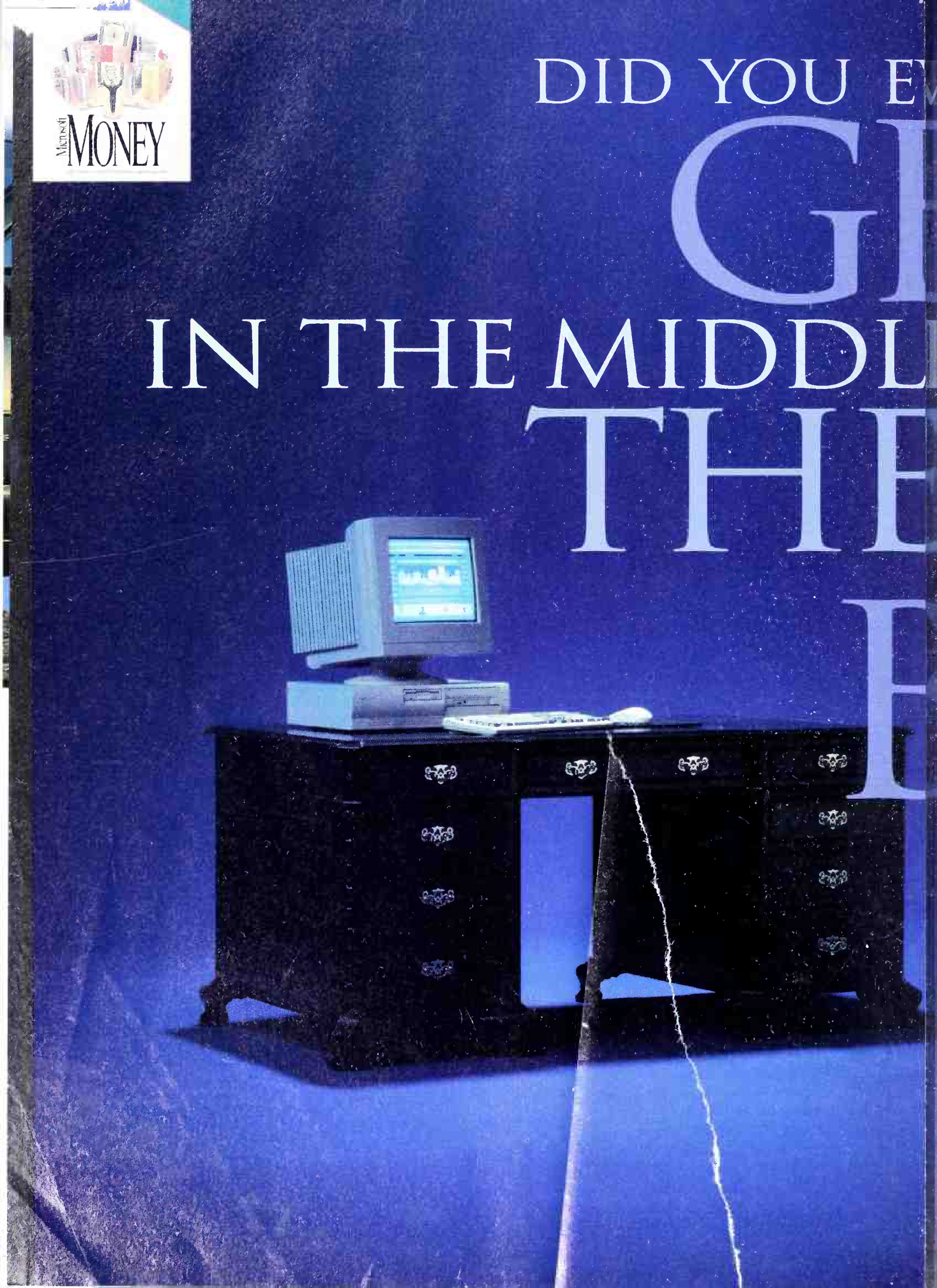



A BUSINESS WEEK GUIDE
SMALL BUSINESS TRENDS AND ENTREPRENEURSHIP
How Entrepreneurs Are Reshaping the Economy and What You Can Learn From Them

Our newest publication, due in December, is an augmented book version of last fall's "Enterprise" bonus issue on entrepreneurs and what managers can learn from them. For information about *A Business Week Guide: Small Business Trends and Entrepreneurship* call 800-2-MCGRAW. And watch for more books to come.

Stephen B. Shepard
Editor-in-Chief

PHOTOGRAPH BY ASHFORD


Microsoft
MONEY
DID YOU E
G
IN THE MIDDL
THE
E

HAVE TO
T UP
F
NIGHT
AND GO TO THE
ANK?

IF YOU'VE NEVER AMORTIZED A LOAN IN YOUR PAJAMAS, you've never amortized a loan.

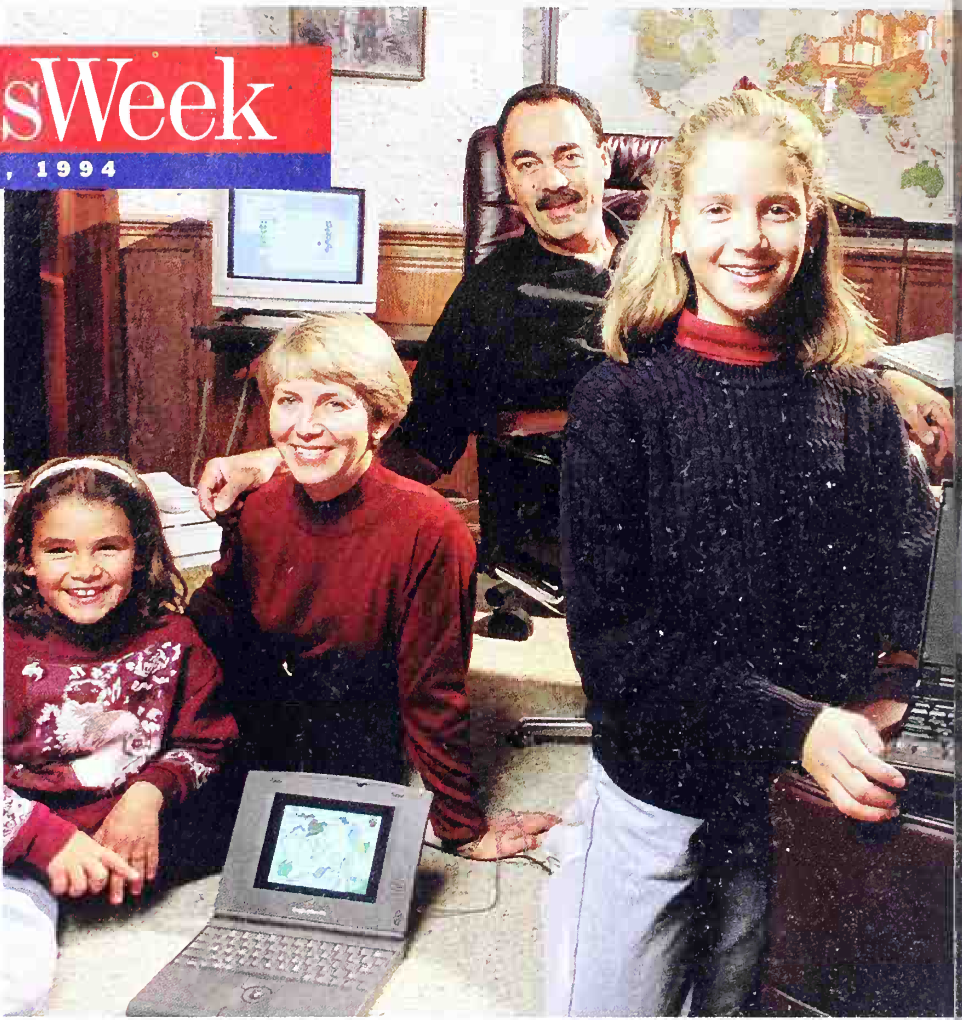
If this sounds intriguing, you might be interested in Microsoft® Money. It's the fast and easy way to control your finances in the middle of the night or the middle of the afternoon.

You can pay all your bills and manage all your investments and have your securities portfolio automatically updated and plan for retirement and compare loan rates and plan a budget and prepare tax information and keep track of all your expenses and even bank on line. And what else? Best of all, you can do all this in your pajamas. Now, if you don't think that's such a big deal, try walking into a bank dressed in your pajamas.

Microsoft®
WHERE DO YOU WANT TO GO TODAY?™

If you'd like more information about the joys of banking in your pajamas and the complete line of Microsoft products for your home PC, call 1-800-228-6229 ext. FF6. In Canada call 1-800-563-9048. And now, the really small legal type: Online services, such as bill paying and getting quotes, are available for a monthly fee. The really cool online banking feature is only available from really cool banks. ©1994 Microsoft Corporation. All rights reserved. Microsoft is a registered trademark and *Where do you want to go today?* is a trademark of Microsoft Corporation.

BusinessWeek
NOVEMBER 28, 1994



COVER STORY

HEADING HOME

Four-computer families such as the Schoendorfs are rare, but first-time buyers alone are becoming a bountiful market for PC makers

page 88

Cover Story

88 HOME COMPUTERS
Call them information appliances. New uses in education, personal finance, and on-line services have PC sales skyrocketing. Now one of the hottest items in consumer electronics, PCs may soon rival even TVs

92 A HARD SELL FROM MICROSOFT
Now the software giant is aiming its pitch directly at consumers

96 PROWLING FOR A PC?
How to get only the computer hardware you really need

News: Analysis & Commentary

46 TEARING DOWN CLINTONOMICS
Big government is a goner, says the victorious GOP. The question is: Can the party agree on how to get rid of it?

48 A JIHAD AGAINST RED TAPE
In the GOP's plans: Audits, budget cuts, and even a moratorium on new rules

50 HOLDING OFF THE GOP HORDE
How Chief of Staff Leon Panetta plans to save Clinton's White House

51 LETTER FROM GEORGIA
Welcome to Newt's Neighborhood, where constituents are squarely behind school prayer and against gay rights

52 COMMENTARY
Women are staking out the political center and making officials take notice

54 KERKORIAN TO CHRYSLER: PAY UP
Now that the cash is rolling in, the carmaker's largest shareholder has come knocking

56 INVASION OF THE BIO-SNATCHERS
European drug giants are grabbing big stakes in U.S. outfits, and a bidding war could be in the offing

56 SMORGASBORD OF CHANNELS
The FCC's rules should ease the way for niche networks

58 THIS SEASON HAS FANGS
Hollywood's packed schedule of hot releases may break box-office records again this year

59 IN BUSINESS THIS WEEK
GM/GE truce, Discovery Zone, Bankers Trust, DDB grabs Bud, Sears/Allstate, a pollution-credit market, the census

International Business

62 SPECIAL REPORT
As Asia's cheap-labor advantage
to slip away, the region is betting
infrastructure to help it compete

68 SHANGHAI'S $100 BILLION MAN
Vice-Mayor Xu Kuangdi wants t
revamp his city

70 RUSSIA
Gas giant Gazprom may sell a sta
overseas—and that's sparking de

71 MEXICO
The Japanese, encouraged by NA
investing again

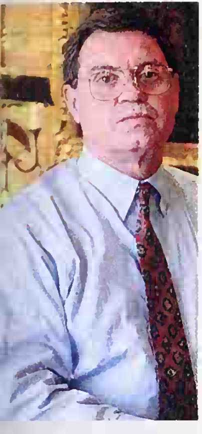
72 EUROPE
New discount airlines could spell
for some Old World flag carriers

74 INTERNATIONAL OUTLOOK
How Congress could hobble Clin
foreign policy

Economic Analysis

28 ECONOMIC VIEWPOINT
Roberts: Congress should impeac
Cabinet members who are usurp
legislative power

[illegible] OTHER THAN BLACK & WHITE PHOTOGRAPHS
[illegible] TIME LIFE INC. PHOTOGRAPH ABOVE BY GERRY GROPP



ROLL, TIDE

With its huge jury awards, Alabama may now be the most plaintiff-friendly state in the nation page 83

BES AND LAWSUITS

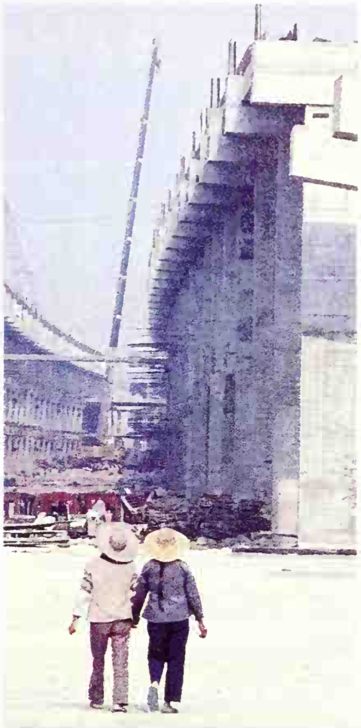
er CEO McColl, NationsBank panding rapidly but running problems page 104

QUESTROM'S QUEST

Successfully merging Macy's into Federated would cap his career page 116

DECONSTRUCTION

The GOP is gearing up to tear Clintonomics apart, but the party is split page 46



SPECIAL REPORT

An infrastructure boom is reshaping Asia—and priming the Far East for growth in the 21st century page 62

ONOMIC TRENDS
nerica's self-employment surge, fewer
legians, multinationals and growth
rbs in China, U.S. race-age shift

SINESS OUTLOOK
e Fed: A good offense is the
st defense

overnment

ASHINGTON OUTLOOK
ngrich & Co.'s revolution could rewrite
rules for lobbyists

egal Affairs

CKPOTS FROM ALABAMA JURIES
string of multimillion-dollar
nitive-damage awards has insurers
rting to flee the state

ne Corporation

LL IT WORLDPOOL
ing common innards and custom
eriors in diverse markets, Whirlpool
leaning up in Europe and elsewhere

PRESS ONE'S LEGAL STORM
airline is fighting a pilot's suit
rging safety violations

Finance

104 **NATIONSBANK: AN EXCESS OF ZEAL?**
Its brokerage is the target of lawsuits charging high-pressure sales tactics

107 **TAKE THE MONEY MANAGER AND RUN**
Such firms are prime buyout targets

108 **INSIDE WALL STREET**
How Cyrk may get burned
Roadmaster goes freewheeling
Ryan's looks like "a sitting duck"

155 **INVESTMENT FIGURES OF THE WEEK**

The Workplace

112 **SECOND WIND FOR BLUE COLLARS**
A surge in retirements means factories will be hiring again

People

116 **HIGH-FASHION ACT**
Allen Questrom's deal for Macy's would make him a king among retailers

Science & Technology

143 **SMART HIGHWAYS, FOOLISH CHOICES?**
Washington's plan to let computers do the driving may be too grand

149 **DEVELOPMENTS TO WATCH**
Tobacco vs. cancer, on-line image finding, electric power from ocean waves, decoding human scribbles

Personal Business

150 **CREDIT CARDS:** Playing your plastic
SMART MONEY: Glints of gold in steel

Features

1 **EDITOR'S MEMO**
6 **UP FRONT**
12 **READERS REPORT**
16 **CORRECTIONS AND CLARIFICATIONS**
20 **BOOKS**
Drew: *On the Edge: The Clinton Presidency*
25 **TECHNOLOGY & YOU**
The laptop dilemma: Is loaded or lightweight right for you?
153 **BUSINESS WEEK INDEX**
154 **INDEX TO COMPANIES**
156 **EDITORIALS**
The choice: Middle ground or quicksand
A democratic model made in Taiwan

Up Front

EDITED BY LARRY LIGHT & JULIE TILSNER

TALK SHOW "This new change offers hope. It may slow th avalanche of regulation."

—John Roach, chief executive of Tandy, on how the Republican sweep may help Corporate America

THE DEAL MILL

'TIS THE SEASON TO CONVERT RED INK

GREYHOUND LINES AND OTHER troubled companies are scrambling to finish restructurings by yearend, granting creditors equity in exchange for canceling onerous debt. After that, they will see their valuable "tax-loss carryforwards"—accumulated past losses used to offset taxes on future income—wiped out. That's because, come 1995, companies must reduce those tax-friendly losses by the value of the canceled debt.

LOS ANGELES
GREYHOUND

DESTINATION: *Tax-break city*

The deadline, set last year by a Congress eager to discourage 1980s-style overleveraging, has concentrated minds wonderfully. Debt-equity swaps, whether done in bankruptcy court or not, can drag on ad nauseum. Greyhound announced a tentative agreement on Nov. 10 on an out-of-court revamp that saves a $15 million tax break. "Nobody wants to waste that," says Wilbur Ross Jr., senior veep at Rothschild, financial adviser to Greyhound. Before, holders of junior-ranked debt had insisted on getting 57% of the bus line; now, they'll settle for 45%.

Others rushing to finish their overhauls are lesser-known companies such as mining-gear maker Bucyrus-Erie ($10 million in carryforwards) and shopping bag manufacturer Equitable Bag ($18 million). The deadline doesn't apply to those filing bankruptcy before 1994, such as R. H. Macy ($600 million). ☐

CAPITAL GAINS

PORK FUTURES, MR. GREENSPAN?

BEING FEDERAL RESERVE chairman has its privileges—and its price. Alan Greenspan's decisions can instantly change the value of investors' portfolios. Yet he gets a decidedly meager return on his own investments.

Ethics rules bar Greenspan and other Fed policymakers from investing directly in Treasury securities or owning stock in banks or bank-sector funds, since the Fed regulates that industry. Holdings in other stocks and diversified mutual funds are O. K. But according to his most recent disclosure report, Greenspan holds a huge chunk of investment assets—at least $1.2 million—in money-market mutual funds. For the past several years, money marts have yielded a mere 3% to 5% annually, barely above inflation.

CASH HEAVY: *Money martyr*

His circumspect investment approach presumably is meant to avoid criticism that he profits handsomely from his interest rate moves. All the other Federal Reserve governors are more aggressive investors. Their portfolios contain blue-chip stocks and stock mutual funds. Still, don't pity Greenspan: His disclosure form indicates that he also has "more than $1 million" in a blind trust, which is managed by others without his direction. *Dean Foust*

REALITY CHECK

PROPOSITION 187 is supposed to save California money by cutting off basic services, such as schooling and prenatal care, for illegal immigrants. The measure, which voters just passed by a wide margin, depends on enlisting teachers, nurses, and others to turn in illegals who come to them. The reasoning: California's limping economy can ill afford to pay for a constant stream of poor newcomers.

IN REALITY, Prop 187 will probably turn out to be pretty toothless, even if it survives legal challenges. Look at what's happening with existing and far tougher federal laws intended to penalize employers who knowingly hire undocumented workers. These sanctions are rarely carried out because the Immigration & Naturalization Service lacks the personnel to check the reams of forged documents that are presented to employers. In California, many local police departments charged with enforcing Prop 187, including Los Angeles', have already said they plan to ignore it. Ditto for scores of school districts and hospitals. *Eric Schine*

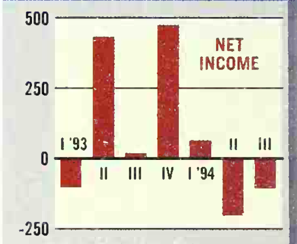
FALLING AXES

BOND BIGWIG TAKES A HIKE

WALL STREET'S WOES HA
claimed a high-ranking ca
alty. Mason Haupt, the he
of Salomon Brothers' mo
gage-backed securities
partment, has resign
BUSINESS WEEK has learne

As the bond markets tak
beating from rising inter
rates, Salomon Inc. h
racked up losses of $242 m

SOLLY'S DISMAL TIMES



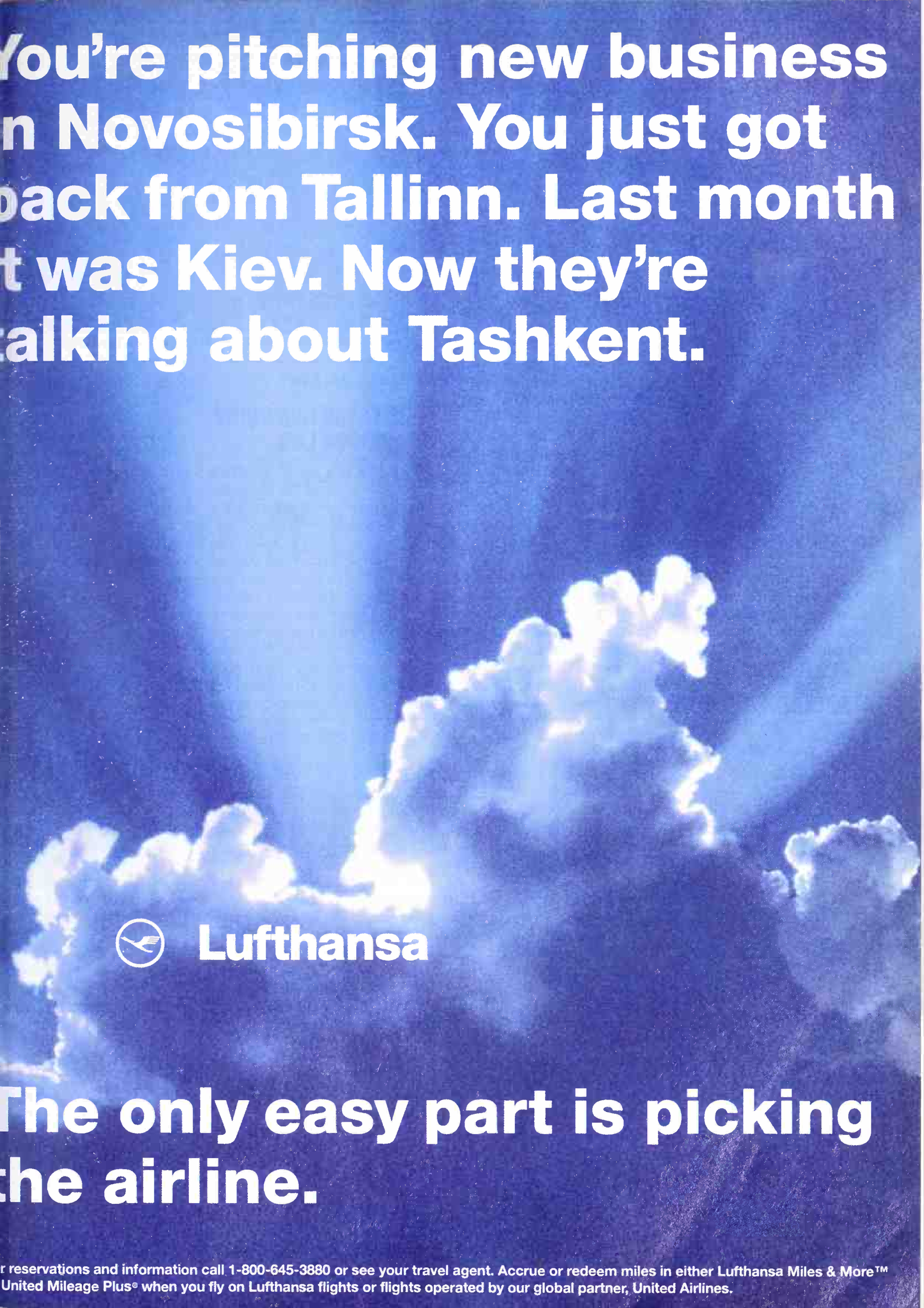
▲ MILLIONS OF DOLLARS

DATA: SALOMON INC.

lion for 1994's first three qu
ters. And Salomon ackno
edges that mortgage-back
securities (MBS) losses a
counted for a significant p
tion of the red ink. Plenty
firms have taken a hit on M
operations, but Solly, a p
neer in the field, was parti
larly bruised. One rival pu
its losses at "more than a f
hundred million." Says a S
ly insider: "When you lo
that much money at Salom
you know when to resign."

Haupt, 39, a well-liked 1
year Salomon veteran and
avid sports fan, headed t
MBS desk for seven year
Earlier in the high-flyi
1980s, it was piloted by Lev
Ranieri, sometimes called t
Henry Ford of the mortga
backed market. Haupt's r
placement is Thomas M
heras, who formerly r
Salomon's junk-bond tradi
desk. Haupt, reached at h
Manhattan home, declined
comment. He has no imme
ate plans for what he will
next. *Leah Nathans Sp*

PHOTOGRAPHS BY (TOP) DANILO BOSCHUNG/LEO DE WYS, (BOTTOM) TOM GAMMA-LIAISON, ILLUSTRATION BY RANDALL ENOS, CHART BY LISA KNOUSE BRAIMAN/BW


ou're pitching new business
n Novosibirsk. You just got
ack from Tallinn. Last month
t was Kiev. Now they're
alking about Tashkent.
Lufthansa
he only easy part is picking
he airline.

r reservations and information call 1-800-645-3880 or see your travel agent. Accrue or redeem miles in either Lufthansa Miles & More™
United Mileage Plus® when you fly on Lufthansa flights or flights operated by our global partner, United Airlines.

Up Front

OLYMPICS '96

DON'T GET CAUGHT GOING FOR THE GOLD

THEODOROS VATZAKAS, WHO IS a Greek native, has owned the 88-seat Olympic Restaurant and Pizza in Norcross, Ga., for 10 years. But now, the U. S. Olympic Committee's lawyers complain he is violating the organization's trademark. So Vatzakas is grudgingly changing the name to Olympia Restaurant and Pizza.

Olympic RESTAU
STEAKS·CHOPS·SEA FOOD

WHAT'S IN A NAME? *Nakos settled*

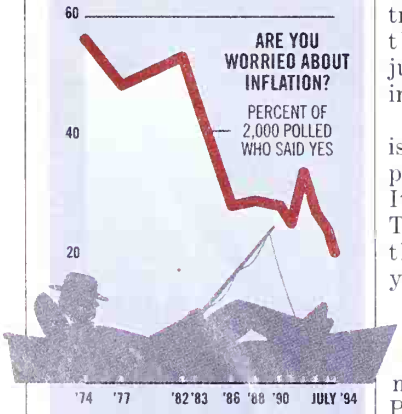
With the 1996 Summer Olympics coming in Atlanta, the USOC has been zealous in fighting what it sees as infringement, sending hundreds of cease-and-desist letters. In Savannah, Ga., Nick Pappas lost a suit and had to change his four-year-old Olympic Cafe to the Olympia Cafe. In New York, Spiros Nakos settled with the USOC and got a better deal: He can keep the name Olympic Restaurant (established 1980), but must remove the five rings from his facade. There are a few exceptions to the USOC's hard line. It lets the Special Olympics use the name.

The committee has the rights to more than just the O-word. Also on the proprietary list are such monikers as the "Summer Games," as well as familiar phrases: "Let the games begin" and "Go for the gold." *Jonathan Ringel*

THE BIG PICTURE

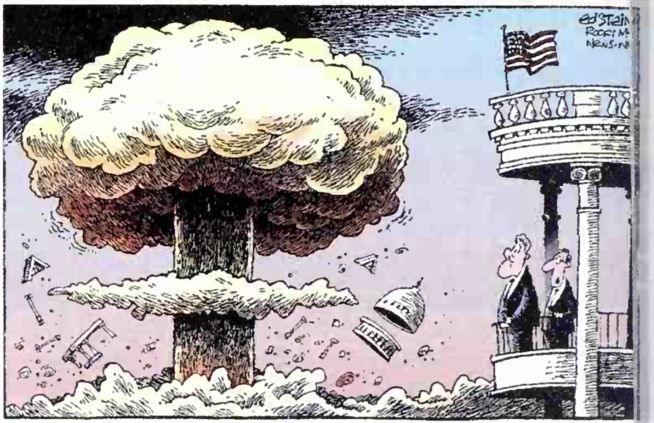
WHAT, US WORRY?

Everyone wants to know if inflation will start rising again. But the latest installment of a long-running poll shows that fewer Americans are worrying about inflation than at any time in 20 years.



DATA: ROPER STARCH WORLDWIDE INC.

DRAWN & QUARTERED



"IT'S WHAT WE FEARED, SIR. NEWT HAS THE BOMB."

ROGUES' GALLERY

THE EXECUTIVE GUIDE TO PRISON LIFE

WHITE-COLLAR SURVIVAL manuals abound for stock investors and job-hunters. Why not for convicts? James Tayoun, a former Philadelphia city councilman who served 33 months in the federal pen for bribery and other offenses, has opened a consulting firm to aid prison-bound white-collar crooks. The market is growing. The FBI's white-collar crime program netted roughly 6,000 convictions for felonies and misc- meanors in 1993, up fr 4,500 in 1989.

Tayoun Associates focus on defense attorneys, who says often know little abc what clients will find behi bars. His slogan: "You ga him your best—Now put anxieties to rest." Tayoun, who won't disclose his fe

GOING TO JAIL?

will even suggest which pr ons convicts should reque if they have a choice.

Tayoun tells clients how make the best of their time by seeking special prograr that allow them to work on t outside, for instance. Also, tells them how to avoid h rassment or worse: "What y see, you don't report. The tal carriers are the ones who g hurt." For now, Tayoun is fering his services—comple with handbook—in Pennsy vania and other Northeaste states, though he plans to e pand. First, however, he h to clear it with his probati officer. *Joseph Web*

FOOD FORAYS

BIG MACS AL DENTE?

McDONALD'S IS BIG ALL OVER the industrialized world—except in Italy. The burger chain boasts more than 1,000 outlets in Japan, 600 in Germany, 500 in Britain, and 294 in France. But devotion to traditional cooking has held the company to just 23 restaurants in Italy.

So, McDonald's is starting a major push to expand its Italian operations. The goal: 200 new outlets there over the next four years. Recently, the Golden Arches announced a deal to open 10 of them along superhighway rest stops, next to oil giant Agip Petroli's gas stations. McDonald's will be competing head-to-head with Autogrill, a 322-store highway food chain that serves a rich menu including regional cuisine. Luigi Mele, head of McDonald's Italia, says his outfit's fast, efficient service and "much cleaner toilets" will win over motorists.

Indeed, the existing McDonald's restaurants in Italy are very popular, especially among the young, who are fascinated by Americana. In deference to local tastes, some outlets are built to blend in with the old surrounding buildings—and they serve espresso and cold pasta. Yet the primary fare is still highlighted by "un Big Mac." *Silvia Sansoni*

FOOTNOTES Of women entrepreneurs in survey: 76% were oldest daughters or only daughters.

You'll Swear The New InTech System From Lincoln Has A Mind Of Its Own.

Actually, It Has Three.

INTRODUCING THE LINCOLN INTECH SYSTEM.

The new InTech System is precisely what its name implies: intelligent technology. A system that constantly checks and re-checks powertrain and suspension functions to help deliver miles of worry-free driving. You'll find this technology on both the Lincoln Mark VIII and Lincoln Continental.*

1. POWERTRAIN A 32-valve InTech V-8 engine and a computer-controlled 4-speed automatic transmission work in tandem to provide quiet, responsive power. For additional peace of mind, the impressive V-8 has been designed to run for 100,000 miles before its first scheduled tune-up.†

2. SUSPENSION Another example of advanced intelligence is the computer-managed, 4-wheel independent air-suspension system for a more stable ride and better handling. The load-leveling feature automatically compensates for changes in passenger seating and trunk loads.

3. CHASSIS A four-wheel Anti-lock Brake System and speed-sensitive steering round out the smart thinking. ABS helps you maintain steering control during hard braking. Speed-sensitive steering increases or decreases responsiveness depending on how fast you're going.

Look closely and you'll see that the new InTech System has plenty of street smarts.

---

*1995 Continental available January 1995.
†Available on Mark VIII models produced after 10/17/94.

LINCOLN
What A Luxury Car Should Be

The biggest names in computers share a super secret.
Acer

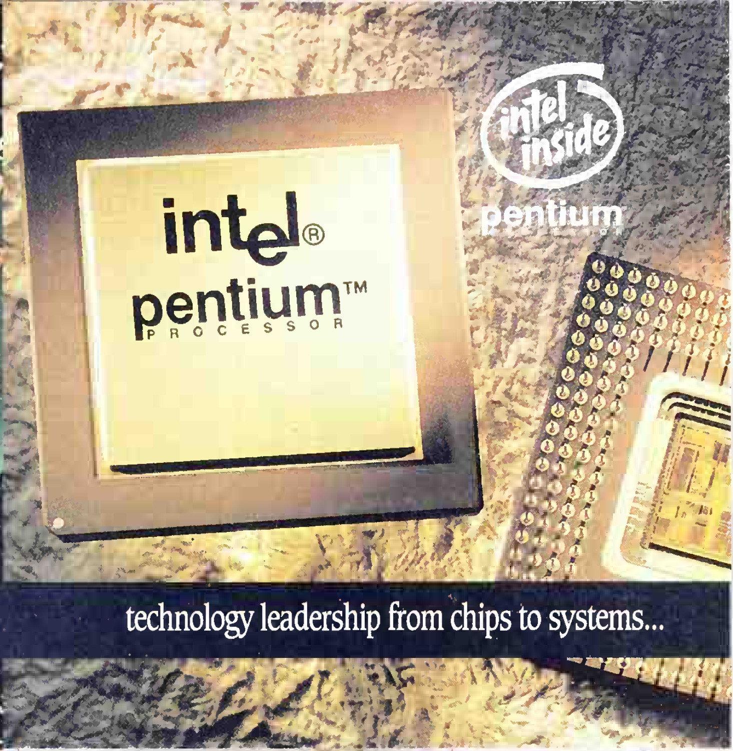
There are many reasons one name is behind so many nameplates

Why do so many leading computer manufacturers base their products on Acer technology? It's no secret: Acer provides the most innovation and value. We deliver leading-edge technology and components to the entire industry. Quality products endorsed by industry leaders, such as the Pentium™ processor AcerPower, the AcerNote Notebook, AcerView monitors and the Acer multimedia PC. Acer's more than US $3 billion in revenues is fueled by a worldwide de
for quality products in 90 countries. We are t
market leader in 30 countries and lead the pa
in the world's fastest growing markets. Why
Acer delivers new technology more quickly
by manufacturing around the globe in a uniq
process called Uniload. It's tough to keep a comp
a secret, especially with a growth rate of 70%.

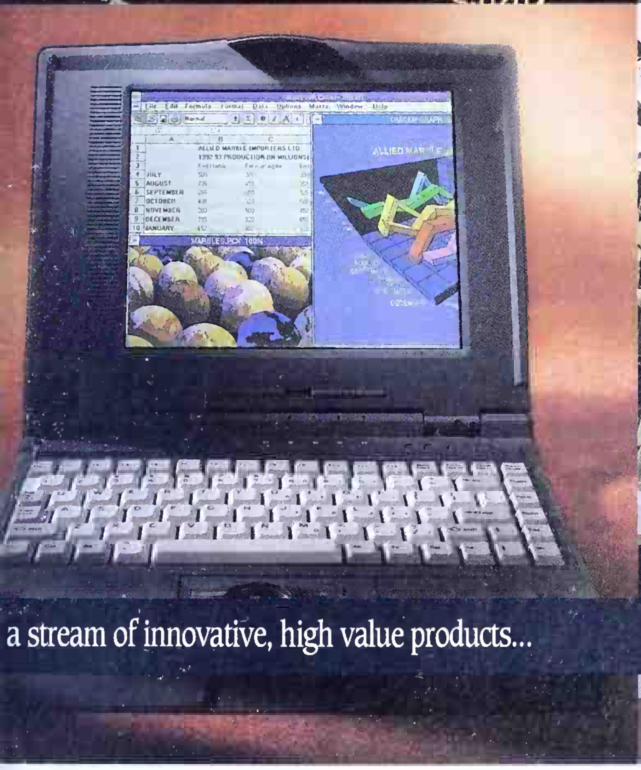
ACER COMPUTERS • THE INDUSTRY SOURCE •

12.2555
214.920
264.518
-1.7
2.2165
12.1590
215.986
-6.4
12.2529
-4.0
2.2059
-2.6
1.3500
1.3445
1.3476
-1.2
1.4950
1.4845
579.000
569.000
1.9624
1.9679
4.6240
1.4880
1.9627
2.1614
11.5085
2.4
1.4839
0.8
2.6764
-1.0
164.578

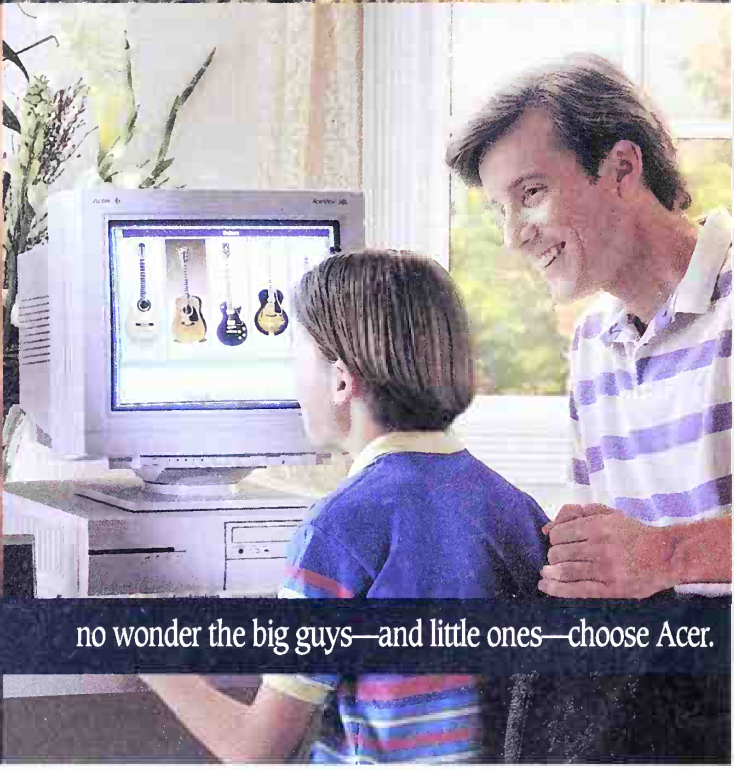
er. With growth three times the industry average...


intel®
pentium™
PROCESSOR
intel inside
pentium

technology leadership from chips to systems...



a stream of innovative, high value products...



no wonder the big guys—and little ones—choose Acer.

Acer®

The Industry Source Means Value.

To order an Acer system or for a retailer near you, call 1-800-391-ACER

Acer and the Acer logo are registered trademarks of Acer, Inc. Intel is a registered trademark and Pentium is a trademark of Intel Corporation.
All other brands or product names are trademarks or registered trademarks of their respective companies. ©1994 Acer, Incorporated. All rights reserved.

BusinessWeek

EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
CHIEF ECONOMIST: William Wolman
ASSISTANT MANAGING EDITORS: Sarah Bartlett, Robert J. Dowling, G. David Wallace
ART DIRECTOR: Malcolm Frouman
SENIOR EDITORS: Bob Arnold, Frank J. Comes, Deidre A. Depke, Judith H. Dobrzynski, Marc Frons, Geoff Lewis, Ciro Scotti, Mark N. Vamos, Lee Walczak (Washington), Chris Welles, Seymour Zucker
EDITORIAL PAGE EDITOR: Bruce Nussbaum
CHIEF OF CORRESPONDENTS: Keith G. Felcyn
INTERNATIONAL EDITION: William J. Holstein (Editor); John E. Pluenneke, Elizabeth Weiner (Sr. Editors)
SENIOR WRITERS: John A. Byrne, James E. Ellis, William Glasgall, Jeffrey M. Laderman, Gene G. Marcial, John Pearson, Karen Pennar, Otis Port
ASSOCIATE EDITORS: Duane E. Anderson, Catherine Arnst, Amy Dunkin, William D. Marbach, John Meehan, Michael Oneal, Thane Peterson, Gary Weiss
DIRECTOR, EDITORIAL OPERATIONS: Thomas J. Reed
PICTURE EDITOR: Lawrence Lippmann
SENIOR ART DIRECTOR: Laura Baer
ECONOMICS: James C. Cooper (Sr. Economist/Business Outlook editor), Kathleen Madigan (Assoc.). Christopher Farrell, Michael J. Mandel (Economics editors). Gene Koretz (Economic Trends editor)
DEPARTMENT EDITORS: Books: Denise Demong. **Computers:** Ira Sager. **Corporate Finance:** Phillip L. Zweig. **Corporate Strategies:** Jane A. Sasseen. **Information Management:** John W. Verity. **International Finance:** Joan Warner. **International News:** Christopher Power. **International Outlook:** Stanley Reed. **Investment Banking:** Leah Nathans Spiro. **Legal Affairs:** Linda Himelstein. **Media:** Mark Landler. **Money & Banking:** Kelley Holland. **News:** Keith H. Hammonds. **Personal Business:** Edward C. Baig. **Science:** Emily T. Smith. **Scoreboards:** Frederick F. Jespersen. **Social Issues:** Michele Galen. **Software:** Amy Cortese. **Technology:** Peter Coy, Neil Gross. **Up Front:** Larry Light. **The Workplace:** Aaron Bernstein.
STAFF EDITORS: Pam Black, Veronica Byrd, Bruce Einhorn, Paul M. Eng, Elizabeth Lesly, Ron Stodghill II, Amey Stone, Suzanne Woolley, Laura Zinn
ASSISTANT EDITORS: Lori Bongiorno, Julie Tilsner
COPY EDITORS: Harry Maurer, Michael Mercurio (Deputy chiefs); Prudence Crowther, Marc Miller (Asst. chiefs); Tim Belknap, Aleta Kaufman, Jack Robbins, Jim Taibi (Sr. copy editors); Carl Desens, Hardy Green, Cynthia McClean, Joseph Mandel, David Pengilly, Malka Percal, Doug Royalty, Maria Chapin, Gail Fowler, Jeneen Hobby, Aida Rosario (Researchers)
PRODUCTION COPY EDITORS: Donald Halsband (Chief), Lawrence Dark (Deputy), Hallberg Hallmundsson, Celine Keating, Robert S. Norman, Robert J. Rosenberg, Eva Stettner
ART: Steven Taylor (Deputy director), Cynthia Friedman, Francesca Messina, Jay Petrow, Christine Silver (Assoc. directors), Alice Cheung (Asst. director). **Graphics:** Arthur Eves (Director), Joan Danaher (Deputy director), Rob Doyle (Sr. Illustrator), Lisa Knouse Braiman, Alberto Mena, Ray Vella (Illustrators), Jaime Beauchamp (Computer artist). **Production:** Stephen J. Romeo (Mgr.), Annette Kennedy (Asst. manager), Alan Bomzer (Coordinator)
PHOTOS: Scott Mlyn (Deputy Picture editor), Todd James (Senior Picture editor), Anne Murray, Ronnie Weil (Assoc. Picture editors); Bettina Baudoin (Paris), Kathleen Moore (Asst. Picture editors), M. Margarita Eiroa (Traffic manager). Lawrence Crowe (Librarian), Michael Hirsch (Researcher)
EDITORIAL OPERATIONS: Yvonne Rodriguez (Production chief). Richard Balestrino, A. Peter Clem, Nicholas M. White (Production managers). Karen Butcher, Thomas R. Dowd, Fidel Lee, Jose L. Martin, Jane M. Perkinson, Craig Sturgis, Edgardo Torres, Karen Turok, Ilse V. Walton (Makeup editors). Bruce M. Arnold, Stephen R. Lebron (Asst. Makeup editors). Donald C. Pearson (Traffic manager)
CORRESPONDENTS: Atlanta: David Greising (Mgr.), Maria Mallory. **Boston:** Mark Maremont (Mgr.), Gary McWilliams, Geoffrey Smith. **Chicago:** Richard A. Melcher (Mgr.), Greg Burns, Susan Chandler, Kevin Kelly. **Cleveland:** Zachary Schiller (Mgr.). **Connecticut:** Tim Smart (Mgr.), Chris Roush. **Dallas:** Wendy Zellner (Mgr.), Peter Burrows, Stephanie Anderson Forest. **Detroit:** Kathleen Kerwin (Mgr.), James B. Treece (Sr. Correspondent), David Woodruff. **Los Angeles:** Ronald Grover (Mgr.), Larry Armstrong (Sr. Correspondent), Eric Schine. **Miami:** Gail DeGeorge (Mgr.). **Philadelphia:** Joseph Weber (Mgr.). **Pittsburgh:** Stephen Baker (Mgr.), Keith L. Alexander. **San Francisco:** Russell Mitchell (Mgr.), Richard Brandt, Joan O'C. Hamilton, Robert Hof, Kathy Rebello. **Seattle:** Dori Jones Yang (Mgr.). **Washington:** Stan Crock, Owen Ullmann (News Editors), Amy Barrett, Amy Borrus, John Carey (Sr. correspondent), Christina Del Valle, Richard S. Dunham, Dean Foust, Susan B. Garland, Howard Gleckman (Sr. correspondent), Douglas Harbrecht, Mark Lewyn, Paul Magnusson, Mike McNamee, Mary Beth Regan, Michael Schroeder, Stephen H. Wildstrom (Technology & You), Catherine Yang. **Bonn:** John Templeman (Mgr.), Karen Lowry Miller. **Hong Kong:** Joyce Barnathan (Mgr.), Pete Engardio. **London:** Paula Dwyer (Mgr.), Julia Flynn. **Mexico City:** Geri Smith (Mgr.). **Moscow:** Peter Galuszka (Mgr.). **Paris:** Stewart Toy (Mgr.), Gail Edmondson, Bill Javetski. **Rome:** John Rossant (Mgr.). **Tokyo:** Robert Neff (Mgr.), Larry Holyoke. **Toronto:** William C. Symonds (Mgr.)
EDITORIAL SERVICES: Broadcasting: Ray Hoffman. **Business Manager:** Barbara Boynton. **Information Services:** Jamie B. Russell (Director), Judi Crowe (Asst. editor), Heather Hartley, Fred Katzenberg, Maria Maronak, Karen Stevens. **Office Manager:** Roselyn Kopit. **Public Relations:** Christine Summerson, Josephine Coppola. **Readers Report:** Yvette Hernandez. **Reprint Permission:** Janet Gonzalez. **Systems:** Ina L. Kichen (Mgr.), Andrew Bernardo, Marie Brown-Bryant, Marta Skrelja

PRESIDENT: John W. Patten
PUBLISHER: David G. Ferm
SR. VP, OPERATIONS: Gary B. Hopkins
VP, CONSUMER MARKETING/CIRCULATION: Robert Montemayor
VP, INTERNATIONAL: Gerd Hinske
VP, STRATEGIC PLANNING & DEVELOPMENT: Cara Erickson
VP, MARKETING: Harold K. Somerdyk
VPs, SALES: Constance E. Bennett (Eastern Region), Dan Dunn (Midwestern Region). Louis R. Mohn (Western Region)
VP, STRATEGIC PROGRAMS: James H. McGraw IV
CONTROLLER: Gary M. Singer
DIRECTOR, ADVERTISING BUSINESS: Linda F. Carvalho
DIRECTOR, PRODUCTION: Mario J. Talluto

Readers Report

MEASURING THE TRUTH ABOUT THE ECONOMY

Your article "The real truth about the economy" (Cover Story, Nov. 7) was terrific. For the first time we see some clear thinking on the role of government data and its use. The article was correct in pointing out the global nature of production capacity and the qualitative aspects of price increases on inflation.

The story should be a real "paradigm breaker" and encourage investment in new measuring systems. BUSINESS WEEK is clearly out in front on this issue.

Albert R. Camper, Jr.
President and CEO
CIT Group Inc.
Livingston, N.J.

Following your eye-opening analysis that finds strong productivity gains are largely in the information sector, it is no great surprise that the so-called "productivity paradox"—supposedly, that investments in computers have a low payback—is now cited as another great myth. This conclusion is based on data and more valid premises independently developed and now shown to be more accurate.

Information technology has swept over us. It is no longer a technical change, but a cultural change. Today's newly leveraged combinations of desktop microcomputers are cheaper, faster, and far more versatile than mainframe and minicomputer systems, or even, surprisingly, television systems of recent vintage.

Your urgent call to "create a new statistical system for the Information Age" by radically reforming these underlying premises will help not only our businesses and the general economy, but also the understanding of the real world by our beleaguered educational CEOs, whose young clients are perhaps the biggest victims of this lagging knowledge.

Glenn Ralston
Indianapolis, Ind.

Have no fear, the so-called false ec
nomic statistics, promulgated by har
working federal bureaucrats, don't fo
the people who count—namely, the Fe
eral Reserve, the big bond traders, ar
the major financial institutions. The
information is probably just as good
yours if not better.

Henry Fog
Lexington, Mas

Your story about how government st
tistics are misleading was right on t
mark, except that the article should hav
been more critical. The government re
ularly uses current account data to ba
Japan on its unfair trade practices. T
reality is more complicated. An increa
ing percentage of U.S. imports can
accounted for by American-owned co
panies based abroad. Trade statisti
tend to exclude the role of multinational
foreign-owned companies, and intra-fir
trade.

Viken Berberia
Glendale, Cali

BusinessWeek
THE REAL TRUTH ABOUT THE ECONOMY
How Government Statistics Are Misleading Us

IRRATIONAL NUMBERS

"Have no fear, the so-called false economic statistics don't fool the people who count: the Fed, big bond traders, and major financial institutions."

Your otherwise excellent article o
misleading governmental statistics omit
ted a significant but uncounted sector–
the underground economy. It distort
data on gross domestic product, employ
ment, inflation, and household savings

The gross domestic product (GDP) i
understated because legitimate good
and service produced by the cash and/o
bartering economy are not counted. Th
illegal goods and services not only ar
not considered in the GDP, they under
state the employment rate.

Herbert M. Bernstei
Philadelphi

BUSINESS WEEK
NOVEMBER 28, 1994 3401
ISSN 0007-7135 * * *

Published weekly, except for one issue in January, by McGraw-Hill, Inc. Founder: James H. McGraw (1860-1948).

Executive, Editorial, Circulation, and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127039; Intl. 2360127039. U.S. subscription rate $46.95 per year; 2 years, $78.95; 3 years, $104.95. Single copies, $2.75; back issues, $5. Write for rates in other countries. Subscriber Services: 1-800-635-1200. TDD: 1-800-554-1579

Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 43
Hightstown, N.J. 08520. Second-class postage paid at New York, N.Y., an
at additional mailing offices. Postage paid at Montreal, P.Q. Canada Po
International Publications Mail Product Sales Agreement No. 24648
Registered for GST as McGraw-Hill, Inc. GST #R123075673. Copyright 19
by McGraw-Hill Inc. All rights reserved. Title registered in U.S. Pate
Office. European Circulation Center, McGraw-Hill House, Maidenhea
Berks, England. Telephone: 0628-23431; Telex: 848640.
Officers of McGraw-Hill, Inc.: Joseph L. Dionne, Chairman and Chief E
ecutive Officer; Harold W. McGraw, III, President and Chief Operating O
ficer; Robert N. Landes, Executive Vice President, General Counsel, an
Secretary; Robert J. Bahash, Executive Vice President and Chief Fina
cial Officer; Frank D. Penglase, Senior Vice President, Treasury Operation

PHOTOCOPY PERMISSION: Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Ce
ter (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy any article herein for the flat fee of $1.50 per copy of each article. Send payment t
the CCC. Copying for other than personal or internal reference use without express permission of McGraw-Hill is prohibited. Address requests for cu
tomized bulk reprints to Business Week Reprints, P.O. Box 457, Hightstown, N.J. 08520, or call 609-426-5494. ISSN 0007-7135/94/$2.75
PRINTED IN THE U.S.A.

DEVOTES INCREDIBLE ATTENTION TO DETAIL

JUST LIKE A PARKER

PARKER
INSIGNIA

The PARKER INSIGNIA Laque Black shows our dedication to detail. The durable, deep gloss finish is highlighted by 14kt. Dimonite G trim, a gold-plating process we have patented. The refill in the Ball Pen is specially designed to be long-lasting and write cleanly and smoothly. Like all PARKER writing instruments it has a lifetime guarantee.

Ball Pen shown, $32.* PARKER INSIGNIA collection includes a wide range of other finishes. Ball Pens and Pencils available from $16 to $100.*
*Suggested retail price. For the store nearest you, call 1-800-BEST PEN. ©1994 Parker Pen USA Limited

386-based PCs
486-based PC

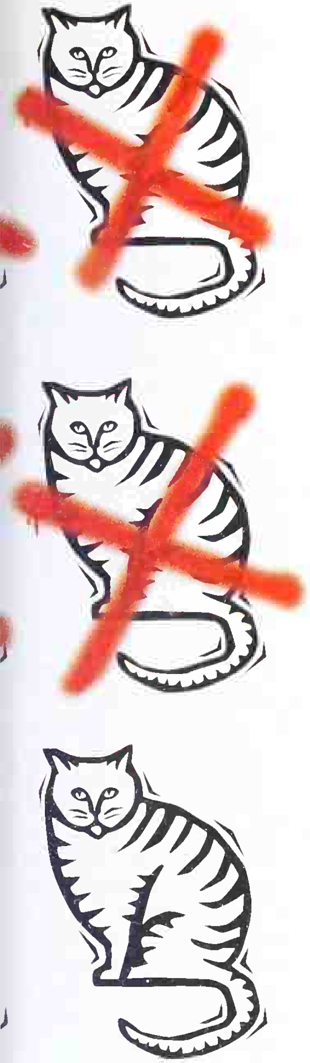
Let's say comput

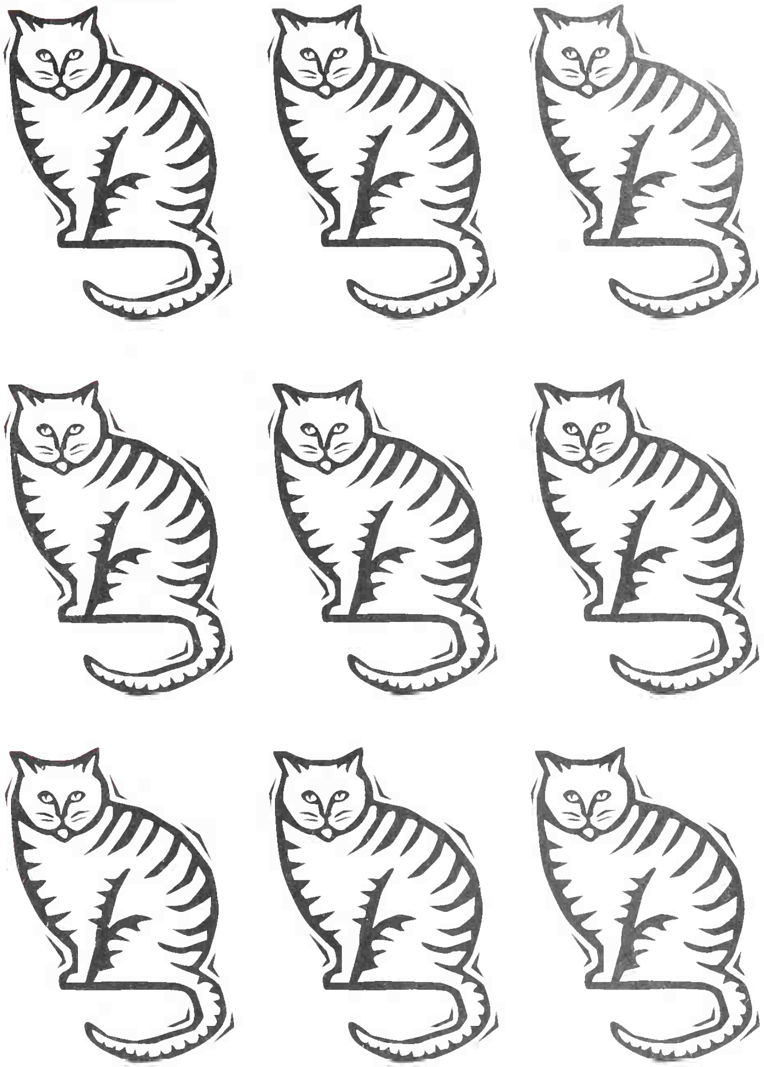
intel inside
pentium
PROCESSOR

Some computers have nine lives left. Others don't. That's why if you're buying a PC today, you should only be considering Pentium™ processor-based PCs.

The reason is simple. A more powerf
PC lasts longer, since it will still have plenty of horsepower when tomorrow's applications come along. And most new Pentium processor-based systems also include the latest PC technology — like

© 1994 Intel Corporation





Pentium™ processor-based PCs

have nine lives.

'I local bus for high-speed graphics and ıg and Play technology for easy expansion the years to come.

That, plus the fact that these PCs are now affordable, makes this a great time to buy a ntium processor-based PC. Especially when you'll be getting a system that performs so well. Today. And several lives from now. For more information call 1-800-626-6788, Ext. 213.

intel®

CORRECTIONS & CLARIFICATIONS

"This soap man will do Windows" (In Business This Week, Nov. 21) incorrectly reported that Robert Herbold had managed an entire Procter & Gamble business. He has never been general manager of an entire P&G business.

The table with "Ag stocks: A fertile field?" (Personal Business, Nov. 14) should have given the price-earnings ratio for Tyson Foods' stock as 17.

"Unfamous Amos no longer" (People, Nov. 14) should have said that Continental Cablevision Inc. Chairman Amos Hostetter negotiated for a Chicago cable franchise with entrepreneur John Johnson in the early 1980s, not the 1970s.

Your excellent article hopefully will accelerate improving government statistics as part of the "Reinventing Government" effort.

James E. Beverly
Arlington, Va.

DEALER'S CHOICE: NASDAQ SPEAKS OUT

In non-BUSINESS WEEK fashion, "NASDAQ: An embarrassment of embarrassments" (Finance, Nov. 7) relied on a handful of unnamed sources (and indeed, single unnamed sources in several instances) to create the mistaken impression of widespread dissatisfaction with our market and the management of this organization. The article also contains numerous errors and descriptions and omissions that evidence superficial research and oversimplification of complex issues.

While it is true that many of our senior managers have risen through the ranks, we consider that to be a strength of our organization—not a weakness, as your "one" critic suggests. Our share volume, company retention rate, and new-company listings are at record or near-record levels. The same management team that has led NASDAQ's growth over many years is responsible for this. We must be doing something right.

In your reporting of the service outages that occurred last summer, you failed to put them in context: The NASDAQ system's annual uptime rate between October, 1993, and September, 1994, stands at 99.6%. That includes the outages. Given the complexity of our system, the enormous scale of our current migration to a new generation of technology, and the fact that mechanical things will occasionally break down despite the availability of backup systems, most agree that we have an enviable performance record.

We are especially disappointed by your false portrayal of our relationships with our key constituencies—NASD members, companies, and institutional investors. In fact, some of your comments concerning them are inconsistent. For example, on the one hand, you say that traders are upset about changes we make that limit their flexibility. On the other hand, you say we have not demonstrated an ability to make changes. Which is it?

There are many supporters of the NASDAQ market, and we are troubled that BUSINESS WEEK did not solicit—or perhaps ignored—their input. Instead, you relied on a handful of sources who obviously had their own agendas; you then projected their views as pervasive among our constituencies.

The NASDAQ record stands on its own. We thrive on constructive criticism and we invite scrutiny. Your article does not rise to that level.

FROM NASDAQ MANAGEMENT

> "Share volume, company retention rate, and new-company listings are at record or near-record levels. . . . We must be doing something right."

Joseph R. Hardiman
President
The NASDAQ Stock Market Inc.
Washington

Editor's note: Our story was based on interviews with more than 25 supporters and critics, some of whom were quoted by name. We erred in describing one reason why development of NASDAQ International has been stymied. The story should have said that NASDAQ was unable to get an exemption from a rule requiring foreigners to wait for an uptick in price before engaging in short sales of NYSE-listed stocks. We do not know of any other errors and regard NASDAQ's other complaints as differences of interpretation.

HOW EQUAL IS EQUAL?

Regarding "Clever arguments, atrocious science" (Books, Nov. 7): The egalitarianism that maintains that all people not only have equal rights but are also essentially equal in ability and deserve equal outcomes in life is a passionately
held belief based on faith. The aut
of this review would have been be
off to admit that he rejects *The*
Curve because it violates his egalitar
faith and leave it at that.

Peyton Ganna
Saratoga, C

Cheers to John Carey for his revi
of *The Bell Curve*. He is the first p
son I've seen, heard, or read who
tackled the authors on the o
grounds that make sense: the valid
of the data and the conclusions dra

Diane Dani
Berkeley, C

PAYING THE PRICE OF LENDING MONEY

Your editorial, "Why can't bar
learn their lesson?" (Nov. 7), is not
together convincing. To lend has alwa
meant to take risks, and banks se
generally to be taking the right amou
today. They have a healthy supply
capital and reserves to cover potent
losses from increased lending and c
sumer-loan delinquenci
Nonperforming loans are
historical lows, and growi
loan demand has helped p
the credit crunch behind
Given these factors, there
plenty of room for banks
make good loans today, a
they are making them.

Donald G. Ogil
Executive Vice-Preside
American Bankers As
Washingt

Banks have a tough time learning th
lesson for much the same reason that a
olescents do. They know that if their i
prudent lending practices cause the
problems, some governmental instituti
(we taxpayers) will bail them out.

Wayne L. Stephan
Las Veg

HOW TO REACH BUSINESS WEEK

LETTERS FOR READERS REPORT

All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space.

Mail: Business Week, 1221 Avenue of the Americas,
39th floor, New York, NY 10020
Fax: (212) 512-4721
Internet: bwreader@mgh.com

SUBSCRIBER SERVICES

For individual subscriptions, corporate subscriptions, renewals, changes or problems, and single copies.
Phone: (800) 635-1200 or (609) 426-7500

COPYRIGHT PERMISSIONS

Before quoting or reproducing editorial material.
Phone: (212) 512-3396
Fax: (212) 512-4938

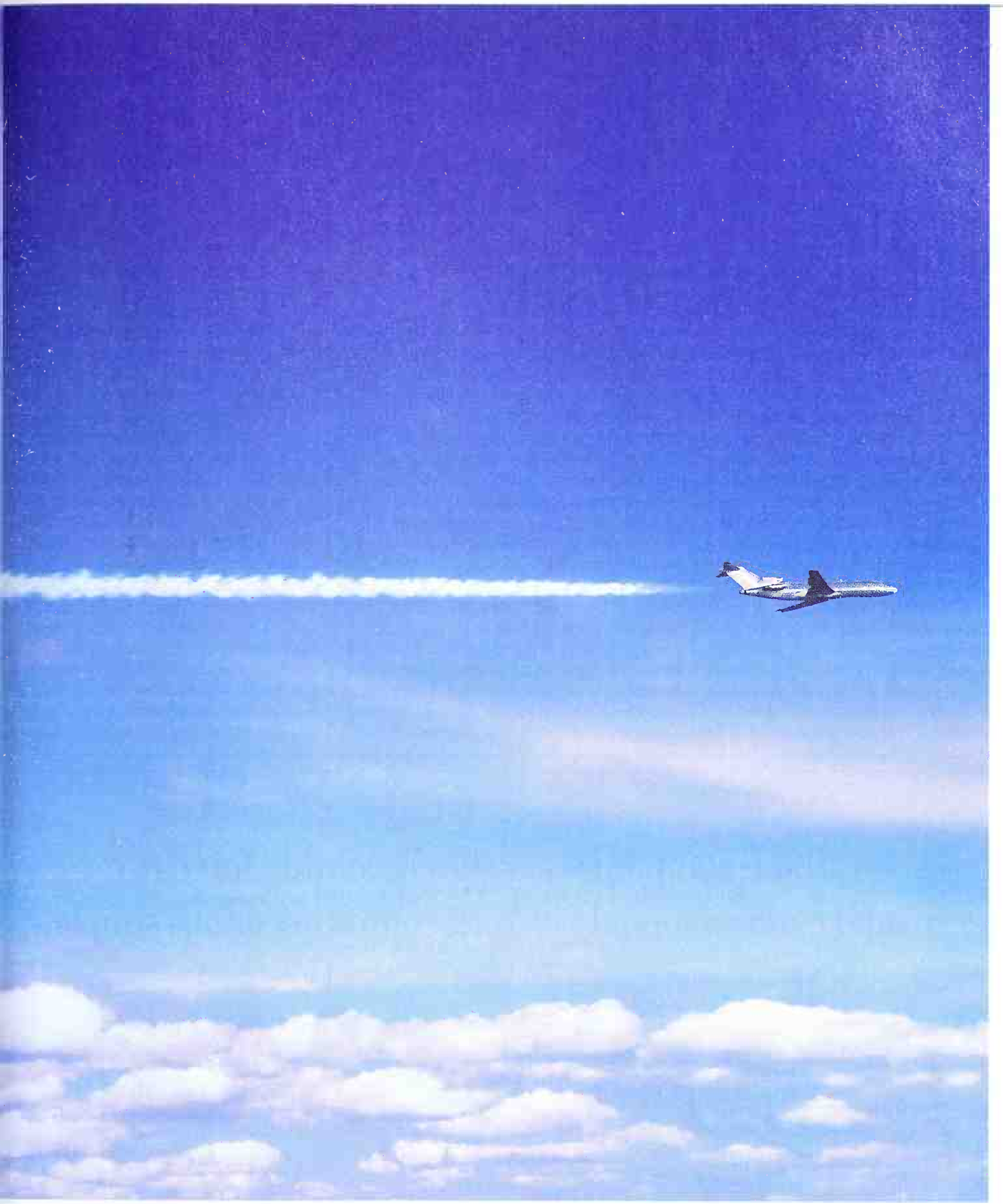
PEOPLE
TO
PEOPLE
TECHNOLOGY

Things have changed considerably since the days of stone slates. Yet, no matter how advanced the technology, the intent remains the same: People communicating with people, expressing their most important thoughts and ideas. Since 1881, Oki has been helping businesses and individuals communicate around the world, without losing that personal touch. We've grown a bit since then, to a global leader in telecommunications, information processing and electronic devices. Still, as we develop new multimedia technologies, we always keep in mind our most important goal: Getting the message across for you, without getting in the way.

Telecommunications Information Processing Electronic Devices

OKI

HOW AIG'S ABILITY TO CONTROL FINANCIAL RISKS PU ONE AIRLINE ON A STRAIGHTER COURSE. *An airline's first-ever ener hedge in jet fuel, using a series of fixed-for-floating-rate transactions. It's no blue-sky idea but how we recently helpe a major U.S. carrier manage risk. Since the airline's international operations generate a multiple-currency reven*



tream, we also act as one of its primary foreign exchange partners. And we provide primary and excess roperty/casualty insurance for its buildings and aircraft, fidelity and international insurance coverages. Products and ervices for which more and more corporations are heading in AIG's direction. For the definitive response to risk.

AIG **WORLD LEADERS IN INSURANCE AND FINANCIAL SERVICES.**

American International Group, Inc., Dept. A, 70 Pine Street, New York, NY 10270.

AIG 75th Anniversary

ON THE EDGE
The Clinton Presidency
By Elizabeth Drew
Simon & Schuster • 462pp • $24

ALL THE PRESIDENT'S FOIBLES

Well, O. K., it's not news that the first year in Bill Clinton's White House was turbulent. But what Elizabeth Drew tells us in *On the Edge: The Clinton Presidency* is that things were even worse than we imagined. Drew's book covers many events already reported. But when these goings-on, together with Drew's insights and new information, are compressed into a five-hour read, the result is breathtaking. Nearly every page describes an episode of ineptitude, indecision, poor planning, or internal rivalry.

Drew's prose is wordy and plodding, and her analysis sometimes falls short. Even so, she goes a long way toward explaining how President Clinton, for all his intelligence, acumen, and skill at communicating, could so quickly squander so much of the public trust. Drew casts him, astutely, as "an activist president in a cynical age," a transitional figure whose efforts to govern as a New Democrat—seeking ways government can help when public confidence and money are in short supply—often displeased liberals and conservatives alike.

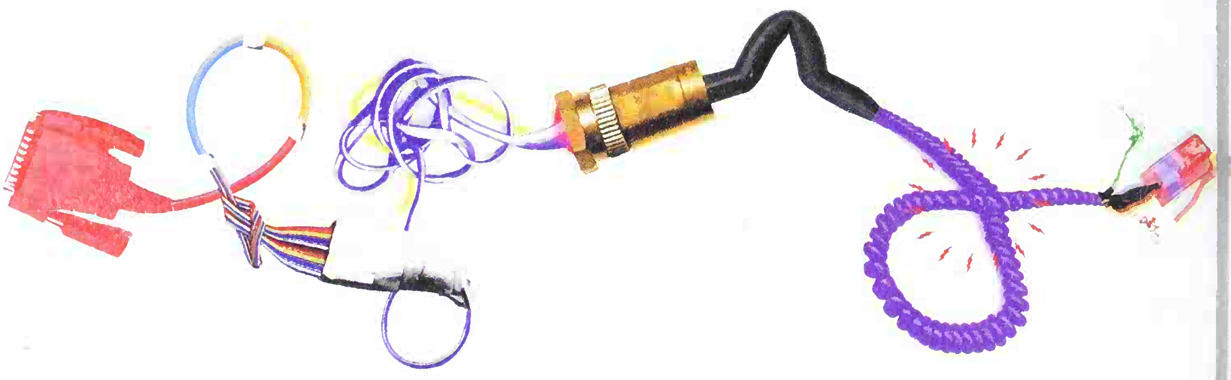
The problem was exacerbated by the Administration's disorganization and Clinton's personality. The troubles began on Day One. Advisers tell Drew they came to Washington with no strategy for advancing their agenda. The Clintons, she says, thought they were smarter than everyone else and didn't want old Washington hands around to compete with them. They preferred inexperience and paid a price: a Wh e House where havoc was the norm.

What's most disturbing, though is Drew's depiction of Clinton's disabl g character flaws. He was so riddled y self-doubt that he sought constant e-assurance. His desire to please left ai s and members of Congress confus . Staff members, says Drew, "often ha disabuse people of the notion that Cl ton had agreed to what they had p posed." And the difficulties of govern g as a New Democrat were compound d by "the ambiguity of his own beliefs

Clinton agonized over decisions (ten swayed by op-ed pieces)—even the e already made. He complained about st f disarray but ignored advice on how c control it. While he mulled some issu s for weeks, he was surprisingly inatte tive to others, including early signs th Zoë E. Baird's nomination as Attorn y General was imperiled.

One of Drew's most telling anecdot s concerns the ouster of Defense Sec tary Les Aspin. Clinton, she repor , wavered even after he had told Aspin e was out and had hurriedly chosen Bo by Ray Inman to replace him. On t e day before the announcement was to e made, Aspin argued compellingly th

Some companies say they're joining forces to make international network communications simple.



In the U.S., IBM Global Network services are provided by Advantis, a joint venture of IBM and Sears, Roebuck and Co.

One global network
has all the advantages

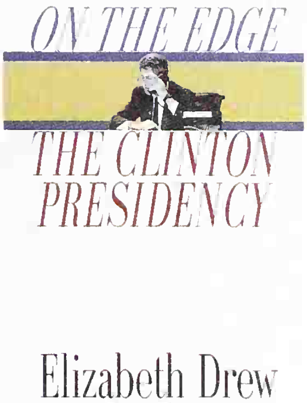
More local support
from 5,000 networking specialists worldwide

Total outsourcing
and management of SNA, multi-protocol and emerging ATM-based networks

CLINTON'S INSECURITIES HAVE KEPT HIS WHITE HOUSE ON THE BRINK FROM DAY ONE

should stay. Clinton was “shaken,” ys Drew. “He asked his advisers, ‘Are e sure we're doing the right thing?’” unselor David Gergen argued that if inton reversed himself and word got t, he would look indecisive. So Clinton ent ahead with the In- an nomination—with sastrous results.

Persevering readers e rewarded with other ch insider's nuggets. In ongoing battle to make inton look Presidential, les tried to get him to ve up baggy Donna Ka- n suits, Drew reveals. ale advisers, afraid to ke on Hillary Rodham inton, urged Laura Andrea Tyson, chair of e Council of Economic lvisers, to challenge the rst Lady's health-care plan. And when visers were split over whether Clin- n should pursue the North American ee Trade Agreement, Trade Repre- ntative Mickey Kantor offered to “blow up” negotiations with Mexico and Canada if Clinton decided to pull back.



Although all recent Presidents have sought advice from pollsters, Drew sees Clinton as so “poll-driven” that he lost his own voice. In May, 1993, she reports, Secretary of State Warren Christopher invited pollster Stan Greenberg to dinner to ask him to warn the President not to get involved in Bosnia. The idea of the top foreign policy adviser turning to a pollster to get the President's ear is frightening. But it is typical of the book's weaknesses that Drew recounts the incident without commenting on its significance.

On the Edge covers far different terrain than Bob Woodward's *The Agenda*, which dealt only with economic policy. And while Woodward dwelled on the policymaking process, Drew tries to analyze why the Clintonites acted as they did. Like Woodward, she has gotten aides to say the darnedest things. Describing the struggle to define Clinton's “profile,” for example, Communications Director Mark D. Gearan tells her: “We were just reeling, we were just reeling. We were out of focus. The question was what does the President stand for.” But again Drew pulls her punches. One unanswered question: Why didn't aides move to remedy the problems they now see so clearly?

Clintonites, responding quickly to *On the Edge*, contend that the White House is running smoothly now that there's a new Chief of Staff and advisers have acquired some experience. But the voters' repudiation of Clinton in the recent elections suggests he has paid dearly for the early chaos. Then again, disorganization is something voters might forgive. But no matter how many management reforms the President enacts, Drew leaves us with a worrisome impression of a man of great promise who is his own worst enemy

BY SUSAN GARLAND

Garland covers the White House.

We'd like to set the record straight.

There's nothing simple about a communications network that's patched together by a collection of companies around the globe. Common sense suggests it would be better to have *one* global company responsible for managing your network. And that's exactly what you get with the IBM Global Network. Others may offer a “single point of contact”—but if you ask for something like global E-mail, they're likely to tell you some of their overseas affiliates aren't on line yet. The IBM Global Network provides access to more than 90 countries. Now. So you can get a head start on the high-speed global networking you need. Questions? In the U.S. and Canada call us at 1 800 455-5056 for some straight answers about international network communications.

The IBM Global Network

Advanced
LAN internetworking for
client/server computing

Efficient
global messaging with EDI,
E-Mail and the Internet

IBM®

Panasonic
KWN
KID WITNESS NEWS
Panasonic
KWN
KID WITNESS NEWS

What is our technology doing for your kids' education? You might be surprised.

It's 3:00 and the school bell rings. But instead of the mad dash for the door, something surprising happens. Your children stay seated. In fact, they're on the edge of their seats because today they're getting a new assignment.

They will probe a variety of topics from complex social issues like community violence to heartwarming stories about local heroes. But instead of doing research in the library, they will interview experts, handle camcorders, edit tape and even act. Instead of writing a paper, they will be writing a script for a documentary, news feature or public service announcement. And along the way they'll build self-esteem, learn teamwork and communications skills as well as the ability to think and reason critically.

They're participating in an innovative program developed and supported by Matsushita Electric. It's called Panasonic Kid Witness News. The program provides over 200 schools with video equipment, educational materials and support to help students and teachers create video productions. It's just one of many Matsushita educational programs, which range from working with school districts for public school reform to supporting universities.

At Matsushita we believe that, of all the things technology can accomplish, equipping our children for the future is one of the most important.

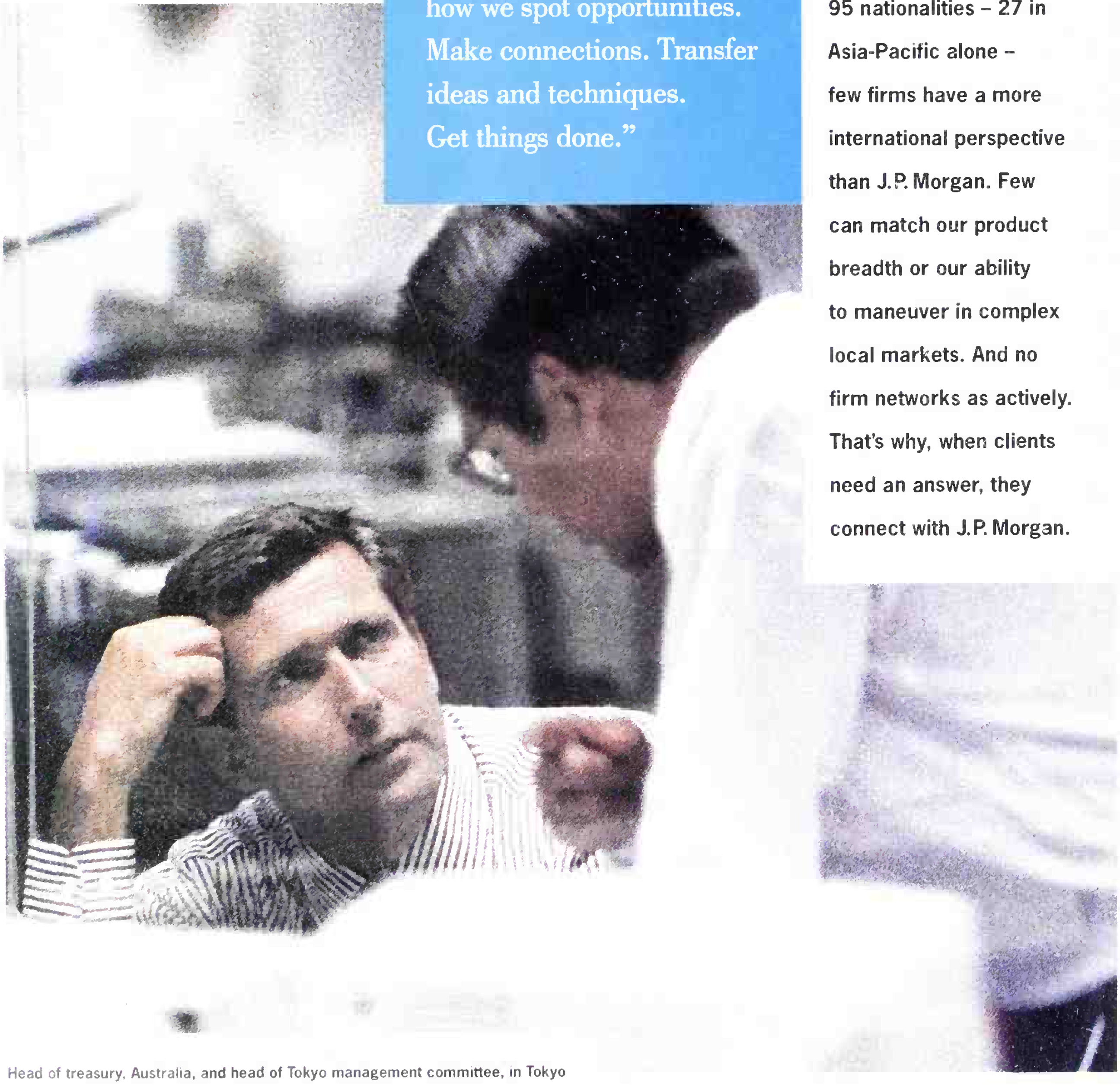
Matsushita Electric

Panasonic Technics Quasar

Pulse

"One of the most important things we do for our clients is talk to each other – across time zones, across markets, across disciplines. That's how we spot opportunities. Make connections. Transfer ideas and techniques. Get things done."

With a worldwide staff representing more than 95 nationalities – 27 in Asia-Pacific alone – few firms have a more international perspective than J.P. Morgan. Few can match our product breadth or our ability to maneuver in complex local markets. And no firm networks as actively. That's why, when clients need an answer, they connect with J.P. Morgan.



Head of treasury, Australia, and head of Tokyo management committee, in Tokyo

JPMorgan

©1994 J.P. Morgan & Co. Incorporated. J.P. Morgan Securities Inc. Member SIPC.

ITED BY STEPHEN H. WILDSTROM

WO PICKS OF THE LAPTOP LITTER

Buying a desktop computer these days is a simple matter of mon- Leading manufacturers of- lines of more-or-less inter- angeable machines. You y the assortment of fea- res that fits your budget, d if you make a mistake, ell, you can always upgrade e system.

Purchasing a ptop, however, ll requires hard oices. If you ant a machine at's small and ht, you'll have sacrifice fea- res. If you ant maximum atures, you'll get a big y today's standards) x that dents your oulder when you car- it. No matter which ptop you choose, it ll be expensive com- red with a desktop achine of equal pow- And the smaller and hter it is for a given t of features, the ore it will cost.

GHT SPEED. To check t the choices avail- le, I took a close look two speedy new color ptops, both built ound Intel's 486 processor. Hewlett-Packard's nniBook 600C is a colorful dition to an OmniBook line subnotebook computers at users praised for their ht weight and compact size d cursed for their cramped, n monochrome displays. At st 7.3 in. x 11.1 in. x 1.6 in. d 4.6 lbs., including an AC aptor, it's the machine for avelers who consider port- ility the primary virtue.

The Multimedia Museum

NEC VERSA M
(left)
$3,449-$6,300
Full-size notebook with built-in audio, ideal for multimedia presentations

HP OMNIBOOK 600C
(right)
$2,599-$3,499
Subnote book with color screen, designed for minimum size and weight

How important is portability to you? One way to judge is by looking at NEC's new Versa M. Its display is more than 25% larger than the OmniBook's—and top-of-the-line models offer active-matrix color of near-photographic quality. The Versa has a built-in soundboard, microphone, and speakers for recording and playing back audio. Fitted with an add-on CD-ROM drive, the Versa becomes a full-fledged multimedia machine. But it's more than 2 in. deeper, a half-inch thicker, and nearly 4 lbs. heavier than the OmniBook—without a portable CD-ROM, which adds a couple more pounds.

The differences don't stop there. The OmniBook has no built-in floppy disk drive, requiring the use of a separate drive that plugs into a connector on the back. The Versa allows you to swap a built-in floppy drive for a second battery as needed. The biggest hard drive available for the HP is 260 megabytes, and its random-access memory tops out at 32 Mb. The NEC can handle an 810 Mb drive and 40 Mb of RAM. The OmniBook offers processor speeds of 50 megahertz or 75 Mhz, while the Versa provides 75 Mhz or 100 Mhz. Then there's the price: The HP unit starts at $2,599. The NEC, with a much wider range of configurations, goes for $6,300 with everything. And for the ultimate Road Warrior, NEC will soon offer the Pentium-powered Versa P, starting at $5,399.

MICE PROBLEMS. Both machines show how far laptops have come in ease and comfort of use, with easy-to-adjust screens and excellent compact keyboards. Each takes a novel and not entirely satisfactory approach to a vexing problem of laptop design: how to provide the equivalent of a mouse. The Versa uses a trackball set in the vertical panel just below the spacebar. I found it comfortable to use with either thumb but difficult to move precisely. The OmniBook relies on a miniature mouse-like thing that pops out of the right side of the case on a plastic wand. Unlike a trackball, it needs a flat surface for efficient use, and southpaws like myself must learn to use it right-handed.

Cost aside, which machine would I choose? My on-the-road computing demands are limited mainly to word processing and E-mail, and I like to travel light. For me, the HP is the pick of the laptop litter. But if I regularly did presentations that would benefit from the multimedia prowess of the NEC, I would find its extra heft and cost well worth it. One-size-fits-all just doesn't work when it comes to laptops. *S. W.*

BULLETIN BOARD

INTERNET

ENCRYPTION ON A CARD

Companies that want to do business over the Internet but worry about the safety of their data can look forward to some relief from their worries. Starting in January, National Semiconductor (408 721-8797) will offer the PersonaCard, a credit-card-size device that provides both highly secure encryption and digital signatures for computer messages. Although software encryption is available, security experts say that a hardware-based system is much more resistant to attack. Prices for the PersonaCard start at $249 in single quantities. An add-on reader for desktop machines, most of which lack a slot to accept the card, fetches $209.

One word of caution: It is illegal to take a PersonaCard (or software providing strong encryption) outside of North America, even for personal use, without an export license.

SCANNERS

FAX-TO-FAX IMAGES

Reader Danielle Harris of Raleigh, N. C., wonders if a stand-alone fax machine could function as a scanner by sending an image to a PC equipped with a fax modem. This will work, provided you have two phone lines. Fax machines generally scan at 200 dots per inch, less than half the resolution of most desktop scanners. The results are good enough for text and line drawings. But photographs will come out coarse.

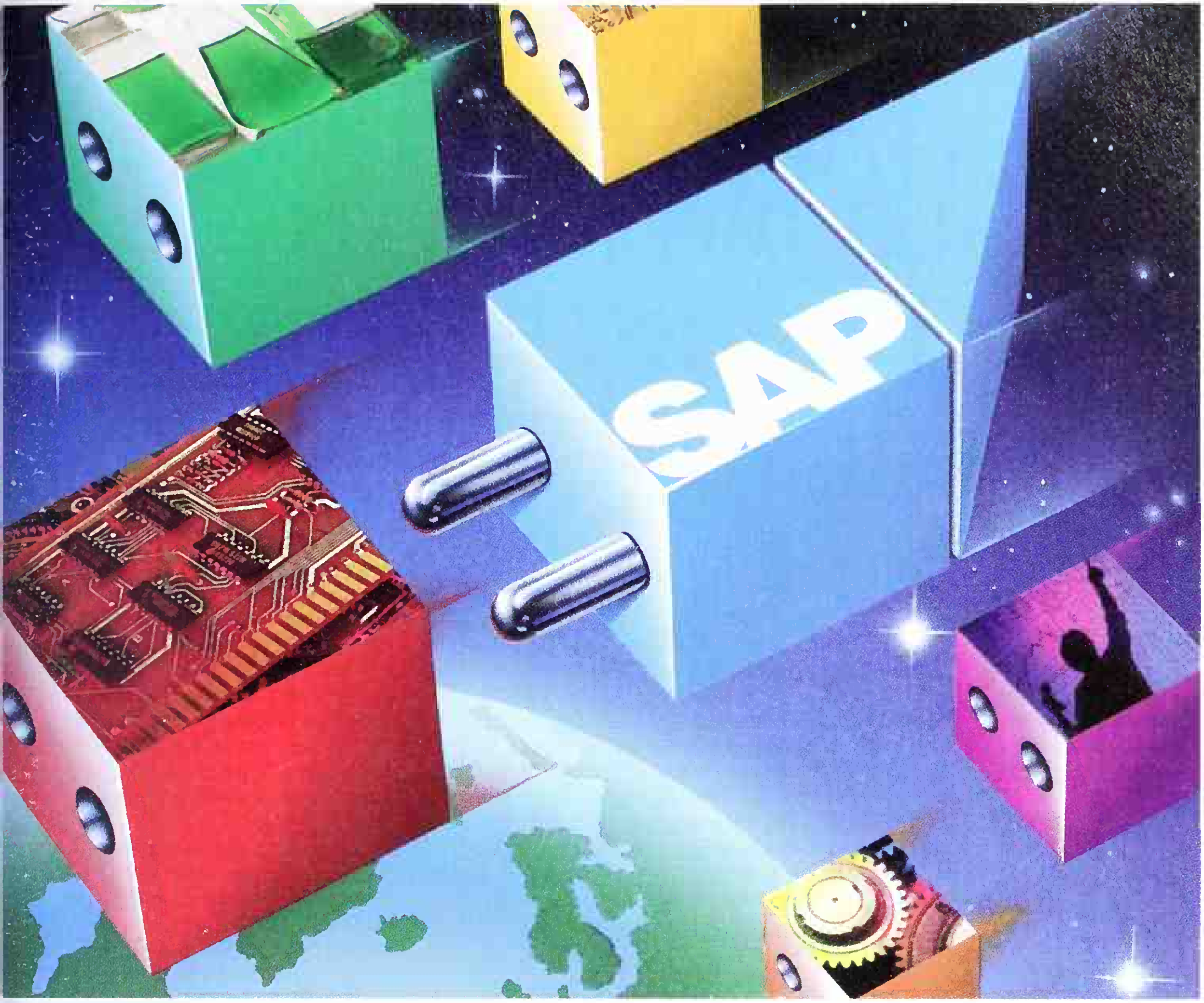
QUESTIONS? COMMENTS? techandu@mgh.com on Internet or fax (202) 383-2125

Your Express Lane On The Information Superhighway.

Turn right at R/3. Today. And SAP will help you accelerate the interconnectivity of your enterpri on a global basis. SAP is ranked number one worldwide in client/server applications. Powered the superior performance of R/3 — the first fully integrated client/server software. From sales manufacturing, finance to human resources, R/3 already helps manage and streamline k*

SOFTWARE THAT RUN

* Based on total worldwide client/server applications software and maintenance revenues as reported by International Data Corporation, April 1994. ©1994 SAP America, Inc.



usiness operations for over 1800 major corporations around the world. In fact, 9 of the top 10 ortune 500 companies count on SAP to put more people in the driver's seat with greater access to he information they need, enterprise-wide. So to find out just how our integrated client/server olutions can help you speed past your competition, call SAP ASAP at ***1-800-USA-1SAP, ext. 500.***

REAT ENTERPRISES.™

BY PAUL CRAIG ROBERTS

NEEDED: A FEW WELL-PLACED IMPEACHMENTS

VOTERS ARE angry because Clinton Cabinet officers are usurping legislative power. Congress should go after some of them

The electorate wants the government's presence in its lives reduced; hence delivery on Nov. 8 of both houses of Congress to Republican control. This is not an economic issue that can be addressed piecemeal by hacking away at agricultural subsidies, as suggested by Republican strategist Bill Kristol, or in a bold stroke by passing a balanced budget amendment, as Senator Phil Gramm favors. When Americans say government is out of control, they're not thinking primarily about the budget.

Government is felt to be out of control because so much law is now made by activist executive branch officials and judges who are unaccountable to the people. If the GOP intends to address the electorate's real concerns and build a lasting majority constituency, it must reassert the people's right to rule themselves through their elected representatives. The weapon that the Republican Congress can wield to restore accountability is the threat of impeachment.

William Blackstone, England's great common law scholar, wrote in his *Commentaries on the Laws of England* (1769) that when "executive power distorts the established law," the legislature must impeach and punish the conduct of the government's "evil and pernicious counselors." Last week, angry Americans overthrew the Democratic Congress because it never stood up for the right of the people to live under accountable law.

ENTRENCHED THEFT. The reason the Democratic Congress never held executive branch officials or the judiciary accountable for usurping its power was because the party favored the results but did not want the responsibility for legislating them. Consequently, the theft of legislative power is now entrenched and is transforming Americans from citizens who control law through their representatives to subjects who bear the brunt of decrees handed down from on high.

This is why the electorate is angry. Many Americans have suffered regulatory confiscation of their property, and some are being prosecuted and imprisoned, on the basis of wetlands regulations that have no statutory basis. These regulations have been created by bureaucrats out of thin air. This has been publicly acknowledged by President Clinton and Senators Max D. Baucus and John R. Chafee, and by the bureaucrats themselves.

Clinton and the senators called for legislation that would codify the extensive regu- tions, thus legalizing the Environmental P tection Agency's and U.S. Army Corps of E gineers' illegal actions against law-abidi citizens. A former wetlands regulator, R ert J. Pierce, told Congress on Nov. 12, 19 that "for regulatory purposes, a wetland whatever we decide it is." This is lawlessne writ large, and demands impeachment of t responsible officials.

Another candidate for impeachment Housing & Urban Development Secreta Henry G. Cisneros, who has created and fu ed a new federal spending program that C gress neither authorized nor appropriate HUD's new Office of AIDS Housing, which w administer 5,000 units pulled off existing wa ing lists, is the creature of the regulators. is an assertion of a prerogative that strikes the heart of accountable government and t power of Congress.

FED UP. Articles of impeachment could justiably be drawn up for Attorney General Ja Reno and Assistant Attorney General Deval Patrick. As I showed in this space on Oct. the Justice Dept. is forcing banks into qu lending by threatening them with "civil right lawsuits when no law is being violated. Cornell law professor Jonathan R. Mac wrote: "The government's willingness to p ceed with litigation in the absence of evide of discrimination is scandalous in a nation th purports to be governed by the rule of law.

Scandals require remedies—not a Congr that stands idly by while regulators crea law out of coerced consent decrees. The Cli ton Administration is following in the fo steps of King Charles I, who, when he cou not get enough money out of Parliament, vi lated a principle dating from the reign of E ward III that "loans against the will of a su ject are against reason and the liberty of t land" and began coercing loans from landow ers. The sovereign's behavior set in moti events that ended in the so-called Glorio Revolution, which established that law flo from the people through Parliament and n from the crown's ministers.

Republicans need to understand that t question before the country is one of the a countability of law. Americans are fed up wi the arrogance of bureaucratic tyranny. Cro well gave the English Charles's head. If t Republicans don't deliver some heads, t revolution against Washington will grow.

Paul Craig Roberts is John M. Olin Fellow of the Institute for Political Economy and Distinguished Fellow of the Cato Institute in Washington, D.C.

THE 1995 LAND·SHARK™ SEDAN™

When it comes to Value...It Bites.™

Standard Equipment

ALL FEATURES STANDARD **(EXCLUDES TRANSMISSION, BRAKES, REAR DOORS, FRONT SEATS, GAS CAP AND ENGINE,)** AVAILABLE ONLY ON OPTION PACKAGES A, C, D, DD, AND ZZZ. WINDSHIELD, ANIMAL SAFETY SEAT, FULLY INDEPENDENT AND/OR DEPENDENT FRONT & TRANSVERSE REAR LEAF SPRING SUSPENSIONS OPTIONAL ONLY ON PACKAGE D, WHICH IS NOT OPTIONAL.*

* All options available upon written request

GAS CHART THINGY

City MPG	Highway MPG
396	567

MILEAGE BASED ON ALL STANDARD EQUIPPED VEHICLES **TRAVELING DOWNHILL AT 89 DEGREE GRADE.** ACTUAL MILEAGE WILL VARY WITH OPTIONAL AND NON-OPTIONAL OPTIONS, DRIVING CONDITIONS, DRIVING HABITS, PERSONAL HYGIENE HABITS, AND VEHICLE CONDITION. GAS PUMP NOT INCLUDED.

Final Vehicle Price:

$8,985.25

MANUFACTURER'S SUGGESTED RETAIL PRICE. PRICE INCLUDES BASE VEHICLE WITH OPTION PACKAGE C, WHICH INCLUDES NO OPTIONS EXCEPT BRAKES, BUT DOES HAVE AN ASHTRAY. OPTION QQQ WITH NO BRAKES IS AVAILABLE, ALTHOUGH MANUFACTURER WOULD NOT SUGGEST IT. ADD BUMPER-TO-TRUNK WARRANTY, DEALER HAGGLING FEE, PLUS:

$$\frac{\text{MSRP} \times \sqrt{\text{MPG} - \text{PDQ}} + \text{July rebate (if July)} \times .789\%}{E = \text{MSRP}^3 - \text{warp factor } 8 + \text{*@\&\#!!} \times \pi + \text{☯}^2}$$

equals:

REALLY FINAL VEHICLE PRICE!!!

$27,586.00**

**Prices may vary

It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault.
It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault.
It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault.
It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault.
It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault. It's not our fault.

We think we've figured out why people hate shopping for a car.

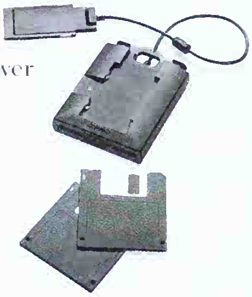
Oldsmobile Simplified Pricing

It's very simple, really. Shopping for a car has become too complicated. All those confusing option packages and rebates. Hours of haggling. Ugh. That's why we're making it simpler. By equipping every new Oldsmobile with the most popular options, standard. By taking out confusing rebates – but leaving in the savings. So our retailers can give you their best price right upfront. Without a lot of haggling. Funny, but people really seem to like our new way of doing business. Go figure. Demand Better.

Oldsmobile

GM® ©1994 GM Corp All rights reserved Buckle Up, America!

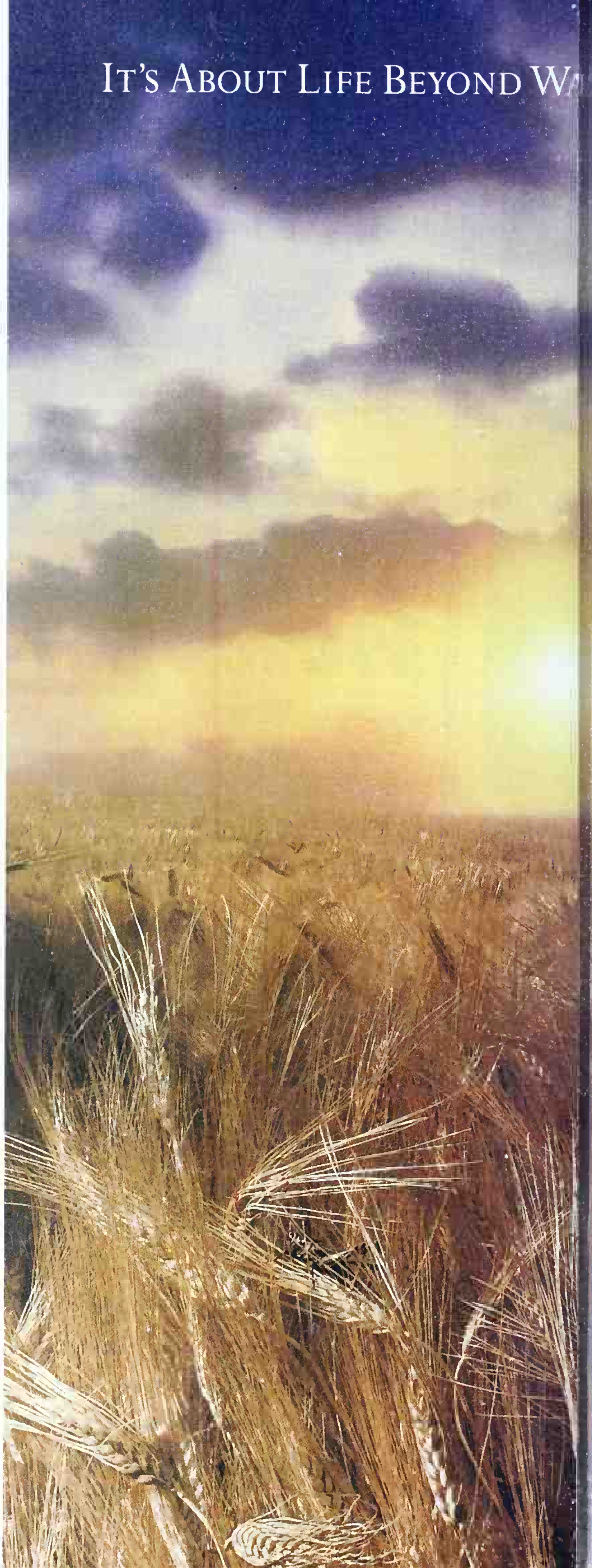
STARTING AT JUST $1199,* COMPAQ AERO presents a type of freedom you can't afford to live without. Imagine a 170MB hard drive and 486 processor – the power you get from a desktop – all packed into a sleek, 3.5-lb. package. You'll never be tempted to leave it behind. (The possibilities are quite staggering.) To enter this new world, visit your Compaq retailer or locate the nearest Compaq reseller by calling 1-800-345-1518. Or call Compaq DirectPlus at 1-800-888-8450. You'll find the price of freedom has never been so, well, reasonable.



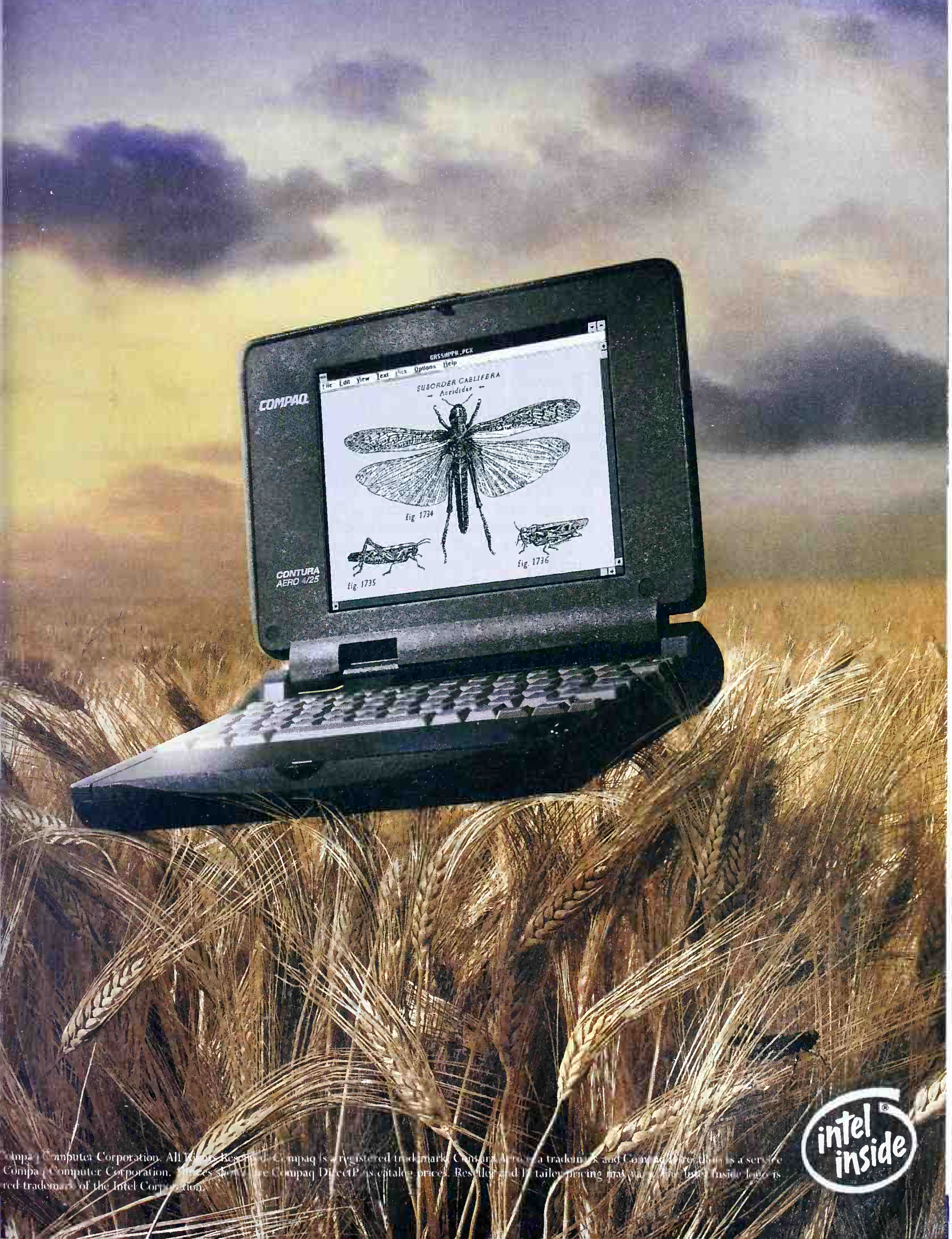
Some models now include an external floppy drive. (Giving you the freedom to carry it – or not.)

An optional [illegible] base, $99, lets you plug in peripherals. (When it's time to go – unplug the Aero instead of everything else.)

COMPAQ



ABOUT A NEW WAY OF DOING THINGS. IT'S ABOUT $1,200.


COMPAQ
CONTURA AERO 4/25
GRSSHPPR.PCX
File Edit View Text Pick Options Help
SUBORDER CAELIFERA
→ Acrididae ←
fig. 1734
fig. 1735
fig. 1736
intel inside

mpaq Computer Corporation. All Rights Reserved. Compaq is a registered trademark. Contura Aero is a trademark and Compaq DirectPlus is a service
Compaq Computer Corporation. Prices shown are Compaq DirectPlus catalog prices. Reseller and Retailer pricing may vary. The Intel Inside logo is
red trademark of the Intel Corporation.

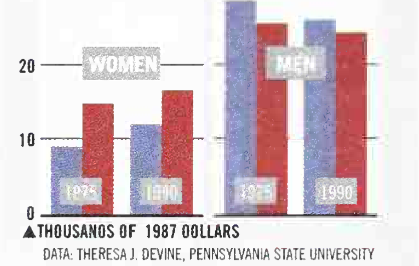
BY GENE KORETZ

BE YOUR OWN BOSS, EARN LESS?

Some U.S. workers like the lifestyle

Today, almost 10% of American workers are self-employed—reflecting a trend toward independence and entrepreneurship bolstered by increased labor market turbulence over the past decade. Some have struck out on their own simply to stay afloat after being laid off, others to gain flexibility and autonomy, and still others to pursue the American dream of upward mobility.

Just who are the self-employed? An analysis of 1990 data by economist Theresa J. Devine of Pennsylvania State University shows that the average age of the group, which is about one-third female, is around 44, compared with 37 for payroll workers. In the 45-to-64 age range, about 19% of male workers and 10% of women are self-employed.


THE SELF-EMPLOYED SCORECARD

MEDIAN ANNUAL EARNINGS OF FULL-TIME WORKERS

DATA: THERESA J. DEVINE, PENNSYLVANIA STATE UNIVERSITY

Like their payroll counterparts, full-time self-employed men suffered real earnings declines between 1975 and 1990. Although their median annual and weekly wages are about 7% higher than those of regular wage-earners, they enjoy fewer benefits such as health insurance. Self-employed women, on the other hand, made significant pay gains, though they still lag far behind men (chart).

The 1990-91 recession didn't help. Research by economist Katherine L. Bradbury of the Federal Reserve Bank of Boston indicates that self-employment surged in New England between 1988 and 1992, but the average real earnings of the self-employed declined 13.9%, four times as much as the pay of regular employees.

Although some self-employed workers will rejoin corporate ranks as job prospects improve, the continued stress on downsizing and the use of contingent and contract workers suggest that many will not. And the reasons won't necessarily be that they have found greener pastures going it alone.

A 1991 study of Vermont salaried workers laid off by General Electric Co. in the previous two years, for example, found that 38% had become self-employed. Most were earning less than before and had fewer fringe benefits. Yet about 90% of this group felt that their "current job was better than their GE job" and hoped to remain in it.

CHINA: ONE STEP BACKWARD

Growth curbs will hurt foreigners

The Chinese government's accelerating efforts to bring the turbocharged economy under control are clouding the prospects of multinationals active there, reports economist Joseph Quinlan of Dean Witter Reynolds Inc. Industrial output vaulted 23.4% in October over its year-earlier level, he notes, while September consumer prices rose at a 27.4% clip and the money supply hit a 37% annual growth rate.

Meanwhile, foreign companies are starting to feel the effects of government-imposed credit restrictions, price controls, and other steps. Quinlan notes that Beijing Jeep Corp., a joint venture of Chrysler Corp. and a state company, recently reported a sharp drop in vehicle sales. The government has hinted it may scale back plans to invest some $90 billion in new aircraft over the next decade. And despite some 50 power plant projects on the drawing boards, it has not approved a single joint-venture deal since 1992.

At the same time, foreign companies are bracing for higher taxes on everything from raw materials to finished-goods exports. "Until China's wild economy is tamed," says Quinlan, "foreign investors will have to defer their dreams of megaprojects and megaprofits."

EMPTY BUNKS IN CAMPUS DORMS

Hard times hurt public colleges

Financial problems buffeting America's colleges are thinning the ranks of potential students, reports the current issue of *American Demographics*. In the academic year ending in June, for example, California register 160,000 fewer students—some 7% of t tal enrollment. And many other state such as Colorado, Connecticut, Illinoi Indiana, Maryland, Minnesota, Missi sippi, New York, Ohio, Oklahoma, ar Wyoming, reported declines. Accordir to the American Council on Educatio only 48% of U. S. colleges and unive sities increased enrollments in the pa academic year, down from 68% in 199

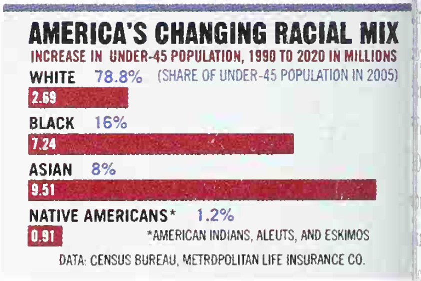
Many college officials blame the tren on financial woes. Cutbacks in aid f public institutions in many states ha led to enrollment caps, reductions course offerings, and big hikes in fee Tuition in California's public colleg and universities has doubled in the pa five years, for example. Such hikes ha especially hurt low-income students.

AMERICA'S NEW PROFILE

A shifting mix of races and ages

The political complexion of America not the only aspect of the natio that is changing. Census Bureau pr jections analyzed in the current issu of Metropolitan Life Insurance Co.'s *St tistical Bulletin* indicate that the U. population will add some 77 million pe ple between 1990 and 2020 and chang its age and racial profiles.

In 1990, for example, 84% of Amer cans were white. By 2020, the propor tion will be down to 78%, with abou 14% blacks and 7% Asians. Among thos under 45, one out of every four will b nonwhite. Including illegal immigrants those of Hispanic origin (of all races plus blacks and Asians will make up a least a third of the population.


AMERICA'S CHANGING RACIAL MIX

INCREASE IN UNDER-45 POPULATION, 1990 TO 2020 IN MILLIONS

*AMERICAN INDIANS, ALEUTS, AND ESKIMOS

DATA: CENSUS BUREAU, METROPOLITAN LIFE INSURANCE CO.

By 2020, one out of every six Amer icans will be 65 or over, and one out o three will be under 25, compared wit 12.6% and 36%, respectively, in 199 And California's population is expect ed to soar 67%, to 48 million, whil New York will drop to No. 4 in the pop ulation rankings behind fast-growin Texas and Florida.

CHARTS BY ERIC HOFFMANN/BW

Environmental Technology in Japan

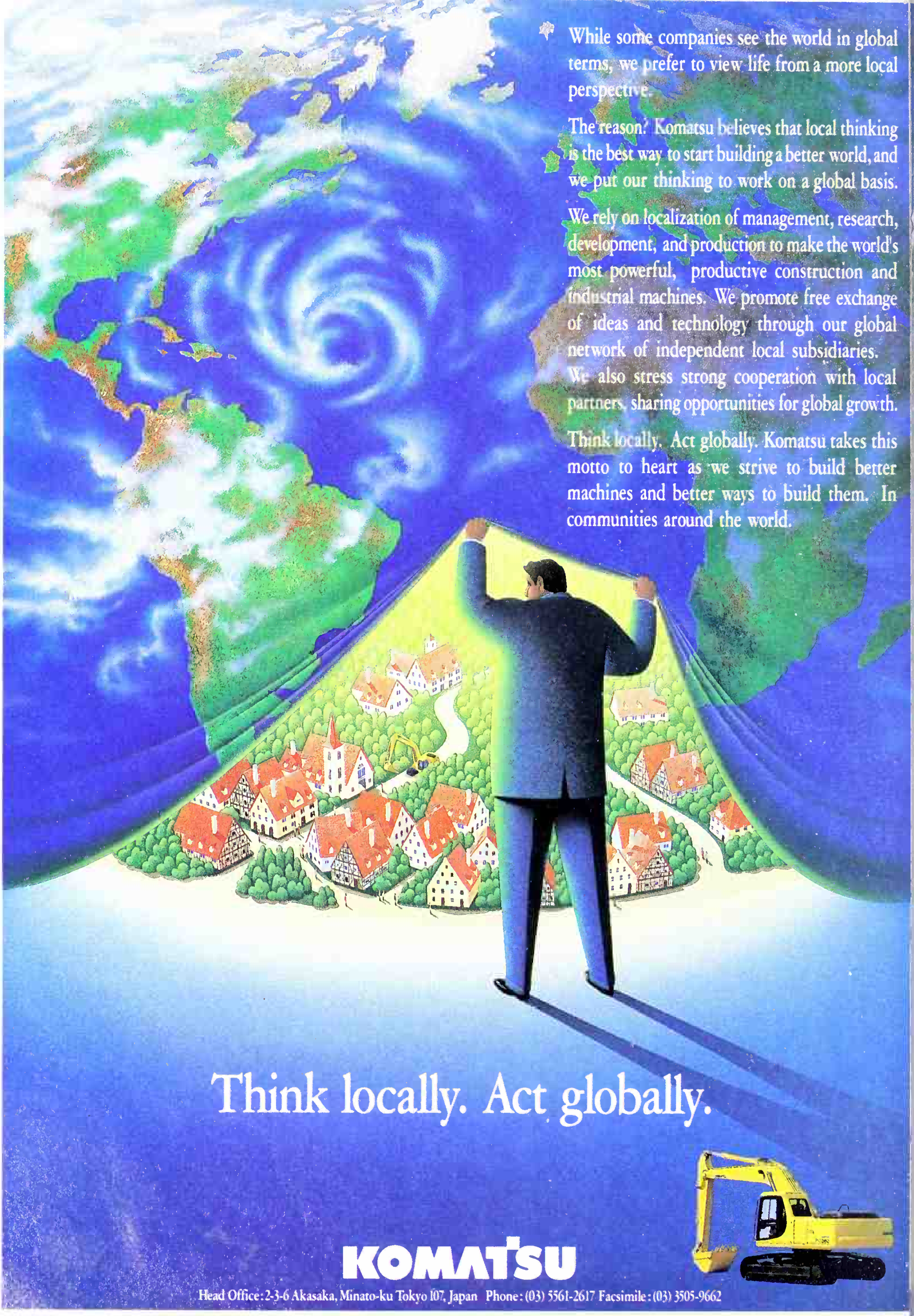
laking the world clean nd keeping it clean

Overall corporate research and development in Japan has become so interwined over the years with conern for ecology that it can ometimes be difficult to pinoint exactly how all this work ranslates into specific market pportunities related to the nvironment. Even the Japan ederation of Economic rganizations, the powerful usiness grouping often better nown as Keidanren, is unable o supply definitive data. What eidanren does make clear in e preamble of its Global nvironment Charter is that pan possesses some of the ost advanced technologies for onserving energy and limiting ll forms of industrial waste.

Japan's Environment Agency estimates that Japanese companies spend about $20 billion a year on all types of anti-pollution measures, which include constructing and operating pollution prevention facilities or by conducting various types of research. The Japan Association of Industrial Machinery sees the production of environmental equipment, from incineration plants to air-pollution and waste-water treatment devices, to be worth about $12 billion per year.

The vast majority of Japan's top corporations have set up departments charged with directing environmental activities ranging from research and development to company-wide conservation that are based on guidelines given in the 1991 Global Environment Charter. Calling on companies to increase their environmental activities worldwide, the Charter was a firm endorsement of corporate environmental activities already undertaken and highlighted Keidanren's awareness of the business potential behind environmental technologies.

Technologies and environmental practices now in existence were born out of a period when Japan was on the brink of environmental disaster. The country's post-war economic development had the country coughing up hazardous amounts of industrial waste into the air and water by the time the 1970s rolled around, forcing the government to impose strict regulations on the emission of industrial waste. When two oil crises further exacerbated the situation, the country also had to learn how to consume



While some companies see the world in global terms, we prefer to view life from a more local perspective.

The reason? Komatsu believes that local thinking is the best way to start building a better world, and we put our thinking to work on a global basis.

We rely on localization of management, research, development, and production to make the world's most powerful, productive construction and industrial machines. We promote free exchange of ideas and technology through our global network of independent local subsidiaries. We also stress strong cooperation with local partners, sharing opportunities for global growth.

Think locally. Act globally. Komatsu takes this motto to heart as we strive to build better machines and better ways to build them. In communities around the world.

Think locally. Act globally.

KOMATSU

Head Office: 2-3-6 Akasaka, Minato-ku Tokyo 107, Japan Phone: (03) 5561-2617 Facsimile: (03) 3505-9662

nergy more efficiently.

Now Japan has the lowest caron dioxide emissions than any ther developed nation, amountıg to less than 5% of the world's verage. While the auto industry producing lighter vehicles ith lean-burn engines, the ountry's builders of factories e coming up with better ways remove poisonous emissions om smoke stack emissions.

The consumer electronics ndustry has phased out the use f ozone depleting chloroflouroarbons (CFCs) and other hazdous solvents in efforts begun ven before the government ecided to outlaw the subances by 1995, which was five ears ahead of the international eadline of the year 2000.

responsible approach o environmental roblems: Ricoh

As areas for landfill grow scarce, recycling has ecome the order of the day. verything from office paper and ackaging material to individual achinery components is being eused in one way or another.

Leading the way in the movement to recycle as much as possile and to conserve precious esources is Ricoh Co., Ltd. ractically every component the ompany uses in its products om cameras to copy machines is recyclable and labeled to notify the disassemblers of the composition.

Last year, Ricoh won the prestigious Queen's Award for Environmental Achievement in the United Kingdom for developing a process for removing CFC solvents from the cleaning of used copier drums to recycle selenium and aluminum. Ricoh is proud of its achievement of receiving the award in its inaugural year because it provided official recognition of the company's commitment to proactive environmental activities.

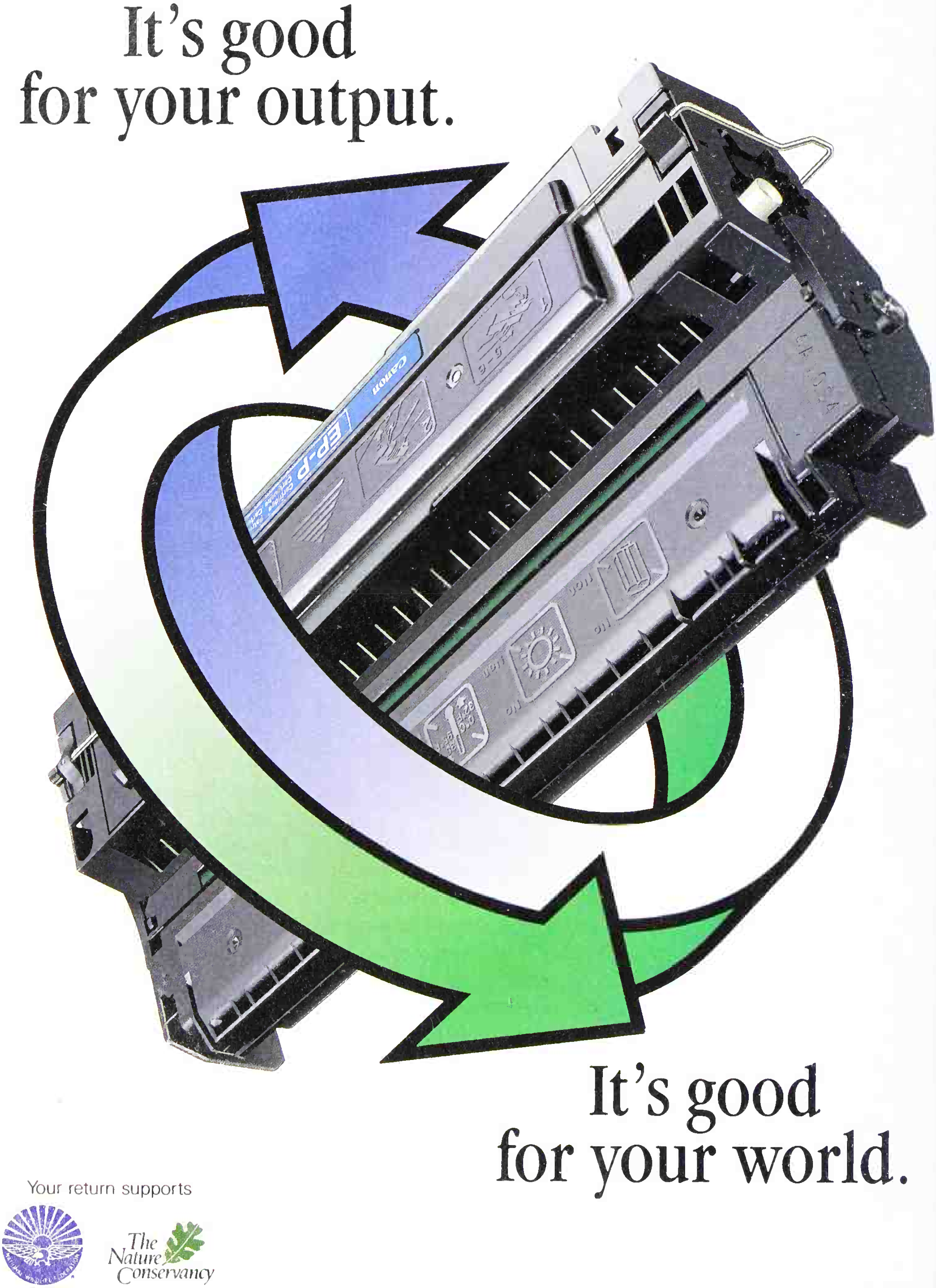
A prototype of Ricoh's Proprietary Paper Recycling System.

In the United States, Ricoh Electronics, Inc. received the Water Winner Award for best water conservation in the industrial category in Irvine, California. The company's water recycling system captures, filters, and reuses approximately 2,000 gallons of deionized water per day that was previously discarded. Over the course of a year, the company saves about 450,000 gallons of water with this system.

Ricoh places great emphasis on recycling, but by the nature of its business as a leading copy machine manufacturer it is responsible for a great consumption of paper, a contradiction Mitsuru Ohminato, general manager of Ricoh's environment administrative office, fully acknowledges. That's one of the reasons why Ricoh is developing a machine that can remove the toner from photocopied documents, sort of a reverse copier. Ohminato believes there will be good demand for the product, but stresses that the environment is a top priority at the company. "When it comes to environmental issues, profits are not everything," he explained. "Even if our efforts in environmental technologies do not make profits, it is our company's responsibility to continue those efforts."

Komatsu: Crush and Recycle

Komatsu, the leading con struction and earth-moving equipment maker, has also seen a business opportunity in the recycling game with what Kosuke Toyama, general


It's good
for your output.
Canon
EP-P
It's good
for your world.
Your return supports
The Nature Conservancy

The Canon cartridge. In laser beam printers, personal copiers and plain paper fax machines, it's the heart of the desktop publishing revolution that's transformed homes and offices around the globe.

The key components of the Canon cartridge's imaging mechanism — the ones exposed to the greatest wear — are combined with the toner in an all-in-one unit so simple to replace that anyone can do it. Replacing the cartridge not only ensures the highest output quality. It makes your equipment good as new, and that means virtually maintenance free. It's clean as well as simple, too; so there's no need to dirty your hands.

Please recycle your Canon cartridge.

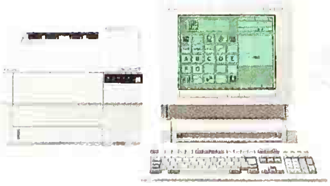
For output quality and operating convenience, no other system comes close. And here's the point we'd like to emphasize — when the cartridge is properly recycled, no system is more environmentally friendly.

When returned to Canon, cartridges are carefully disassembled. Reusable parts are painstakingly screened and cleaned. Over 95 % by weight of collected cartridges' parts and materials are used in making new cartridges or other products. The result: It's good for you. It's also good for the earth. Recycle your Canon cartridge. Please.

As part of our Clean Earth Campaign in the United States, for each cartridge returned, Canon contributes one dollar that's divided equally between the National Wildlife Federation and The Nature Conservancy. Shipping costs for the used cartridge are paid by Canon, so there's no charge to our customers. Easy shipping instructions can be found in the cartridge box.

Laser Beam Printer LBP-430

Personal copier PC320



Electronic Filing System Canofile 510

Fax Laser Class 5000

Canon

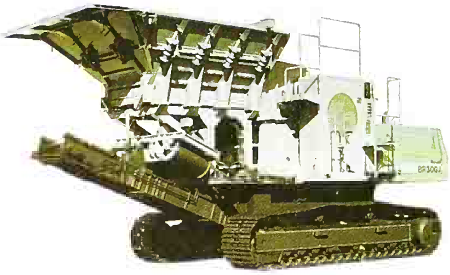
manager of Komatsu's corporate technology department, called the company's "hit product."

Disposing of construction debris, which is classified as industrialized waste in Japan, is a major headache for contractors. Dumping sites are in short supply, and trucking the debris away causes traffic problems. Komatsu's solution is to crush and recycle.

Back in 1992, Komatsu introduced its first mobile crusher, which can pulverize debris on site to be recycled as fill or raw material for making cement. Komatsu has sold more than 200 units, called the Galapagos, in Asia, the United States, and Europe since their introduction. Toyama said the company expects to sell more in the future, attributing some of the demand to the global environmental awareness generated out of the Rio Summit.

Like those in the automotive industry, Komatsu is also working on cleaner ways to burn fuel. While it has developed a diesel type engine that runs on methanol, there will be little demand for such engines until there is a massive change in infrastructure. However, Toyama sees the government's plan to introduce 2,000 alternative fuel stations by the year 2000 as a good start. Under the plan, 100 of the stations would service vehicles that run on methanol.

Komatsu is also conducting a number of environmental activities outside its core business. It has begun work with Indonesian forestry officials in developing a method for synthetically mass producing tropical tree seedlings. "First we struggled with reforestation of the desert in the Middle East 20 years ago. We developed a machine which could make farmland out of the desert, but it was not very successful," said Toyama. But he said the company is pressing ahead with its greening efforts with the project in Indonesia as part of its corporate policy to participate in the development of technology which will help to preserve the earth's environment.



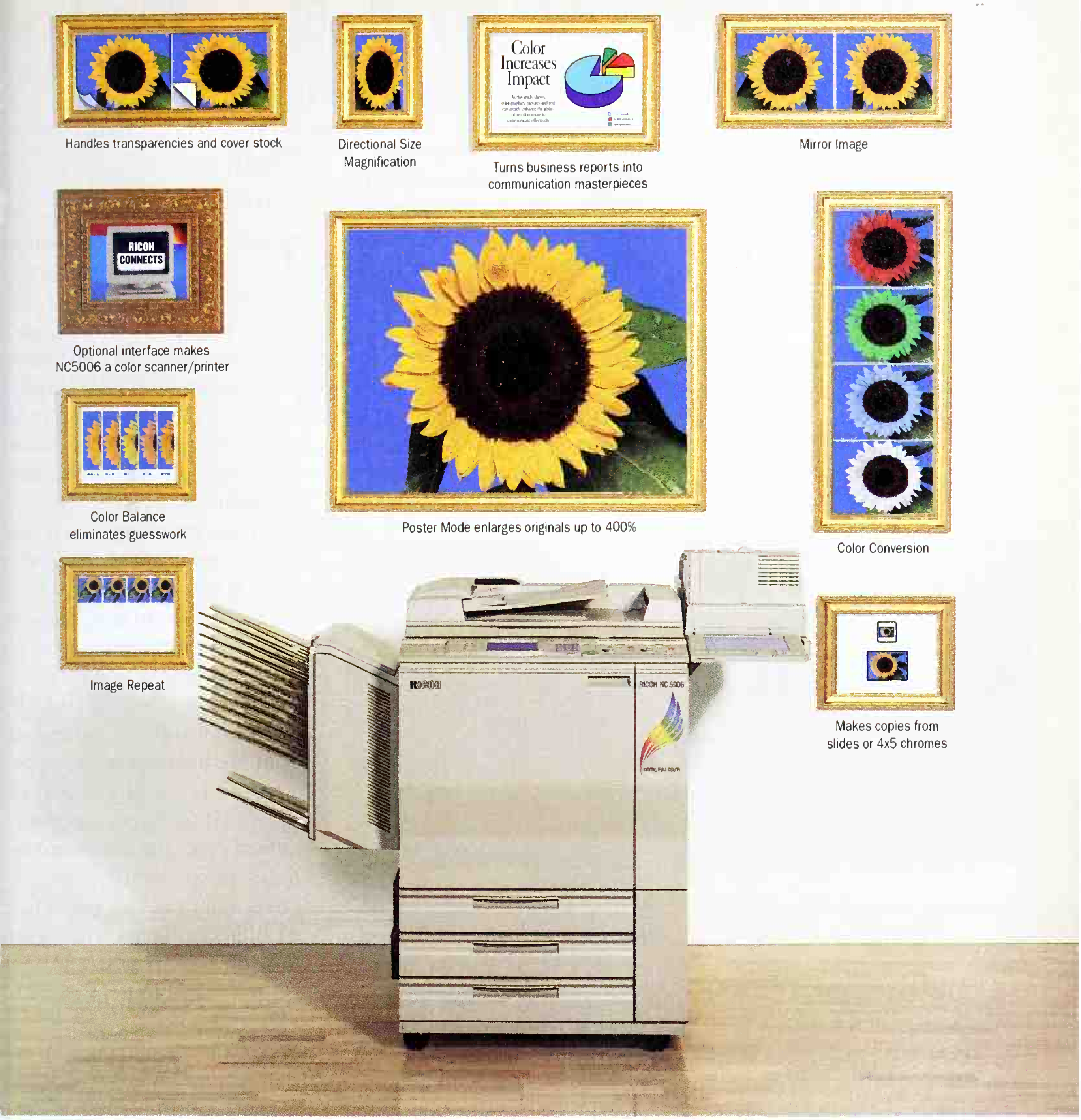
Komatsu's mobile crusher pulverizes debris on site.

Canon: A unique corporate policy

Quality, cost, and delivery, what Canon Inc. simply calls "QCD," are the three principles that any manufacturer stands by, acknowledges Hideaki Yamamoto, senior general manager of Canon's Environmental Assurance Management Administration Division. "However, as manufacturers pursue these three goals, we have not paid sufficient attention to the environmental impact, so we decided to take measures to improve the situation," said Yamamoto.

The people at Canon don't mince words when talking about their environmental responsibilities. The relationship between people, machines, nature, and the environment is a very important part of Canon's overall corporate philosophy it calls "Kyosei." You could think of Kyosei as "coexistence or symbiosis" in English, but it really implies living and working together for the common good.

Kyosei, formally adopted in 1988 after many years of playing a major role in Canon's way of doing business, involves active efforts to change the social and natural environments for the better. Many companies operate with "QCD" as their *modus operandi*, but Canon has added an "E" to include the environment in accordance with Kyosei. This means failure to achieve environmental objectives by any department, no matter how good their "QCD" performance, is taken very seriously at Canon.


Handles transparencies and cover stock
Directional Size Magnification
Color Increases Impact
Turns business reports into communication masterpieces
Mirror Image
RICOH CONNECTS
Optional interface makes NC5006 a color scanner/printer
Color Balance eliminates guesswork
Poster Mode enlarges originals up to 400%
Color Conversion
Image Repeat
RICOH
RICOH NC 5006
Makes copies from slides or 4x5 chromes

PERFORMANCE ARTIST

Ricoh transforms color copying into an art form.

Introducing the world's most efficiently designed digital color copier – the RICOH NC5006. Its palette of capabilities will astound you. Like the world's fastest first copy – 15 seconds. The world's smallest toner particles – for the highest quality color copies. And the world's first Display Editor – for unmatched editing creativity. The NC5006 is truly a masterpiece of technology.

For a private showing, call 1-800-63-RICOH and we'll send you a free video.

RICOH NC5006

Free Video

THE NAME TO KNOW

RICOH®

1-800-63-RICOH

Official Copier and Fax

USA Volleyball Team

© 1994 Ricoh Corporation

Like many Japanese companies, Canon no longer uses trichloroethane or CFCs and its factories worldwide meet strict environmental standards. But Canon considers these important steps as passive and is now emphasizing new businesses and activities to promote a clean environment.

In the United States, for example, a Canon joint-venture is hard at work developing solar cell panels. High manufacturing costs and inadequate energy conversion efficiency continue to be an obstacle to full commercialization of the panels, but Canon is making progress in both cost and efficiency. "Our top management regards this solar energy business as one of the major pillars for our future business," said Yamamoto.

Canon's clean energy laboratory in Kyoto, Japan.

Canon is also putting heavy emphasis on recycling. As the number of Canon printers and copiers grow worldwide, so have the number of spent cartridges. To address the problem, Canon set up networks in a number of countries to collect cartridges, all of which make their way to Canon Dalian in China. Workers at the plant use technologies developed to reuse or recycle over 95% of each collected cartridge in terms of weight. Since Canon started recycling in 1990 they have recycled some 7.7 million cartridges as of this September.

All this is on top of stringent environmental assessments on all Canon products conducted at every step of development. Canon's "eco-tech" approach towards its product line has resulted in laser printers and copiers with low ozone emissions and energy consumption, and bubble jet printers that use non-polluting ink and reduce noise.

"In order to survive and enjoy stable and continuous prosperity as a company, environmental protection is an essential area for us," said Yamamoto.

Profit powers innovation

Japan has faced some criticis from environmentalists for only seeking profit out of the world's environmental problems. Businessmen don't deny they are trying to make financi gains, but they argue that profit is the engine that generates ne ideas and new ways of tackling environmental problems.

While companies are trying to keep costs down, the government is doing its part by offering foreign aid to ease the cost burden in purchasing environmentally friendly equipment. In fiscal 1993, for example, the International Trade and Industry Ministry began plans to spend 1 billion yen over the next five years to disseminate environmental protection measures to developing countries. The government is also providing $1 billion in loans and credits in a joint effort with the United States to help clean up Eastern Europe.

In short, cleaning up the environment and keeping it clean has not only put Japan on the cutting edge of environmental technology that can offer industries solid business opportunities, it has meant vast improvements in the quality of the air and water in Japan and potentially for the rest of the world.

Bruce Fienberg is a Tokyo-based journalist.

MCGRAW PRIZE WINNERS

988: ***The Honorable***
errel H. Bell, former U.S.
ecretary of Education;
elen "Jinx" Crouch,
esident, Literacy
olunteers of America;
nator Claiborne Pell of
hode Island

989: ***Dr. Kenneth B.***
lark, Distinguished
ofessor of Psychology
meritus, City University of
ew York; ***The Honorable***
ichard W. Riley,
rmer Governor of South
arolina; ***Dr. Kathleen A.***
oss, snjm, President,
eritage College

990: ***James P. Comer,***
.D., Maurice Falk
ofessor of Child
sychiatry, Yale University
hild Study Center; ***Clark***
err, President Emeritus,
niversity of California; ***Dr.***
ichard C. Wallace, Jr.,
uperintendent, Pittsburgh
ublic Schools

991: ***Dr. Judith Taack***
anier, Dean, Michigan
ate University School of
ducation, and President,
ichigan Partnership for
ew Education; ***Dr. Robert***
. McCabe, President,
iami-Dade Community
ollege District; ***Dr.***
heodore R. Sizer,
ofessor of Education,
rown University and
hairman, Coalition of
ssential Schools

992: ***Dr. Shirley A. Hill***,
urators' Professor of
ducation and
athematics, University of
issouri-Kansas City; ***Dr.***
homas W. Payzant,
uperintendent, San Diego
ity Schools; ***Dr. Edward***
igler, Sterling Professor of
sychology, Yale University

993: ***Sister Mary Brian***
ostello, R.S.M., Chief of
taff, Archdiocese of
hicago; ***Sharon Darling***,
resident, National Center
or Family Literacy; ***The***
onorable Booth
ardner, former Governor
f Washington

Some People Say Our Kids Have No Chance of Competing in a Global Village.

MEET THREE PEOPLE WHO DISAGREE.

PATRICIA M. BOLAÑOS,
PRINCIPAL
KEY ELEMENTARY
AND KEY RENAISSANCE
MIDDLE SCHOOLS
INDIANAPOLIS, INDIANA

For collaborating with teachers and administrators to design a new public elementary school, and then a middle school, in an urban setting that enables all students to learn in their own unique ways; for applying selected educational theories so that teachers use the best practices for instruction; for using multiple methods of appraising student performance, including video presentations; for instituting a new interdisciplinary curriculum framework built around themes all people share in life, with projects and activities that build on the strengths and interests of every child.

HAROLD HOWE II,
FORMER U.S. COMMISSIONER
OF EDUCATION
CONCORD, MASSACHUSETTS

For enriching American education since 1940 as teacher, principal, superintendent, policymaker, Harvard University faculty member, Ford Foundation executive and respected author; for helping ensure that America provides equal opportunity both in and out of the classroom, especially as U.S. Commissioner of Education in the mid-1960s, when he implemented the Elementary and Secondary Education Act and played a major role in directing the desegregation of thousands of schools under the Civil Rights Act; and for sharing his wisdom through scholarship, writing and public service that will make a lasting impact on generations of American children.

ALICIA H. THOMAS,
PRINCIPAL
JACKSON-KELLER
ELEMENTARY SCHOOL
SAN ANTONIO, TEXAS

For creating an elementary school in a diverse San Antonio neighborhood where faculty, parents and administrators share responsibility for student success; for introducing a curriculum that helps students understand the interconnected nature of all they learn and how to relate their knowledge to everyday life; for emphasizing language, mathematics and arts instruction and finding additional opportunities to learn beyond traditional school boundaries; for providing health care service and afterschool child care; and for establishing new partnerships with parents and the School of Education at Trinity University in San Antonio.

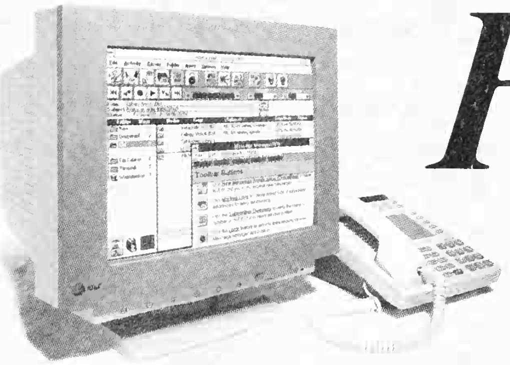
Announcing the Winners of the Harold W. McGraw, Jr. Prize in Education

The Harold W. McGraw, Jr. Prize in Education annually recognizes outstanding educators whose accomplishments are making a difference today, and whose programs and ideas can serve as effective models for the education of future generations of Americans.

Each year, a distinguished Board of Judges presents up to three $25,000 awards to individuals who have made significant contributions to the advancement of knowledge through education. For more information write:
Harold W. McGraw, Jr. Prize in Education, McGraw-Hill, Inc., 1221 Avenue of the Americas, Room 2917, New York, NY 10020.

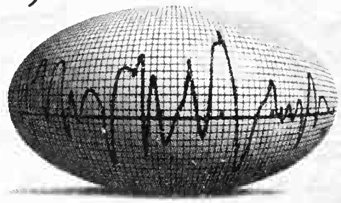
Harold W. McGraw, Jr.
Prize in Education.
Forging the Future.

McGraw Hill

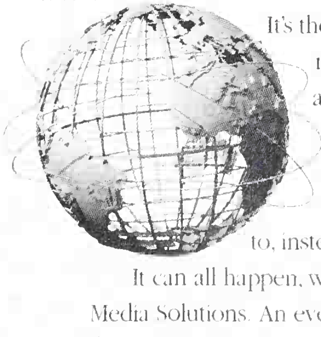


See and respond to multi-media messages from your desktop.

How do you *take* 30 orders, fax 30 receipts, and work *with 3 foreign offices* before you wake up?



Use voice response to let customers help themselves.



Do business anytime, anywhere with a global network.

It's the new office. But it's not what you think. It's an office without walls or desks. Without the rules of time or place. It lets you work the way you *want* to, instead of how you have to.

It can all happen, with AT&T's INTUITY™ Multi-Media Solutions. An ever-expanding communications framework that plugs you into all the latest technology as it happens.

INTUITY Solutions let you market to your customers in innovative ways. Free you from routine tasks. Open your office to the rest of the world. And to the future.

AT&T can do all these things for you today. And with the integration of fax, interactive voice, data and video, you'll be able to do things you never imagined.

Call AT&T Global Business Communications Systems at 1 800 325-7466, ext. 531. Find out how INTUITY AUDIX® Solutions and INTUITY CONVERSANT® Systems can help set you free.

AT&T. Where innovation leads.

AT&T

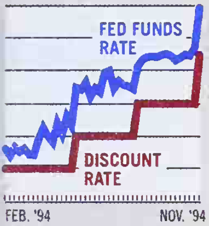
©1994 AT&T

JAMES C. COOPER & KATHLEEN MADIGAN

HE FED: A GOOD OFFENSE S THE BEST DEFENSE

U.S. ECONOMY They carried signs. They made speeches. But in the end, the otesters outside the Federal Reserve's stately marble adquarters on Nov. 15 couldn't sway policymakers from other interest rate hike. Not since 1980, when tractor-ving farmers blocked traffic in front of the building, has ch a populist outburst accompanied a Fed meeting.

Not only did the Fed raise rates, it boosted them more an expected. The central bank lifted the Federal funds te on overnight borrowings between banks by three-arters of a point, to 5.5%, while hoisting the largely mbolic discount rate on bank borrowings from the Fed a like amount, to 4.75% (chart). They were the largest kes since 1981. Wall Street generally had expected a aller, half-point move.



THE FED SLAMS ON THE BRAKES

PERCENT

ATA: FEDERAL RESERVE BANK OF NEW YORK

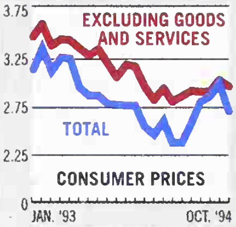
Reaction was swift—and not all positive. The National Association of Manufacturers issued a stern rebuke. In barely an hour, banks bumped their prime rates from 7.75% to 8.5%. The dollar rallied strongly as the U.S. fed funds rate rose above the equivalent German rate for the first time in four years. Stocks dipped, however, on fears that higher rates would cut profits.

And in a somewhat perverse reaction, the bond market, ich was hoping for an aggressive hike, failed to embrace e very move it wanted. A rally quickly fizzled, and on ov. 16, after the news of an exceptionally tame report on nsumer prices, the market actually sold off.

HY ARE the bond bears still growling? To begin with, e economy shows few signs of slowing, even after 10 onths of Fed tightening, and the market expects still ore rate hikes. In addition, the bond market may well be cusing on a new concern: the potential inflationary imcations of the midterm congressional elections.

The bond market is increasingly worried that Congress ll cut taxes while pushing offsetting spending cuts into e future. Fiscal stimulus at a time when the Fed is alady trying to slow the economy would complicate the ntral bank's task, possibly forcing the Fed to hike inest rates even more than it would otherwise have to. so, any unfunded tax cuts will refocus the bond market's ention on the budget deficit.

The Fed's move was not prompted by any outward signs of inflation. Producer prices actually fell 0.5% in October, and the nonfood, nonenergy core index also dipped by 0.5%. October consumer prices posted one of the best performances of the year. They rose only 0.1%, while the core index increased 0.2%. Consumer inflation is on track to end the year below 3% for the third year in a row (chart). That hasn't happened in three decades.



LITTLE EVIDENCE OF FASTER INFLATION

▲PERCENT CHANGE FROM A YEAR AGO

DATA: LABOR DEPT., BUSINESS WEEK

Instead, the Fed acted on fears that growth is too hot to prevent price pressures from reaching the boiling point later on. In its press release, the Fed stated: "These measures were taken against the background of evidence of persistent strength in economic activity and high and rising levels of resource utilization."

That evidence of persistent strength was clear in the October data on retail sales, industrial production, and capacity use, which were released even as the central bankers sat down to discuss policy. Those numbers, combined with the month's strong readings from the job markets, suggest that growth in the fourth quarter shows little, if any, loss of momentum from the third quarter's surprisingly sturdy pace.

The large rate hike, a break from Fed Chairman Alan Greenspan's gradualist approach of the past, suggests that the central bank is admitting to underestimating the economy's resilience, as well as the amount of rate pressure needed to cool growth down to the 2.5% pace the Fed believes to be consistent with stable inflation. By most measures, Fed policy has gone from accommodative earlier this year to neutral this summer to outright restrictive as of now.

MORE HIKES seem likely in coming months. The October data suggest that the Fed's 2.5 points worth of tightening since Feb. 4 so far have had little dampening effect on the economy, outside of muting the housing market.

For example, industrial production surged 0.7% in October, with strong gains in the output of materials, business equipment, and auto parts. Manufacturing output alone rose 0.9% last month. Factory output began this quarter at a 4.9% annual rate above its third-quarter level. That's the slowest growth rate in more than a year, but it is too fast for the Fed.

Operating rates shot up as well. Industries were using

ERIC HOFFMANN/BW

84.9% of capacity—the highest rate in almost 15 years. The manufacturing rate rose to 84.6%, from 84.1% (chart). Makers of primary metals, textiles, and petroleum products are operating at more than 90% of capacity.

Although the Fed cited capacity pressures as a reason to tighten, operating rates may look a bit less ominous after Nov. 30, when the Fed revises its production and capacity data. It is expected that the level of capacity will be lifted, resulting in lower capacity-utilization rates.

NONETHELESS, rising factory output early in the fourth quarter suggests that, even with the huge pileup in inventories in both the second and third quarters, demand this quarter is still strong enough to justify further output gains.

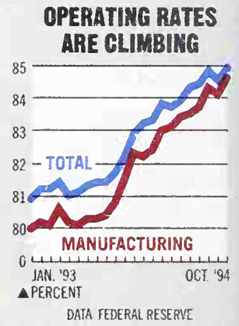
Inventory accumulation in the third quarter may be revised down, though, when the Commerce Dept. releases its second look at the third-quarter gross domestic product on Nov. 30. That's because business inventories in August and September grew by less than Commerce had projected.

In September, stock levels at manufacturers, wholesalers, and retailers rose 0.5%. Retail inventories rose 1.6%, and the ratio of inventories to sales has been trending higher since early 1993. Retailers may be bulking up their inventory in anticipation of another successful holiday shopping season.

Shop 'til you drop seems to be the mantra of consumers this quarter, although surveys also suggest that they will still be searching for bargains. Retail sales jumped 1.1% in October, and a solid 0.6% when cars are excluded.

After adjusting for prices, retail volume began the quarter 5.7% above its third-quarter average, at an annual rate. And a survey by Deloitte & Touche says that holiday shoppers plan to spend 11% more this year than last. Santa will stay a tightwad, though: A majority of consumers say they will shop at discount stores.

Given the past Fed hikes, demand for durable goods is holding up extremely well. Sales of automobiles, furniture, and building materials all rose by more than 1% in October. This is just another sign that final demand in the fourth quarter is growing at a pace that is unsustainable without igniting price pressures. And right now, strong growth is the Fed's enemy.


OPERATING RATES ARE CLIMBING

DATA: FEDERAL RESERVE

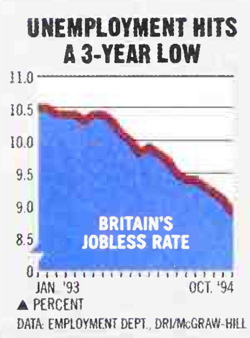
The policy shift into restrictive territory opens the way for greater criticism of the Fed's fight against inflation. But more central to the outlook, the Fed's new aggressiveness increases the chances that the Fed will step on the brakes too hard.

EUROPE

BRITAIN MAY HAVE TO TAP THE BRAKES AS WELL

Just when the British economy appeared to be cooling off from its steamy 4% pace in the first half, data now suggest there's no slowdown at all. Given that the monetary authorities lifted base interest rates on Sep. 12 out of concern that growth was too robust, another hike is probably on the way.

Preliminary real gross domestic product, excluding oil, grew at an annual rate of 2.8% in the third quarter, down from 4% in the second. Now, after a solid gain in September factory output and large upward revisions to earlier data, analysts expect last quarter's GDP to be revised up to about 4%. That pace would be more in line with the upbeat October survey by the Confederation of British Industry (CBI).


UNEMPLOYMENT HITS A 3-YEAR LOW

DATA: EMPLOYMENT DEPT., DRI/McGRAW-HILL

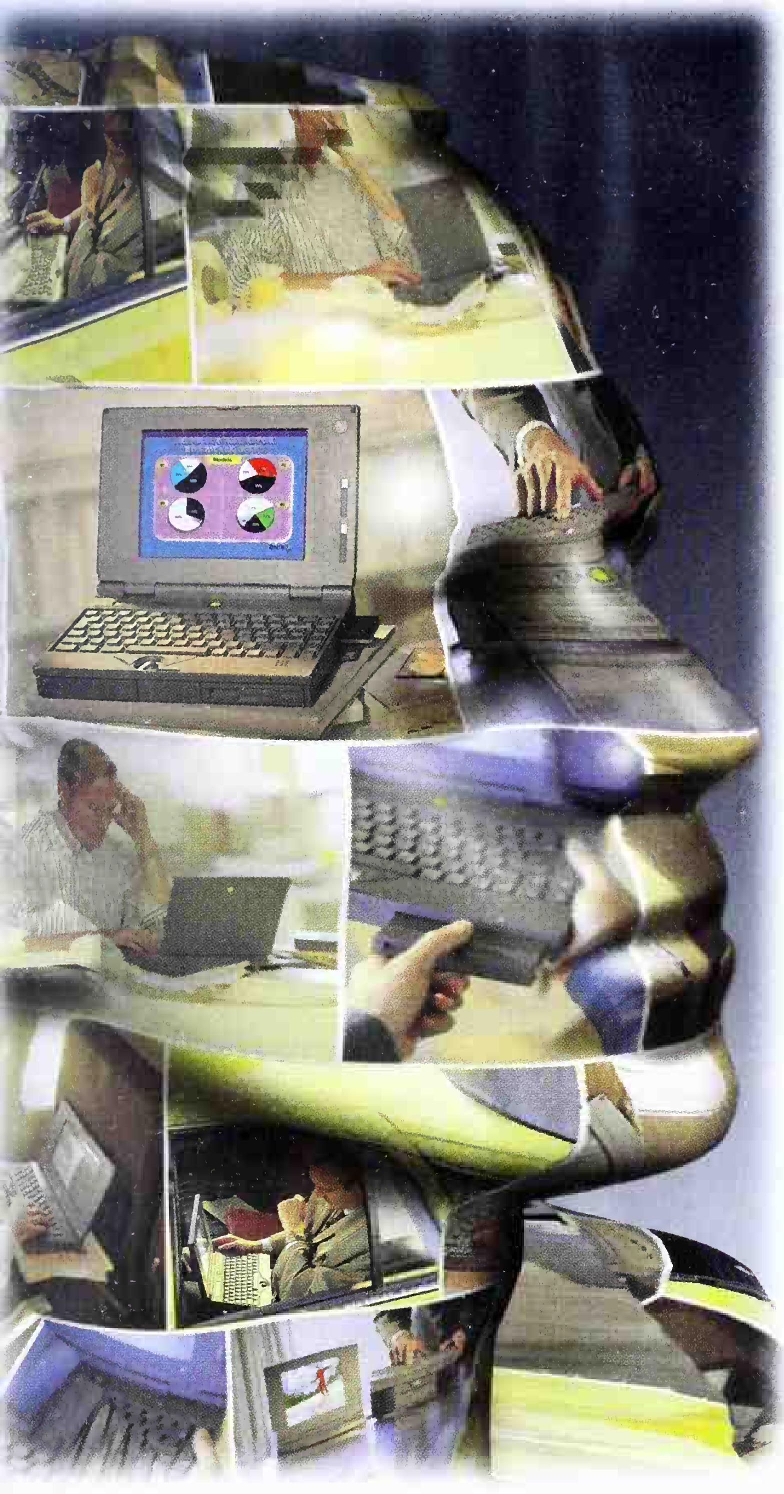
Exports and capital spending are fueling growth even as consumer spending is held back by higher taxes, heavy personal debt, and rising mortgage rates. Stronger world trade and greater competitiveness gained from sterling's depreciation have hiked exports 12% above a year ago. Reflecting strong demand plus rising profits and utilization rates, industry is investing heavily in new plant and equipment, especially computers, and the CBI survey points to buoyant intentions for the future.

The worry, of course, is inflation. Already, factory output prices have picked up, as have import prices. And the dip in the October jobless rate from 9.1% to a three-year low of 8.9% suggests that labor markets continue to tighten (chart). Nevertheless, considerable slack remains, and wage growth is expected to stay modest. There is also little evidence of retail inflation. The retail price index climbed 2.4% in October from a year ago, but underlying inflation, which excludes interest on mortgages, was only 2%.

Still, given the desire of the monetary authorities to preempt inflation, another rate hike seems likely, probably after the Chancellor's 1995-96 budget presentation scheduled for Nov. 29. However, the excellent inflation fundamentals might just delay the move until the new year.

ERIC HOFFMANN/BW

Z·NOTEFLEX. The One Computer For All Of You.



Decisions, decisions.

Finding a notebook computer is simple. Finding one to handle all the things you do, isn't.

Zenith Data Systems' Z-NOTEFLEX, however, delivers everything you need—high performance, long battery life, upgradability and modularity—in a notebook that won't be obsolete tomorrow.

For example, when you're away from the office, remove the floppy drive and insert a second battery pack and, wham, twice the computing time!

But that's ZDS for you. Who else would build a computer versatile enough to tackle every part of your job?

After all, Connected Computing—making computers and people work better together—is just what Zenith Data Systems is all about. Call now to learn why the Z-NOTEFLEX is the one computer for you, wherever you go, whatever you do.

Z-NOTEFLEX™

Up to IntelDX4™ 100MHz processor

Up to 520 MB hard drive

16-bit business audio

Active-matrix, color LCD

Two Type-II PCMCIA slots*

FLEXSITE

LCD video display stand

FLEXBAY

Battery charging bay

Floppy drive bay

FLEXDOCK

Enhanced port replicator

Two Type-III PCMCIA slots*

FLEXSHOW

MPC2-compliant

Double-speed CD-ROM drive

Amplified stereo speakers

Two Type-III PCMCIA slots*

intel inside

1-800-289-1279, Ext. 5160

ZENITH
DATA SYSTEMS

Make The Connection™

pyright © 1994 Zenith Data Systems Corporation. Zenith Data Systems Corporation is a Bull company. *Z-NOTEFLEX supports two Type-I, two Type-II or one Type-III MCIA card and FLEXDOCK and FLEXSHOW support two Type-I, Type-II or Type-III PCMCIA card. Z-NOTEFLEX, ZDS and "Make The Connection" are trademarks of nith Data Systems Corporation. IntelDX4 is a trademark and the Intel Inside logo is a registered trademark of Intel Corporation. Specifications are subject to change

TEARING CLINT

Big government is out, says the GOP. But it will have to overcome infighting

ELECTION '94

The backslapping and celebrating are over. Their electoral blowout on Nov. 8 is history. Now, the Republicans are awakening to a sobering fact: They have to govern. With six weeks to go before assuming command of Congress, the party already is engaged in a battle over the shape of post-Reagan Republican economics—and long-standing intraparty fissures are starting to break open.

During the campaign, the GOP agenda was held together by a passion to reverse the big-government philosophy and upper-income tax hikes of the Clinton Administration. But in the afterglow of victory, Republicans have discovered that their economics are built on a rickety framework of often conflicting ideas. The party is roughly divided into three somewhat overlapping camps—savings mavens, tax-cutters, and government-slashers. A fourth group of less ideological moderates may tilt the balance.

The Republicans start out with much in common: They want to cut taxes on capital gains, reduce the burden on middle-class families, and shrink government. But on goals such as real deficit reduction, sharp differences emerge. "The Republicans have had a massive victory," says former senior Senate GOP aide Stephen E. Bell, "but that covers up a serious split in the party."

One key division separates the two new GOP leaders. Georgia's Newt Gingrich, the House Speaker-to-be, says the agenda is clear: Just read the Contract With America—a fiercely conservative document that promises to cut taxes by $200 billion, beef up defense, and balance the budget. But in the Senate, presumptive Majority Leader Bob Dole (R-Kan.) pointedly refused to promise quick passage of the Contract. Senator Phil Gramm (R-Tex.), who's challenging Dole for the GOP Presidential nomination, embraced the idea of cutting taxes on capital gains. But when asked about plans by some colleagues to replace the entire income-tax system, Gramm blandly replied: "That's not on my agenda."

FIRST BASE. Nevertheless, a tax-code overhaul tops the wish list of many savings mavens, fiscal hawks personified by incoming Senate Budget Committee Chairman Pete V. Domenici (R-N. M.). They have targeted one goal—increasing an anemic national savings rate. They would first slash the deficit by any means necessary, including cutting entitlements such as Medicare and Medicaid. Domenici then would replace the income tax with a consumption tax, while new

THE GOP'S ECONOMIC AGENDA

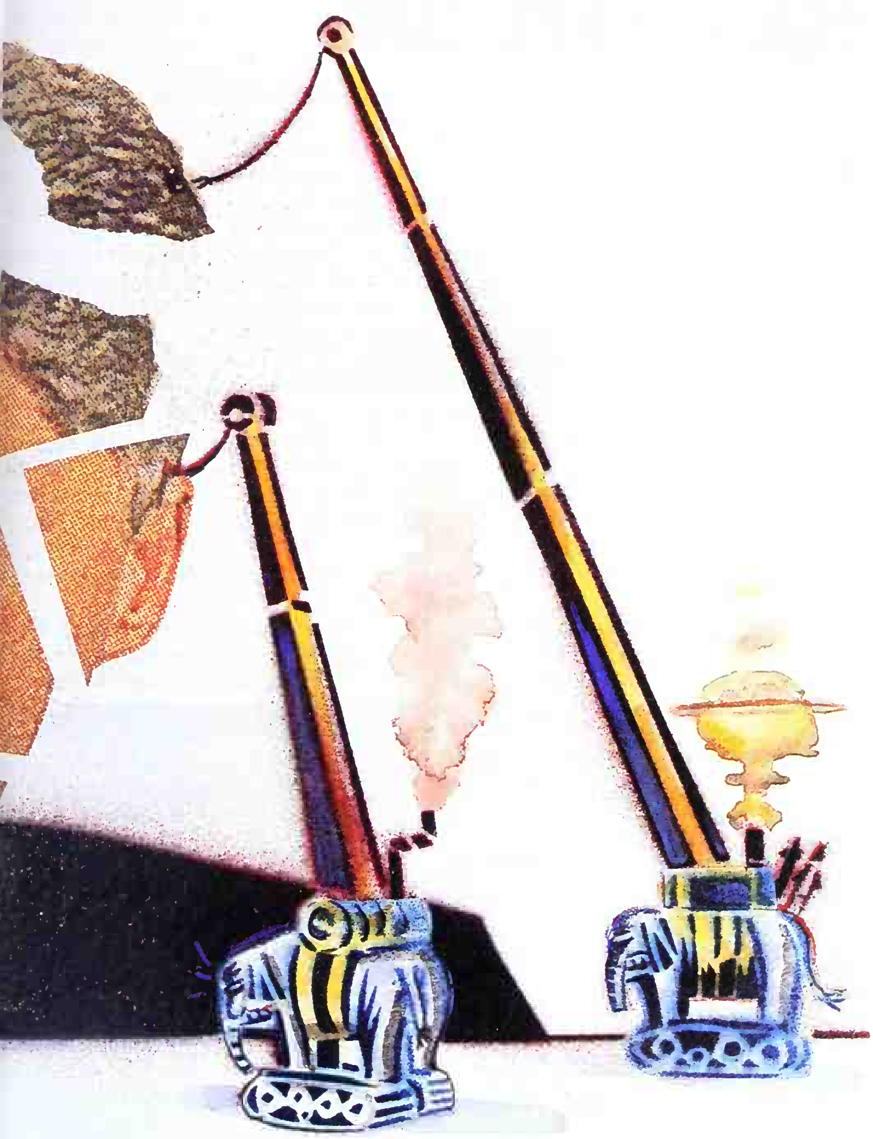
CAPITAL-GAINS TAX CUT

Republicans hope to reduce the levy by 50% and index future gains to inflation. To do so, legislators must revise budget rules that score the change as a revenue loser—or find the money to pay for it.

BALANCED-BUDGET AMENDMENT

Gingrich & Co. want end the deficit by 20 and give the Preside line-item veto. Their problem: The change would require slashi politically sensitive entitlement spendin

OMICS APART



TAX
AKS

consideration: a
per-child tax credit,
lit for elderly
dent care, phasing
e marriage tax
ty, and expanding
eductions for
ment savings. All
gh-cost items.

INCOME TAX REFORM

Republican factions likely will propose versions of a flat-rate income tax, a consumed income tax, or a consumption tax. The issue could easily divide GOP troops, delaying other legislation.

SOCIAL SECURITY EASING

The GOP would repeal last year's tax hike on wealthy Social Security recipients and increase the amount beneficiaries can earn without having benefits reduced. How to do it without inflating the deficit?

House Majority Leader Richard K. Armey of Texas favors a flat tax.

Congress won't enact such huge changes within the next year or two. They are too complex and controversial, requiring years of campaigning. In the meantime, Domenici and his allies will support some modest tax cuts on capital investment—if they don't increase the deficit. The savers are especially powerful in the Senate, which could limit some of the House's most ambitious plans. Already, Senate Republicans are resisting an effort by their House brethren to name former Office of Management & Budget Director James C. Miller to head the Congressional Budget Office. Says White House Chief of Staff Leon E. Panetta: "The Republicans can probably get to first base in the House, but they'll have a hard time getting to second, third, and home in the Senate. That's where things bog down."

For their part, the tax-cutters are far more interested in quickly reducing the tax burden on the economy than in balancing the budget. New House Ways & Means Committee Chairman Bill Archer of Texas will lead the antitax charge. He would prefer to cut rates but knows it's politically tough. Instead, he and his colleagues are compiling a laundry list of other breaks, including a $500-per-child tax credit and cuts in taxes for capital gains, small-business capital investment, retirees, and estates. Republicans themselves figured the package would cost about $200 billion, but Archer insists the breaks "are not going to cost that much."

SKEPTICS. But tax-cut details are still up in the air. GOP lawmakers are split on how to reduce burdens on families, for example. And there will be a debate over how to cut capital-gains taxes and how to calculate the resulting change in revenues. The Contract calls for $56 billion in cuts by lowering the top rate from 28% to 14% and by indexing gains to inflation. Other GOP lawmakers, fearing this plan is too expensive and complicated, are looking for alternatives.

The tax-cutters also can't ignore a $160 billion deficit that's due to start rising again next year. They would make up much of the lost revenue through unspecified spending cuts. The rest would come from supply-side accounting that would claim a net revenue gain from a capital-gains cut. But private economists are skeptical of the math, and even some conservatives question the political viability. "The principle is unassailable—at least until the politics gets heated up," notes Marvin H. Kosters, an economist at the American Enterprise Institute.

The third group is a huge cadre of

government slashers, led by Gingrich and Gramm. They don't object to lower taxes. But their perspective is straight from Ronald Reagan, who saw tax cuts as a means to starve the federal beast, not just a goodie for voters.

Some in this group want to eliminate the last vestiges of the Great Society's social safety net. But cutting welfare is a breeze for Republicans. Their challenge will be cutting subsidies for business, the wealthy, and the middle class—such as Small Business Administration funding, Medicare, and farm price supports.

Domenici and fellow hawks such as incoming House Budget Committee Chairman John R. Kasich (R-Ohio) are prepared to tackle actual cuts, including politically risky curbs in entitlements. But other GOP lawmakers are looking for an easier way. They likely would fall back on "process reform" such as a balanced-budget amendment and new spending caps on domestic programs. These gimmicks would let them claim fiscal responsibility right away while postponing cuts in real programs.

DEFICIT HAWK. Holding the center will be a group of GOP moderates. These include two Oregonians chairing key fiscal policy committees—Robert Packwood at Finance and Mark O. Hatfield at Appropriations. They favor smaller government and lower taxes but may resist more radical measures.

The centrists may have a powerful ally in Dole, an old-style deficit hawk. Despite his attacks on President Clinton over the past two years, Dole may be ready to compromise on key tax and budget issues to win bipartisan consensus in the Senate. Therein, though, lies the central conflict. Says GOP pollster Tony Fabrizio: "I just do not see the agendas of Bob Dole and Newt Gingrich being sympathetic to one another. You have one guy running for President and another guy running for conservative emperor." Predicts one right-wing Senator: "Dole's going to be forced to make a decision. We're going to see which way he goes."

These conflicts will give Clinton a chance to get back in the game. But obstructionism alone won't solve his problems. "We can't just lie on the tracks and insist the numbers don't add up," says one Administration economics official. Rather, by seizing the lead in cutting spending and taxes, the President could preempt some of the GOP agenda. Clearly, the momentum is with the GOP. But their road is full of political traps, economic risks, and internecine warfare.

By Howard Gleckman and Paul Magnusson, with Richard S. Dunham, in Washington

---

REGULATIONS

A GOP JIHAD AGAINST RED TAPE

Under study: Budget cuts and even a moratorium on new rules

ELECTION '94

In early November, the Clinton Administration's regulatory juggernaut—from trustbusters to drinking-water overseers—was running full tilt. But the Republicans' stunning election victory may soon produce something far different: a GOP jihad against federal red tape. The House Republicans' Contract With America calls for prompt passage of a measure to bar rules whose benefits don't exceed their costs—even in fields such as food additives and worker health where net cost is far from the sole consideration. Given those priorities, Ford Motor Co. Chairman Alexander J. Trotman says he's hoping for "much less command and control from Washington."

Just how far is the GOP planning to go? Republican leaders are mulling a call for a moratorium on all new rules, for starters. And regulatory experts predict that GOP committee chairmen will launch attacks on the bureaucracy, slashing budgets, issuing subpoenas, holding critical oversight hearings, and ordering up tough audits from the General Accounting Office. "We're going to get regulatory reform," vows Senator Don Nickles (R-Okla.). "We can do it with a rifle or we can do it with a shotgun, but we're going to do it."

"A THUG." The White House's options in responding may be limited. The GOP aims to block any effort to use rules changes and other regulatory steps to achieve the Administration's goals. And many White House watchers feel it would be politically deadly for the President to try such back-door tactics very often—or use his veto power very much. "If he behaves like a petulant lame duck, he'll never have a chance in 1996," says Ron Readmond, executive senior vice-president of Charles Schwab Corp.

With the GOP on a tear, many agencies already are digging foxholes to hide in. The Equal Employment Opportunity Commission may shelve plans for a big budget increase to work off its 90,000-case backlog. And the Environmental Protection Agency is holding off on new initiatives such as reform of the much-maligned Superfund program. "We used to spend about 75% of our time on th offense," sighs one high-ranking EPA official. "I suspect we'll be spending tha on defense now."

Another bureaucrat on the griddle Food & Drug Administration head David A. Kessler. On NBC's *Dateline* broadcast Nov. 15, House Speaker-to-be Newt Gingric (R-Ga.) called Kessler "bully and a thug" and accused him o threatening to close companies that criticize him—a charge Kessler denied Kessler's push to regulate tobacco als has outraged Representative Thomas J Bliley Jr. (R-Va.), an industry champio who may head a new commerce an health committee.

Many consumer groups are bein rocked, as well. "We're still reeling fro the seismic changes," says Joe Marx o

THE REPUBLICAN WA

LOSERS

OLD-LINE MANUFACTURER

Deregulation aside, the GOP opposes major health-care reform, which wo help steel and other companies wit aging workforces.

MANAGED-CARE GROUPS

Keeping a lid on costs will be tough rules are loosened to let doctors negotiate fees in groups.

LONG-DISTANCE COMPANIES, CABLE

Stepped-up telecommunications deregulation will allow the Baby Be to invade their turf fast.

TRIAL LAWYERS

Tort reform and legislation to curb product-liability suits are likely.

he Coalition on Smoking OR Health, rhich spearheads the antitobacco ef- ort. And Bruce Silverglade, legal di- ector of the Center for Science in the 'ublic Interest, is abandoning a push or Federal Trade Commission curbs on ealth claims in ads. "We have to put side our list of new initiatives," he says.

RUNING. These groups may try to trip p the deregulation drive by raising the pecter of disaster from lax regulation. 'or instance, when the FDA was pressured to speed up approvals and scale ack oversight of medical devices in the 980s, the result was horror stories from onsumer groups about broken heart alves and leaky breast implants.

The deregulation drive could pro- uce gridlock again. If that happens, ifts within the business community nay be a big part of the problem. For nstance, small business wants Wash- ngton out of its hair, but Big Business ften prefers uniform federal standards o a crazy quilt of 50 state rules. Tele- ommunications deregulation is another ivisive issue. While the Baby Bells vant to be unshackled, the cable-TV in- ustry and long-distance companies will ry to defend their turf by thwarting uch legislation.

Still, business can expect some relief. 'or one thing, activist legislation such s the Occupational Safety & Health Administration reform measure spon- ored by Senator Edward M. Kennedy (D-Mass.) simply will die. What's more, the GOP plans to trim congressional staffs, which would limit Capitol Hill's ability to micromanage agencies and demand new rules.

Whether the GOP achieves an enduring overhaul of Washington's regulatory machine will depend on how it follows up on the Contract With America. Even with regulatory reform, the executive branch would still be the one to calculate costs and benefits, a process that confers considerable power. The FDA, for example, is about to propose that druggists be required to hand out information guides about safe drug use with each prescription. FDA officials estimate the rule could save $1 billion annually in reduced hospital admissions at a cost of under $100 million a year. Trouble is, such estimates inevitably involve guesswork. And the key is "who controls the pen," says C. Boyden Gray, a top Reagan and Bush Administration official.

STRICT ACCOUNTING The Republicans' Contract With America calls for an end to all regulations whose benefits don't exceed their costs, even for such concerns as food additives

Getting control of the pen is one reason Murray L. Weidenbaum, chairman of the Reagan Administration's Council of Economic Advisors, is urging GOP leaders to take another dramatic step: have Congress perform a cost-benefit analysis before it adopts a new statute. Such reviews now come too late in the process, and the analysis should be "at the birth of legislation," he maintains. That would stanch the flood of new laws with hard-to-quantify economic benefits, such as the Clean Air Act and Americans with Disabilities Act.

But some GOP strategists want to go even further by combing through every statute on the books to determine what should stay and what should go. Such a thorough pruning could take years. "It's like going through a deep forest," says Gray. "You have to hack away at every tree." Hear that scratching sound emanating from Capitol Hill? It's the Republicans busy sharpening their axes.

By Stan Crock and John Carey, with Richard S. Dunham in Washington, Russell Mitchell in San Francisco, and bureau reports

e GOP's victory and coming crusade against regulation l have a major impact on business:

lboro
FINE TOBACCOS
FILTER CIGARETTES
PM INC.
VENI VIDI VICI

OP: *Bye-bye to the antitobacco drive?*

DAVID TOERGE/BLACK STAR

WINNERS

BIG TOBACCO

Crusader Henry Waxman is out as chairman of the key Energy & Commerce panel. The big power of a proposed successor committee: Thomas Bliley (R-Va.), in whose district cigarette companies are major employers.

SMALL BUSINESS

The National Federation of Independent Business was one of the GOP's strongest supporters during the election.

TIMBER

Its champion, Senator Bob Packwood (R-Ore.), will be chairman of the Finance panel. He'll make sure environmental drives are stifled.

DEFENSE CONTRACTORS

No more defense cuts are planned. And the GOP promises to revive some canceled programs.

THE BABY BELLS

Senate Majority Leader Bob Dole (R-Kan.), a longtime Baby Bell booster, will push legislation to quickly deregulate the companies.

POWWOW: *Gingrich, Dole, and Panetta in a show of cooperation*

DENNIS BRACK/BLACK STAR

THE WHITE HOUSE

TRYING TO TAME A WILD ELEPHANT

Leon Panetta plans to use a soothe-and-slash tactic on the GOP

White House Chief of Staff Leon E. Panetta is sitting in his office, emitting one of the hearty laughs Clinton aides know well. The object of his amusement is a headline in New York's *Daily News*: *THE COLD-BLOODED NEWT*. "That's what happens when you become Speaker of the House," Panetta says.

ELECTION '94

Panetta hasn't had many laughs since Georgian Newt Gingrich emerged triumphant from a Republican takeover of Congress. Ever since, Panetta has been helping President Clinton dig out of the rubble. While Clinton met with Asian leaders in Jakarta, his staff chief was working late at the White House on a plan to salvage his Presidency.

The result: an emerging strategy that will seek accommodation with Republicans on trade, welfare, and a handful of other issues while bashing the opposition for offering Americans a raft of irresponsible tax goodies.

BRIDGE BUILDER. In a Nov. 15 interview, Panetta disclosed elements of his sweet-and-sour strategy. On the conciliatory side, he's urging Clinton to initiate regular meetings with Gingrich and new Senate Majority Leader Bob Dole of Kansas. "There's no alternative but to reach out to the Republican leadership," Panetta says. "If there's total gridlock and partisanship, then both sides are hurt."

After huddling with Gingrich and Dole on Capitol Hill, Panetta is optimistic that they will help ratify a new General Agreement on Tariffs & Trade in a postelection session. That, he hopes, "would set the stage for cooperation in the next Congress."

At the same time, Panetta hopes to use the fiscal 1996 budget to attack GOP profligacy. Democrats will cast themselves as stern accountants, while portraying Republicans as reckless tax-cutters who resort to budget voodoo to conceal the deficit. "There are ways to jimmy the system," Panetta says. "If that's the case, we're in for a real battle."

If anyone can build bridges to this new Congress, Panetta can. He was once a Republican himself, working for President Nixon and switching parties in 1971 over Nixon's civil rights policy. As House Budget Committee chairman, he had a reputation for treating Republicans with respect.

Panetta showed his skills this summer in negotiations on the crime bill. After House Republicans kept the bill from the floor, Gingrich called on Pane ta for help. Leading a 36-hour sessio he broke the logjam by agreeing to tri $3 billion from the bill. "Had Panett not come down from the White Hous nothing would have gotten done," say Representative Scott L. Klug (R-Wis.

Still, Panetta has a certain amount healing to do. His partisan shots in th campaign caused some hard feeling Moreover, a GOP-controlled Congres will be a new experience. Representative Alex McMillan (R-N.C.), a retirin Budget Committee member, says th Panetta was a good listener—but always had enough Democratic votes t avoid compromise. "Now, he has to wor with Republicans," McMillan says.

"TIGHTER CONTROL." But getting bill through Congress is not Panetta's sol focus. He's also trying to gain more control over a dispirited staff. Some aide disagree with his conciliatory approac and want Clinton to fight the GOP at every turn. One leaked a memo attackin Panetta for failing to get a grip on operations. The staff chief was so steame that he threatened to fire aides at random if leaks didn't stop. And he's warning aides to stop bad-mouthing Republicans, as deputy George R. Stephanopoulos did in the closing days of th campaign, when he called Gingrich " sick guy."

Also on his list: reining in Cabine members who used Democratic committees to push pet initiatives. Vows Panetta: "We have to have tighter control.

Around the same time the Chief o Staff was making this pledge, though, hi boss was showing how hard it will be t exert discipline over the free-form Clinton White House. In Jakarta, the President deviated from his free-trade scrip to muse that perhaps Gingrich's call fo school prayer wasn't such a bad idea. Administration strategists had figured tha the amendment would be a nonstarte Oops. Good luck, Leon.

By Susan B. Garland in Washingto

PANETTA PANACEAS? Here is Leon Panetta's to-do list as he tries to get the faltering White House on track

RECONNECTING WITH VOTERS Help the President boost his paltry 40% approval rating by focusing on issues that will resonate with voters

DEALING WITH CONGRESS Search for common ground with Republicans on issues such as welfare reform, trade, and middle-class tax relief

RECONCILING DEMOCRATS Figuring out ways to bring together party members who range from ultraliberals to Southern conservatives

ETTER FROM GEORGIA

WELCOME TO EWT'S NEIGHBORHOOD

n Gingrich's district, it's school prayer–yes, gay rights–no

In the bustling Atlanta suburb of Marietta, 35-year-old Danny Williamson is savoring the prospect of his con- ressman, Newt Gingrich, as Speaker f the House of Representatives. Wil- amson built a thriving barbecue res- aurant—and counts on ingrich to impose through- ut the land the work ethic hat pervades this prosperous commu- ty. "It's hell to work like we do, 60 to 70 ours a week, and see a welfare system ut of control," he gripes.

Ten miles away in bucolic Kenne- aw—the site of a Civil War skirmish— onfederate-memorabilia shop owner ent "Wildman" Myers as other requests for ingrich: Overturn Vashington's ultraliber- Establishment, and re- eal the new gun-control aws. "Clinton doesn't are about the normal eople," grumbles the ng-haired Myers, bran- ishing pistols.

Welcome to Newt's eighborhood, otherwise nown as the sixth con- ressional district of eorgia. Gingrich's "Con- ract With America"— he campaign platform hat House Republicans an on this fall—may orrify liberal critics. Yet trip through Gingrich- and reveals that the ontract simply echoes he ultraconservative alues that run through is district. From the lo- als' perspective, Gin- rich's objective is sim- le: He wants to make merica like his home, which he adopt- d in 1991 after the Democrats eliminat- d his old, less conservative district.

ONTEMPT. The district's culture com- ines rugged individualism born of an grarian past, old-fashioned religious val- es, and a visceral disdain for Washing- on—particularly for President Clinton. ndeed, Gingrich supporters are ecstat- at the prospect of their man's shaking p the capital elite. Gingrich took 64% the district's vote in winning reelec- on. Now, on a local radio station, talk-show host Neal Boortz gloats that the Speaker-in-waiting has become "de facto President of the United States."

ELECTION '94

Contempt for anyone who isn't ultraconservative is pretty much the rule in these parts. But aside from their politics and their racial homogeneity, Gingrich's constituents are diverse. Stretching north from the well-to-do Atlanta suburbs to the red-clay foothills of the Blue Ridge Mountains, the district straddles the fault line that awkwardly joins the Old and New South. Yuppies in Jaguars share the road with pickup drivers who work at the massive Lockheed Corp. plant and truckers who sport Confederate flags on the grilles of their 18-wheelers.

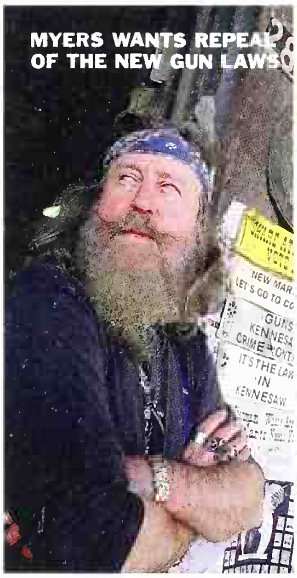
Gingrich's message strikes a chord with both crowds. The incoming Speaker talks of creating an "opportunity society" because explosive growth in the local economy has created opportunity for residents. And if Gingrich has a reputation for being a political bomb-thrower, so do his fellow citizens. When Atlanta enacted a law extending spousal benefits to the companions of gay city employees, Cobb County passed a resolution declaring gay lifestyles incompatible with community standards—which cost it the chance to host any events for the 1996 Olympic Games.

In the northern hamlets, Gingrich's populist call for restoring family values plays well with the blue-collar crowd. At the Shanty House, a meat and three vegetables diner in Kennesaw, construction-equipment repairman Darold Ledford backs Gingrich's plan for school prayer. "We've got to restore morals and values in this country," he says, fuming over a court order last summer forcing the removal of a display of the Ten Commandments from a local courthouse.

TRANSPLANTS. Further south are Atlanta's bedroom communities. Because of an influx of white-collar workers, this congressional district ranks 11th out of 435 in its percentage of college graduates and 25th in median household income. Many residents, such as realtor Thomas Lutz and his wife, Mary, are Northern transplants. So, of course, is Gingrich, who was born in Harrisburg, Pa., but moved to Georgia as a teenager, when his adoptive father was stationed at Fort Benning.

These constituents are rooting for their representative to cut the government down—and never compromise his principles. Says John F. Smith, a manager of the tony Galleria shopping complex: "I like to see him push." So do most folks in the Neighborhood. Newt likely won't disappoint.

By Dean Foust in Kennesaw, Ga.



MYERS WANTS REPEAL OF THE NEW GUN LAWS

THE LUTZES LIKE GINGRICH'S FAMILY-VALUES MESSAGE

HOME IN GEORGIA The sixth district combines rugged individualism, old-fashioned religious values, and a visceral disdain for Washington–particularly Clinton

PHOTOGRAPHS BY ROB NELSON/BLACK STAR

COMMENTARY

By Christopher Farrell

HOW WOMEN ARE STAKING OUT THE CENTER

"White Males Deliver Message to Democrats: Get Lost," writes the *St. Louis Post-Dispatch*. "Men Want to Torch Washington," says *USA Today*. Haunted by stagnant real wages and traumatized by several years of brutal corporate downsizings, men have moved to the right. On Election Day, 54% of men voted for Republican House candidates vs. 48% in the 1992 election.

ELECTION '94

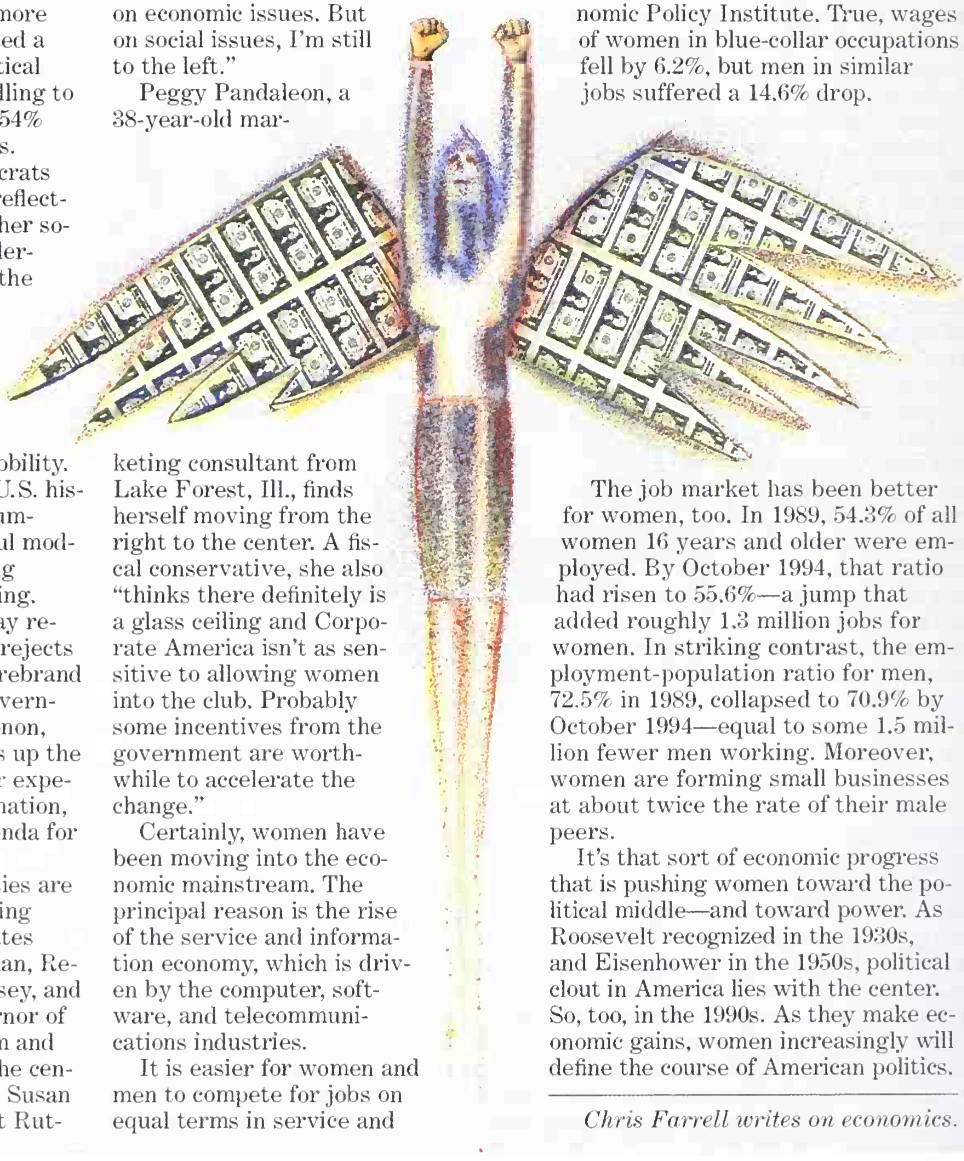
Thanks to the ballot box revolt, the politics of male fury is in the media glare. But in the long run, it's the attitude of women that may be more important. While men supported a conservative mandate for political overhaul, women were less willing to overturn the status quo, with 54% backing Democratic candidates.

Women have favored Democrats since the 1980s, in large part reflecting opinion on abortion and other social issues. But this time, gender-based economics also came to the fore. Over the past three decades, women have enjoyed new opportunities and improving living standards. Women in the workplace are reaffirming the traditional American notion of upward mobility. As has been true throughout U.S. history, improving economic circumstances are exerting a powerful moderating force—and encouraging mostly middle-of-the-road voting.

Indeed, the female voter may reflect a new centrism, one that rejects both the Republican Right's firebrand politics and traditional Big Government liberalism. The phenomenon, born both of women's progress up the socioeconomic ladder and their experience with economic discrimination, could reshape the political agenda for years to come.

SOCIAL LIBERALISM. Both parties are fighting to capture this emerging group, offering strong candidates such as Christine Todd Whitman, Republican governor of New Jersey, and Roy Romer, Democratic governor of Colorado. "Fiscal conservatism and social liberalism is becoming the center of American politics," says Susan J. Carroll, senior researcher at Rutgers University's Center for American Woman & Politics. "And more and more women are moving in that direction."

Just ask Susan Larson, the 40-year-old president of HOLCOR Corp., a maker of institutional lighting based in Riverdale, Ill. An ardent backer of liberal Presidential candidate George McGovern in her college undergraduate days, she has been moving steadily to the center. "Every year, owning a business has shifted me further to the right on economic issues. But on social issues, I'm still to the left."



Peggy Pandaleon, a 38-year-old marketing consultant from Lake Forest, Ill., finds herself moving from the right to the center. A fiscal conservative, she also "thinks there definitely is a glass ceiling and Corporate America isn't as sensitive to allowing women into the club. Probably some incentives from the government are worthwhile to accelerate the change."

Certainly, women have been moving into the economic mainstream. The principal reason is the rise of the service and information economy, which is driven by the computer, software, and telecommunications industries.

It is easier for women and men to compete for jobs on equal terms in service and knowledge industries than before. Since 1982, more women than men have been getting bachelor's degrees, and women now make up about 36% of the students at law, medicine, and business schools.

EAGER ENTREPRENEURS. The wage gains by working women are stunning, especially next to those of men. Between 1979 and 1993, women in white-collar jobs saw their real average hourly wages improve by 12.2% vs. a decline of 3.3% for their male counterparts, according to Lawrence Mishel, research director at the Economic Policy Institute. True, wages of women in blue-collar occupations fell by 6.2%, but men in similar jobs suffered a 14.6% drop.

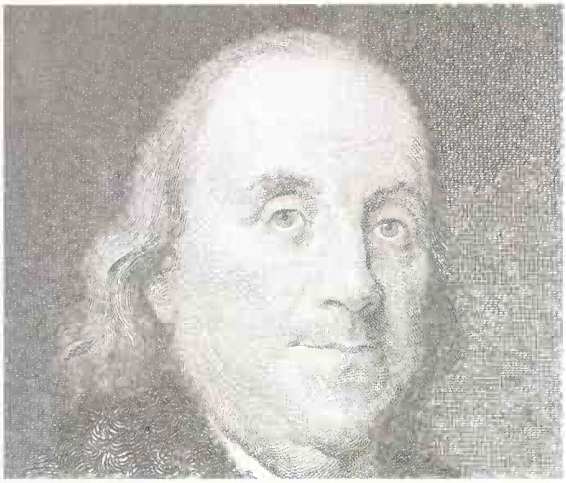
The job market has been better for women, too. In 1989, 54.3% of all women 16 years and older were employed. By October 1994, that ratio had risen to 55.6%—a jump that added roughly 1.3 million jobs for women. In striking contrast, the employment-population ratio for men, 72.5% in 1989, collapsed to 70.9% by October 1994—equal to some 1.5 million fewer men working. Moreover, women are forming small businesses at about twice the rate of their male peers.

It's that sort of economic progress that is pushing women toward the political middle—and toward power. As Roosevelt recognized in the 1930s, and Eisenhower in the 1950s, political clout in America lies with the center. So, too, in the 1990s. As they make economic gains, women increasingly will define the course of American politics.

Chris Farrell writes on economics.

PETER KUIPER

Franklin U.S. Government Securities Fund



Get Back to Basics with High Current Income and High Credit Safety.

Often, two basic goals of investing are income and credit safety. The Franklin U.S. Government Securities Fund is designed to give you both.

- **High current income in the form of monthly dividends**
- **High degree of credit safety**†

When you invest in the Franklin U.S. Government Securities Fund, you are investing in one of the nation's oldest and largest government securities funds of this kind. As an industry leader in Ginnie Mae funds, Franklin brings you conservative portfolio management.

Call your investment representative or Franklin today for a free brochure.

Call 1-800-342-FUND Ext. F337

FRANKLIN FUNDS
777 Mariners Island Boulevard
San Mateo, CA 94404-1585

Yes! I would like a free prospectus containing more complete information on the Franklin U.S. Government Securities Fund, including sales charges and expenses. I will read it carefully before I invest or send money.

☐ *I am currently a Franklin shareholder.*

Name

Address

City

State/Zip

Daytime Phone

BWK94
F337

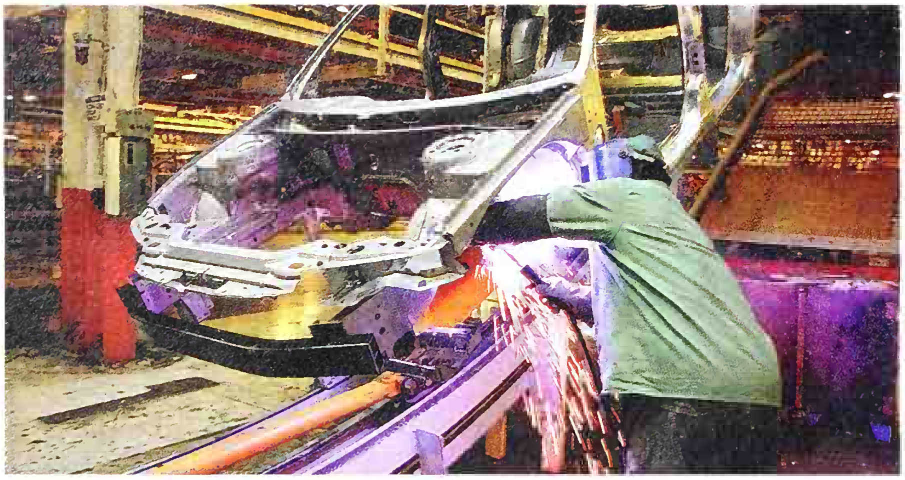
FRANKLIN

---

†Individual securities owned by the fund, but not shares of the fund, are guaranteed by the U.S. government as to the timely payment of principal and interest. Yield and share price are not guaranteed and may vary with market conditions.

Franklin Templeton Distributors, Inc.

A Member of the $117 Billion Franklin Templeton Group



KERKORIAN: *He went postal over the last stock skid*

AUTOS

KERKORIAN TO CHRYSLER: IT'S PAYBACK TIME

With the carmaker rolling in cash, its No. 1 investor wants a cut

When Kirk Kerkorian zapped Chrysler Corp. on Nov. 14 with an angry letter demanding a share of the company's copious new wealth, the billionaire investor's move seemed transparently self-serving. As the company's largest stockholder, with 32 million shares, his wish for fatter dividends, a stock buyback, and other goodies would make him all the richer.

Still, Kerkorian may have a point. In just three years, a slew of new products has catapulted Chrysler from near death to one of the world's most profitable car companies. "This company is going to generate a ton of excess cash," says Robert A. Day, chairman of Trust Company of the West, which owns nearly 10 million shares. And many investors, like Kerkorian, would like some of the loot to be divvied up.

NO END IN SIGHT. Chrysler is already running out of places to put its money. A $2.5 billion infusion this year will bring its pension account to full funding for the first time since 1957. At the end of the third quarter, the company had $6.6 billion in cash on hand, close to Chairman Robert J. Eaton's goal of a $7.5 billion cushion. The bucks are piling up even though the company now plans $4 billion a year in capital spending, vs. $2 billion in 1992.

Chrysler's riches, moreover, seem likely to just keep growing, especially if U.S. car sales keep rising until 1996 or '97, as many analysts predict. Even if the company gradually raises its annual dividend to $2.75 a share, up from $1 now, free cash flow could hit $2.3 billion in 1996, figures David M. Garrity, an auto analyst at Smith Barney Inc. J. P. Morgan & Co.'s David Bradley thinks Chrysler could amass $15 billion by the end of 1996.

Does Chrysler need that much? Getting through the next recession will require a healthy cash cushion—Chrysler ate up $4 billion in the last slump. And some big expenses lie ahead. Chrysler plans extra factory capacity to build more hot-selling Jeeps and minivans, plus engines and transmissions for them. Antiquated stamping presses need replacing as well.

Still, Chrysler isn't about to go on a growth binge. Eaton and President Robert A. Lutz don't plan major expansion—either by taking another stab at diversification, adding new models or aggressively building factories around the globe. "We are not a worldwide manufacturer, nor do we intend to move significantly in that direction," Eaton said recently. The company is competing with several carmakers to build a miniva plant in Chin which could cost $350 million if th deal goes throug But there are n plans to expand i Europe, wher Chrysler has capa ity to build 100,00 minivans and Jee Grand Cherokees i a joint venture i Graz, Austria.

What nudge Kerkorian into a tion was disappoint ment over the re cent skid in Chrysler's stock from a hig of $62.50 on Feb. 3 to the mid-fortie lately. (Since Kerkorian fired off his let ter, the stock has bumped up to $51 Alex Yemenidjian, an executive at Tra cinda Corp., his investment compan says Kerkorian is also angry that Ea ton has ignored suggestions he mad during recent meetings for getting th price up.

DOWNER PILL. Kerkorian now is demand ing that Chrysler directors institute 2-for-1 stock split, an increase in the div idend, and a program to buy back share over the next 12 months. He also aske the company to drop a poison-pill provi sion that kicks in when an investor get more than 10% of the company's stock He holds a 9% stake and wants to rais it, perhaps up to 15%, says Yemenidjian Chrysler isn't commenting on Kerkori an's demands, but directors will consid er them at a Dec. 1 board meeting.

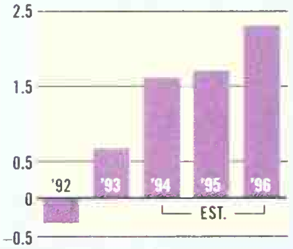
Chrysler may move to placate Ker korian—say, by moving up the date of dividend increase that's expected early next year. Even doubling the dividend t $2 a share would only raise the annual cost t $720 million. Likewise, buyback of 5% of the stock would cost the company only about $1 billion.

In Chrysler's dark days in 1990 and 1991 Kerkorian gambled and repeatedly bought stock at $12 and later $18 share. That helped attract other money. Now Chrysler may just have to reward him—and other investors—for hanging in there.

By David Woodruff in Detroit, with Ron Grover in Los Angeles

AN EMBARRASSMENT OF RICHES

Even with rising dividends and capital spending, Chrysler's free cash flow* will soar



▲ BILLIONS OF DOLLARS

*EARNINGS PLUS DEPRECIATION AND AMORTIZATION, MINUS DIVIDENDS AND CAPITAL SPENDING

DATA: SMITH BARNEY INC.

Two Strategies for Client/Server Applications Development

Both in One Software...the SAS® System

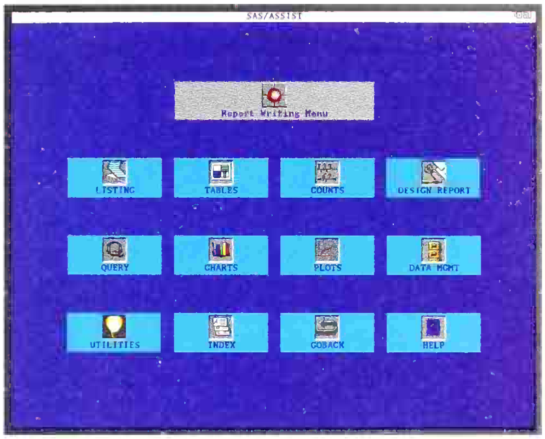
Only the world's leading information delivery system gives you two proven strategies for satisfying today's client/server applications development needs:

Empower Your User Community

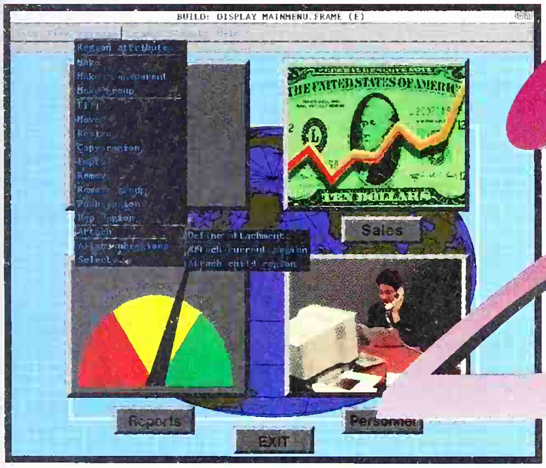
1

The SAS System offers a secure and manageable environment for making enterprise data available on demand. And for turning that data into useful business information for strategic decision making.

Through an intuitive, dynamic, and data-driven interface, even novice business users can handle the most sophisticated requests by themselves: ad hoc queries, reports, business graphs, forecasts, analyses, and more. By making the SAS System your standard for end user access and reporting, you'll empower users to satisfy their own information requests.


SAS/ASSIST
Report Writing Menu
LISTING
TABLES
COUNTS
DESIGN REPORT
QUERY
CHARTS
PLOTS
DATA MGMT
UTILITIES
INDEX
GOBACK
HELP

Empower Your Applications Developers


BUILD: DISPLAY MAINMENU.FRAME (E)
Region attributes
Make
Move
Resize
Copy region
Remove
Attach
Select
Define attachments
Attach current region
Attach child region
THE UNITED STATES OF AMERICA
TEN DOLLARS
Sales
Reports
EXIT
Personnel

2

With more self-reliant end users, developers are free to concentrate on implementing client/server applications critical to your business. Here, too, the SAS System satisfies your most demanding requirements by supporting an *iterative* approach to rapid applications development. Put strategic business systems in production quickly... even as you continue to develop and enhance them.

Object-oriented tools simplify and speed development. And support for multiple client/server models (including distributing application logic to the processor best equipped for the task) provides a flexibility unrivaled by "client only" development tools. What's more, the SAS System's portable architecture means applications look and run the same no matter where you deploy them, desktop to data center, preserving your applications investment over the long haul.

Take a Minute Now to Take Years Off Your Development Cycles

With the SAS System, you'll improve business processes rather than just automating them. Users become more independent, developers more productive, and applications more valuable...today and tomorrow. For a closer look at the SAS System—and to find out how to receive these applications development tools for a free evaluation—just give us a call at **919-677-8200**.

SAS Institute Inc.
Sales and Marketing Division
Phone 919-677-8200 ☐ Fax 919-677-8123

SAS is a registered trademark of SAS Institute Inc. Copyright © 1994 by SAS Institute Inc.

BIOTECHNOLOGY

INVASION OF THE BIO-SNATCHERS

Europeans are grabbing big stakes in U.S. outfits

The U.S. biotech industry is perpetually scratching for money. And more and more of it's coming from Europe. On Nov. 14, Rhone-Poulenc Rorer (RPR) announced that it was teaming up with 14 small biotech outfits and research groups in the U.S. and France. The French-American drugmaker committed to investing $100 million in the first year alone to help with research and to try to bring promising products to market. The next day, Swiss drug giant Ciba-Geigy Ltd. confirmed that it was in discussions with a longtime collaborator, Chiron Corp. in Emeryville, Calif., to make a significant minority investment.

The deals are quite different: RPR is making a risky, long-term bet on a consortium of tiny companies working in genetic and cell therapy, fields that are promising but difficult and expensive to develop. In contrast, Ciba-Geigy is discussing broader ties with one of U.S. biotech's few success stories.

Rx FOR CIBA: *Chiron's hot technologies*

The unifying theme is money—Euromoney. U.S. drugmakers generally have been tentative about biotech investments, mainly taking small equity positions and sponsoring research while trying to build up their internal technology capability. Europe's drug giants, with few local biotech innovators, a hungry for bigger pieces of the actio Indeed, Peter S.I. Sjöstrand, boa member of Zurich-based Pharma V sion 2000, which invests in pharmace tical stocks, predicts a bidding war f Chiron. "A lot of European compani need new products to fill up thei pipelines."

"CHERRY-PICKING." The Euro shoppe have already made a big splash. Roc Holding Ltd. of Switzerland owns 64 of biotech pioneer Genentech Inc. an holds an option until mid-1995 to acqui the rest. Britain's SmithKline Beecha Switzerland's Sandoz, and Britain's Co ange have aggressively done U. biotech deals, while Germany's Hoech and Bayer and Britain's Glaxo are r mored to be on the prowl.

The European companies, acknow edges Fred Telling, vice-president f corporate strategic planning and polic at Pfizer Inc., "are cherry-picking an doing a good job." That's not a lofty a colade, but it's more than can be sai for most U.S. drugmakers.

By Joan O'C. Hamilton in San Fra cisco, with Julia Flynn in London an Joseph Weber in Collegeville, Pa.

TELEVISION

A SMORGASBORD OF CHANNELS

The FCC rules ease the way for niche cable programmers

To start your own cable channel, you have to be willing to do all kinds of jobs. Take Reese Schonfeld, who runs the fledgling Television Food Network. On Nov. 15, Robin Leach was set to tape a Thanksgiving episode of *Talking Food.* But one of Leach's guests, Paula Zahn of CBS News, hadn't shown. So Schonfeld rushed off to track her down himself. She soon showed up, and Schonfeld relaxed.

These days, Schonfeld has plenty of reasons to breathe easier. The Federal Communications Commission recently allowed cable operators to increase their basic rates if they offer new channels, such as his. Most operators have added virtually no new services since the FCC clamped down on basic cable rates in late 1993 because they have feared such services would not be profitable. Schonfeld's network, for example, has been frozen at 7.5 million subscribers—far short of the 25 million it needs to make money.

Now, the Food Network and other struggling services have a crack at a national presence. Cable executives also foresee a flurry of new entrants—from the Game Show Network to the Military Channel. "These will now at least have a chance to get on," says John Hendricks, chairman of Discovery Communications Inc., which introduced four new channels on Nov. 15.

Cable programmers are far from ecstatic about the FCC rules. For one thing, the regulations allow operators to charge only 20¢ more per subscriber for each new channel they add to basic ca ble. But Fox Broadcasting Co.'s fX chan nel charges operators 25¢ per subscrib er to be carried, which means it doesn pay for most operators to add fX to thei lineups. "The rules are half a loaf," com plains Kay Koplovitz, chief executive o USA Networks.

WHICH PROGRAM RULES? Cable opera tors also complain that the FCC regula tions are needlessly complicated. "Th fact that the [FCC] is continuing to mi cromanage the introduction of new pro gramming is unfortunate," says Rich ard Aurelio, president of Time Warner New York City cable group. But FC Chairman Reed E. Hundt insists tha the rules are fair—and clear. "There a caterwauling against complex ity," Hundt says, "which is synonym for saying they jus don't like the rules."

Indeed, for all their grousing most cable operators and pro grammers acknowledge that th FCC ruling augurs a brighter era As Robin Leach and his celeb rities sat down for their televise Thanksgiving on the Food Net work, Schonfeld and his cable co leagues really had reason to giv thanks.

By Mark Landler in Ne York, with Mark Lewyn i Washington

TV FOOD NETWORK
3
TALK!NG TURKEY: *The Food Network is one newcomer*

(TOP TO BOTTOM) PHOTOGRAPHS BY DAVID BUTOW/BLACK STAR, RON [illegible]

01:明下午五点
送货.货到付款.
MOTOROLA

Two-way • Paging • Satellite Communications • **COMMUNICATIONS** • Cellular • CT2 Products • Wireless LANs • Modems

Software • Network Management Systems • **COMPUTING** • Microcomputer Boards • Multi-user Systems

Automotive Electronic Components and Systems • **CONTROL** • IVHS Products • Electronic Ballasts

Semiconductors • Integrated Circuits • Memories • **COMPONENTS** • Embedded Controllers • Microprocessors

ONE SMALL WAY MOTOROLA IS HELPING BUSINESS BOOM IN BEIJING.

To meet the demands of their fast-growing economy, the Chinese have added a new dimension to the way they communicate. At the heart of it: our cost-efficient Motorola pager. One that receives complete messages–words as well as numbers. Because wireless communications can be put in place so quickly, Motorola is helping emerging markets dramatically speed their economic development. From the cellular phones that are helping Brazilian businesses on the move to the radio systems linking Poland's new entrepreneurs with their people in the field, quality Motorola products are revving up the engines of commerce around the world.

MOTOROLA *Quality Means The World To Us.*™

Ⓜ and Motorola are registered trademarks of Motorola, Inc. © 1994 Motorola, Inc.

HOLLYWOOD

THIS SEASON HAS FANGS

Vampire's smash opening kicks off a torrid Yule schedule

The Starship Enterprise was breaking up. Leonard Nimoy had declined to reprise his role as the pointy-eared Spock for *Star Trek: Generations*, the seventh Trekkie film. DeForest Kelly, who plays Dr. McCoy, backed out next. And test-market audiences hated the film's less-than-thrilling finale, forcing Paramount Pictures Corp. to spend $3 million on a reshoot.

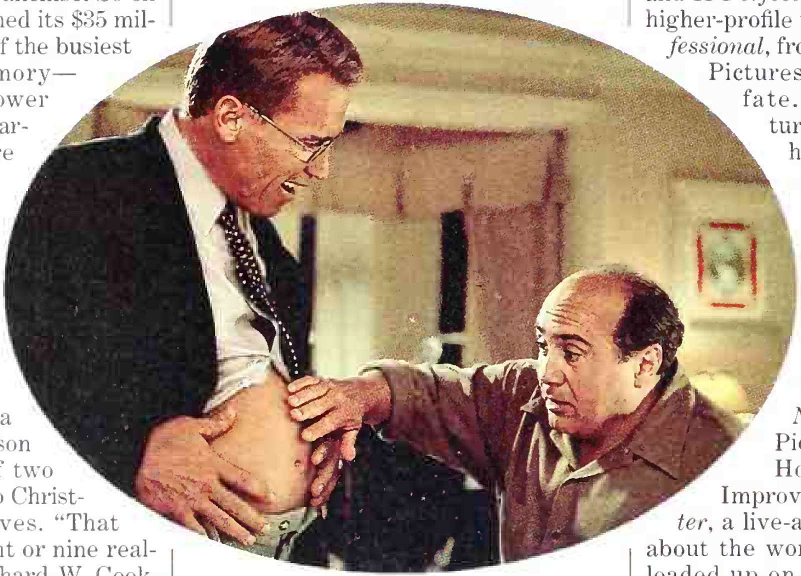
Still, a franchise is a franchise. So on Nov. 18, Paramount beamed its $35 million production into one of the busiest holiday seasons in memory—where it will face firepower heavier than a Klingon warship's. Already, a vampire by the name of Cruise is setting box-office records. Still to come: a pregnant Arnold Schwarzenegger, another steamy sex tale starring Michael Douglas, and no fewer than six flicks aimed at kids.

All are crowded into a seven-week holiday season shortened by the loss of two critical Saturday nights to Christmas and New Year's Eves. "That cuts us down to just eight or nine really great days," says Richard W. Cook, who heads distribution and marketing for Walt Disney Studio.

EARLY BONANZA. Abbreviated or not, this holiday season could well generate $1 billion in ticket sales. Hollywood's quiet fall quickly turned torrid with the Nov. 11 release of Warner Bros. Inc.'s *Interview with the Vampire*, starring Tom Cruise, and Disney's *The Santa Clause*, with sitcom star Tim Allen. A pre-Thanksgiving weekend that normally would have produced $55 million in box-office revenues turned into a $94 million bonanza, figures Warner distribution chief Barry Reardon. "Now," he says, "we have to hope we can keep the excitement going."

No problem. Hollywood insiders bet that *Star Trek: Generations* will be a hit. In addition to *Vampire* and *Clause*, potential winners include Universal Pictures' *Junior*, which stars Danny DeVito along with Schwarzenegger as an expectant mother. There's also Warner's *Disclosure*, based on the Michael Crichton novel about sexual harassment, starring Michael Douglas and Demi Moore. And Ted Turner's New Line Cinema Corp. may have this year's sleeper in *Dumb and Dumber*, a slapstick comedy with *The Mask*'s Jim Carrey.

Late-season releases, on the other hand, could be in trouble. Tom Pollock, chairman of MCA's film unit, says he purposely delayed the opening of *Junior* t allow *Vampire*'s hype to die down. "I you see a freight train coming, you ge out of the way," he says. Likewise, 20t Century-Fox Film Corp. will release it remake of the 1947 classic, *Miracle o 34th Street*, to just 1,200 screens on No 18. The studio will wait until Dec. 16 t broaden its distribution to an addition al 800 screens, in hopes that *Sant Clause* loses altitude. "If I could do i over, I might have released the film lat er," says Fox Executive Vice-Presiden Tom Sherak.



TOGETHER AGAIN: *Schwarzenegger and DeVito have proved a formidable team*

BIG-BUCKS LINEUP	Hot Christmas movies and their production budgets
INTERVIEW WITH THE VAMPIRE (Warner Bros.)	$42 million
STAR TREK: GENERATIONS (Paramount)	$38 million
DISCLOSURE (Warner Bros.)	$32 million
JUNIOR (Universal)	$28 million
DUMB AND DUMBER (New Line Cinema)	$17 million

DATA: EXHIBITOR RELATIONS, BUSINESS WEEK

UNDERDOGS. Some movies will be blow out altogether. Last year, says marke follower Phil Garfinkle, senior vice-president of Entertainment Data Inc., such anticipated movies as *Wayne's World I* and *A Perfect World* were overrun b higher-profile films. This year, *The Professional*, from Sony Corp.'s Columbi Pictures, could suffer the sam fate. The tale of a hit ma turned good guy, the movi has the misfortune o opening the same week end as *Star Trek*. Industry experts also don' expect much from Warner's *Richie Rich* which stars Macaulay Culkin as the poor little rich kid, or from Steve Martin's *Mixe Nuts*, for Sony's Tri-Sta Pictures Inc.

How to avoid the clutter Improvise. With *The Pagemaster*, a live-action and animated opus about the wonders of literature, Fox loaded up on joint-marketing efforts with Pizza Hut, RJR Nabisco, Tropican Products, and others, and plans a release to coincide with an interactive game version on Nov. 23. And in th season's most talked-about publicity stunt, Fox staffers surreptitiously left cookies and T-shirts promoting *Miracl on 34th Street* at Disney's *Santa Claus* press junket.

Such trickery does not a blockbuster make. But add in the re-release of Disney's *The Lion King*, just eight weeks after its withdrawal, and Hollywood almost certainly will surpass 1993's $5. billion record box office, predicts Joh N. Krier, president of Exhibitor Relations Co. The numbers are boosted this year by summer hits, such as *Forres Gump* and *The Lion King*, Krier says. But a Christmas lift from Captain Kir and a superstar with fangs won't hurt a bit.

By Ronald Grover in Los Angeles

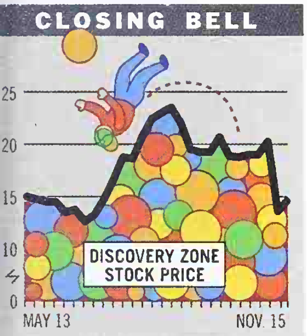
In Business This Week

EDITED BY KEITH H. HAMMONDS

GM AND GE AVERT A COLLISION

T WAS A STAND-OFF BETWEEN iants. Last month, General Motors balked at General Electric Plastics' price hike n certain resins. GE didn't ack down. So, according to n Oct. 25 internal memo obained by the *Detroit Free Press*, GM ordered its buyers o "stop all business relationhips" with GE, including purhases of chemicals, electrones, and metallic commodities. But on Nov. 16, the compaies announced they had eached an agreement to vert the boycott. Who blinked? Neither side will say. A GM spokesman says the pact "will work for both of us" but does not include a price increase—not bad, if true, at a time when raw-material prices for plastic have soared.

CLOSING BELL



DATA: BLOOMBERG FINANCIAL MARKETS

ZONED OUT

Discovery Zone's stock has been as hyperactive as the kids negotiating the indoor-playground operator's colorful tunnels and tubes. Shares of the company plunged 30%, to $14, after news on Nov. 9 of a $16.9 million third-quarter loss. Behind the deficit: Unexpected costs in building new stores, taking over 60 former franchises, and absorbing rival Leaps & Bounds, which it purchased from McDonald's in September. Still, PaineWebber's Craig Bibb, who downgraded the stock, believes Discovery Zone can produce compound earnings growth of 40% per year through 1999.

BANKERS TRUST MOVES SOME PLAYERS

GIVEN THE ALLEGATIONS swirling around Bankers Trust's derivatives operation, the timing of the bank's Nov. 10 move of five derivatives execs to "special assignment" came as a surprise. The Securities & Exchange Commission is investigating Bankers' sales practices, and it has been sued by clients Procter & Gamble and Gibson Greetings. Bankers reassigned its head of corporate derivatives coverage, Jack Lavin, and four others, removing them from their duties. The move may help, but many corporate clients are wary, and other derivatives dealers say new business is flowing their way.

THIS BUD'S FOR DDB

THEY PARTIED LATE INTO THE night of Nov. 14 at DDB Needham Worldwide's Chicago office, and the drink of choice was Budweiser. Little wonder: Anheuser-Busch, unexpectedly and without the usual competitive review, gave its estimated $125 million Bud account to Needham after a 79-year run with D'Arcy Masius Benton & Bowles. Now comes the morning after. Needham, which already handles Bud Light, must reverse a long decline in the fortunes of America's top brew, which *Beer Marketer's Insights* figures has slid to a 21% market share from 26% in 1988.

HEADLINER

SEARS SAYS ADIOS TO ALLSTATE

Three years ago, Edward Brennan was the pariah of shareholder activists, staunchly resisting calls to split up Sears Roebuck. Now, Sears is "one of our corporate-governance success stories," says Richard Koppes, general counsel for the California Public Employees' Retirement System. On Nov. 9, Brennan announced he will spin off Allstate Insurance in a $9 billion tax-free dividend, capping a restructuring that began in '92. The 60-year-old chairman and CEO also said he will retire after the deal.

What happened? "Timing is everything," Brennan says. After skipping his usual summer vacation to hole up on the 68th floor of Sears Tower with two lieutenants, Brennan decided that Sears' Merchandise Group and Allstate, bolstered by solid 1994 profits, were financially strong enough to go it alone. It didn't hurt, Sears insiders say, that longtime outside director Donald Rumsfeld was quietly but firmly pressing for change. But Rumsfeld and others mainly credit Brennan for driving the makeover. Says director C. B. Rogers Jr.: "Ed is going out a winner."

By Susan Chandler

MAKING A MARKET IN POLLUTION CREDITS

TWO UTILITIES HAVE STRUCK a novel deal to fight global warming. Starting Nov. 18, Arizona Public Service and Niagara Mohawk Power plan to trade pollution credits—creating the first market for carbon-dioxide emissions. APS will give Niagara Mohawk sulfur-dioxide credits worth $3 million, which it was allocated under the Clean Air Act. In return, the Arizona utility will get carbon-dioxide credits. Niagara will donate its credits to an environmental group while APS "banks" its carbon-dioxide credits to meet a voluntary pledge to cap its greenhouse-gas emissions.

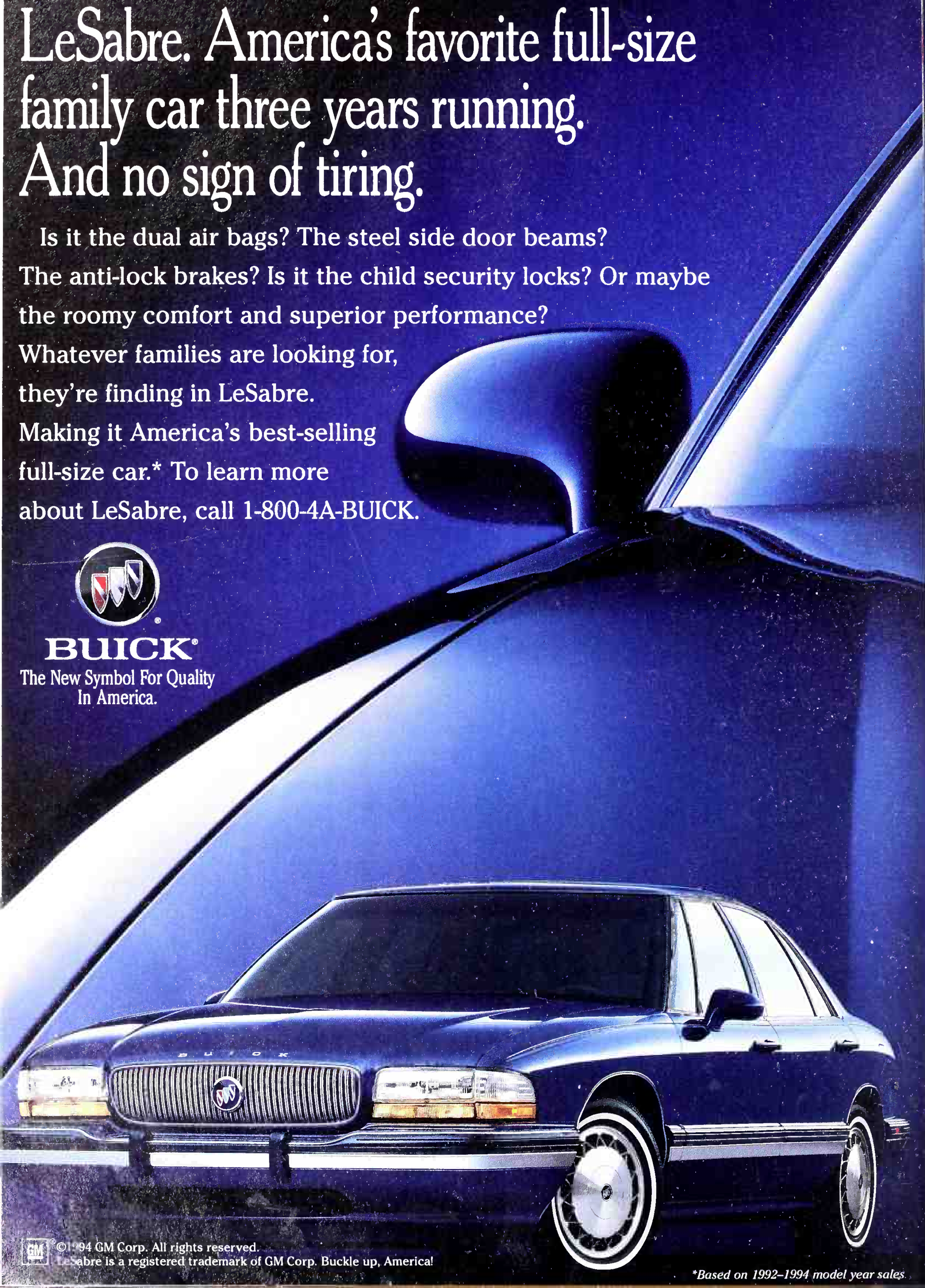
FOR 2000'S CENSUS, AN EDUCATED GUESS?

SINCE 1790, THE GOVERNMENT has faithfully tried to count every resident once a decade. Now, a panel of statisticians has a blunt message for the Census Bureau: Give up. For 2000, a National Academy of Sciences committee says a "fundamentally redesigned" census should rely heavily on statistical sampling and estimation. The committee says that those methods can produce a more accurate—and far less costly—count of residents who don't respond to the census' mail-in questionnaire, especially minority groups. Congress, angered by the inaccuracy and expense of the 1990 census, is likely to embrace the committee's proposal.

ET CETERA . . .

- Sybase will pay $944 million in stock for PowerSoft, a software-tools developer.
- Exxon joined a $40 billion venture to develop natural gas in the South China Sea.
- A jury said a contractor sprayed General Mills oats with the wrong pesticide.
- GM's new marketing chief: Bausch & Lomb President and COO Ron Zarrella.

PHOTOGRAPH BY GWENDOLYN CATES. CHART BY ALBERTO MENA/BW



LeSabre. America's favorite full-size family car three years running. And no sign of tiring.

Is it the dual air bags? The steel side door beams? The anti-lock brakes? Is it the child security locks? Or maybe the roomy comfort and superior performance? Whatever families are looking for, they're finding in LeSabre. Making it America's best-selling full-size car.* To learn more about LeSabre, call 1-800-4A-BUICK.

BUICK®
The New Symbol For Quality
In America.

GM ©1994 GM Corp. All rights reserved.
LeSabre is a registered trademark of GM Corp. Buckle up, America!

*Based on 1992–1994 model year sales.

Y OWEN ULLMANN

NEWT'S REVOLUTION COULD REWRITE THE RULES OF LOBBYING

Nov. 9 in Washington dawned sunny and still, the city recovering from a late election night. But in the posh suites of the capital's law firms, lobbying boutiques, and trade roups, it was chaotic. The first Republican takeover of Conress since the 1950s hit the Establishment like a bomb. irms fielded anxious phone calls, trying to play up their ometimes tenuous GOP connections. "A number of clients re panicked because they've just been dealing with liberal emocrats," says GOP lobbyist Mark W. Goodin.

A rush to become more politically correct—reversing the nportance of Democratic and GOP links—is the first sign of hange in the city. But far more important than the shuffle in obbying ranks, a revolution may be brewing in the way Vashington does business. If incoming House Speaker Newt ingrich (R-Ga.) keeps his vows to shrink the federal government, ventilate the legislave process, and foster the eplacement of professional pols with citizen lawakers, the insiders' game f influence-peddling would urn into a contest that utsiders can play, too. It'll be a sea change," proaims Al From, president f the Democratic Leadership Council.

INE PRINT. Cynics who ave watched the Washington power structure goble up previous reformers ust smile. But the changes ingrich is promising can't e laughed off. Take the ledge to pass a line-item eto, which would let the President strike special-interest oodies from bills without rejecting an entire measure. Lobyists' behind-the-scenes appeals to Hill power brokers would o longer be enough—they'll have to work the White House nd executive agencies as well.

Another proposal would put all bills on the Internet. Any ired-in citizen—not just politicos—could pore over the fine rint and raise hell before Congress has a chance to vote. erm limits, another critical portion of the GOP's Contract Vith America, would curb the Establishment's ability to coopt Congress. If Republicans ban political action committees, s some advocate, special interests would have to find new ays to exert influence. Furthermore, a reshuffling of the ouse committee structure would sever ties between special nterests and the panels they've cultivated: A Nov. 16 draft, or example, strips the Energy & Commerce Committee of jusdiction over securities, railroads, energy, and the envionment and turns it into Commerce & Health. And it takes way authority over welfare and health from Ways & Means.

These promised reforms—along with a planned one-third ut in congressional staff—are a potential menace to the Gucci Gulch lobbyists who use campaign donations, personal contacts, and an insider's knowledge of the system to help clients get backdoor legislative breaks. "The day when a special-interest provision is inserted in the last 24 hours before enactment may be drawing to a close," muses National Association of Manufacturers President Jerry J. Jasinowski.

Overthrowing the political status quo is exactly what the voters are demanding, which is why Gingrich has a real chance of shaking things up. Thanks to legislative defeats and retirements, a fifth of the incoming Congress is new. And more than half of the lawmakers will have been on Capitol Hill four years or less. The result: The typical legislator is in closer touch with constituents than with the lobbying community.

To adapt, some consultants are urging business clients to shift their sights from D. C. to the grass roots and to target more resources on mobilizing support in the field. Big Business went that route a year ago to win passage of NAFTA, and IBM this summer sent E-mail urging 180,000 U. S. employees to rally against the House Democratic leaders' health plan. "We've learned there's nobody more effective than a voter to talk with passion and sophistication on issues of this kind," says John D. Ong, CEO of B. F. Goodrich Co.

ELECTION '94 Some of the focus will shift from Gucci Gulch to the grass roots if Gingrich & Co. get their way

With Republicans preaching "devolution," much legislative action may move from Washington to state capitals. GOP crusaders would like to shift many key decisions for health, welfare, and education spending to the state and local level. The move would present multistate corporations with a real lobbying challenge as each state goes its own way.

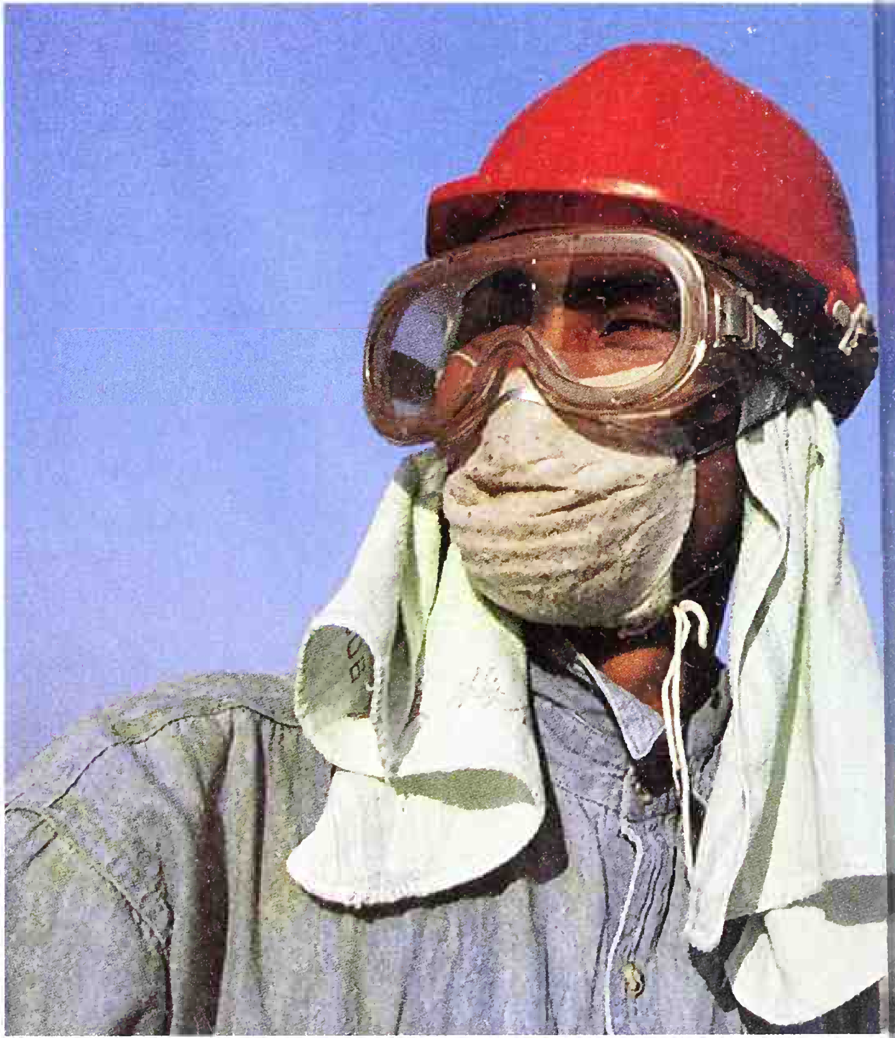
Talk of "deinventing government" is everywhere in GOP circles. But Gingrich's real motive may be to devastate the Democratic political infrastructure built up over decades of Capitol Hill dominance. Clintonites carp that the GOP assault is aimed at crippling pro-Democratic interest groups that are based in Washington and depend heavily on PACs. "The Republicans want to play the same game but on their turf," gripes one Administration lobbyist. "All you'll see is one ruling elite replaced by another elite that's very probusiness."

Executives may hope that's the case. After all, a wave of business PAC donations late in the campaign helped the GOP capture the House. But if the new Congress appears beholden to monied interests, voters will feel cheated again. The Democrats were ousted from control of Congress for being out of touch. If the GOP sells out to its own long-favored special interests, voters may make another change in two years.

PETER KUPER

BUILDING THE

An infrastructure boom is reshaping the region—and priming the East to compete in the 21st century



The sleepy rice town of Chonan, 60 miles south of Seoul, has long felt left out of South Korea's dash for modernization. But now, huge machines are eating through the area's steep green hills to make way for a track that will carry Europe's famous *trains à grande vitesse*. The trains, designed by GEC-Alsthom, will link Seoul with Pusan, 270 miles south. Some farmers in Chonan worry that the $13.4 billion project will displace them. But most, such as Kim Wan-Hee, are hoping for a big increase in land values "when people from Seoul move here and build houses."

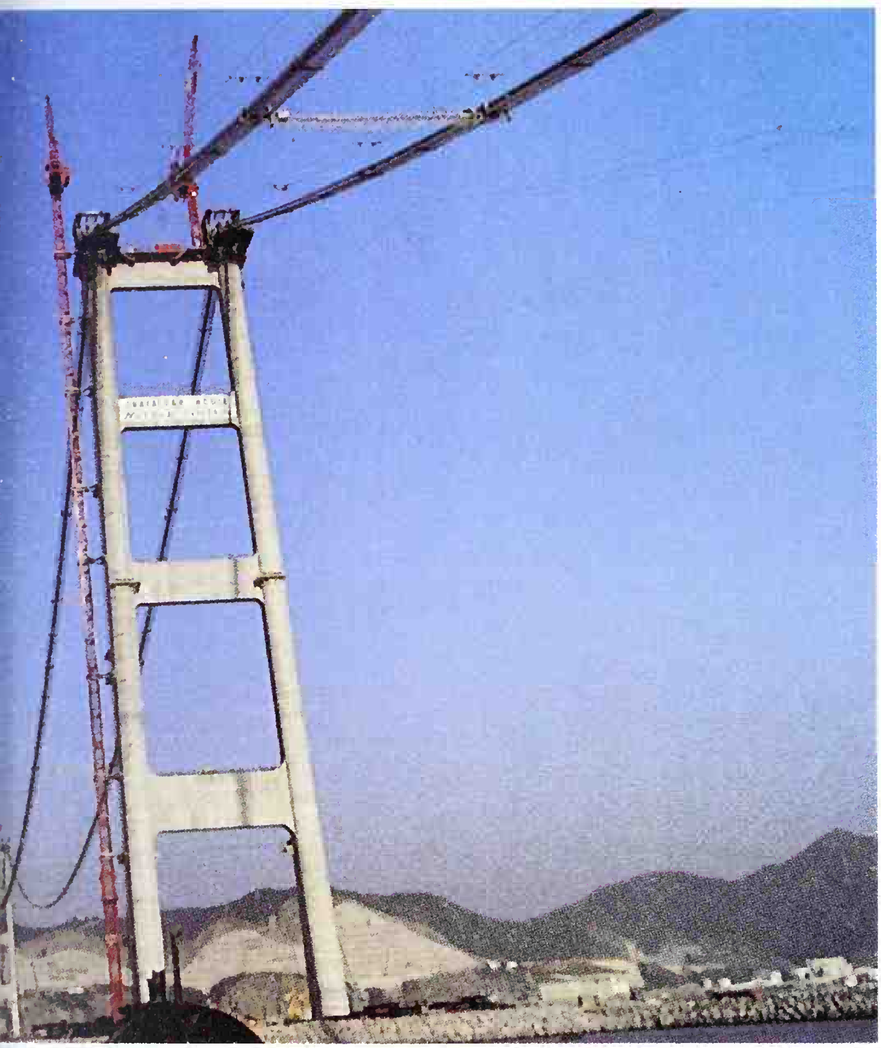
Along the coastline of China's southern Guangdong province, three huge smokestacks from a power plant built mostly by Hong Kong's Hopewell Holdings Ltd. shoot up from sugar-cane and banana fields. Power lines snake out from the Shajiao plants into the countryside, supplying energy to new factories. Peasants have donned bright clothes and taken jobs in the factories. Many have moved into apartment blocks with TVs and refrigerators. "Having enough power has changed everything for the local people," says station manager Wu Hongbo.

In Bangkok, Tasanee Milimtasut can't believe how times have changed. The 61-year-old housewife waited seven years for her first telephone line in 1991. Such was the demand for phone lines that she quickly sold it for $2,400, four times what she paid. These days, however, a joint venture between Charoen Pokphand group and Nynex Corp. is trying to fix Bangkok's phone crisis by installing 2 million lines. "Now, they send around trucks offering to install them immediately," Milimtasut exclaims.

A burst of infrastructure building is remaking Asia (map, page 64). Rocky islands are being flattened to give birth to airports. Mountains are being knocked down to make room for freeways. And massive reclamation work is shifting shorelines. Earlier this year, the Asian Development Bank estimated that the region would spend $1 trillion by 2000, primarily on energy, telecommunications, and transportation. But now, that estimate is viewed as conservative. Hong Kong's Peregrine group estimates that China, South Korea, Taiwan, Hong Kong, and the five biggest nations of Southeast Asia will require $1.9 trillion (chart, page 66).

"GROWTH MACHINE." This building is already having a vast social and environmental impact. But most Asians are willing—and eager—to pay the price. They see infrastructure as the key competitive battle as the cheap-labor advantage begins to slip away and they push on to

NEW ASIA



AIRPORTS

A network of bridges, tunnels, and highways will link Hong Kong's center to a huge new airport

reach fully industrialized status. "If you don't offer the infrastructure to make world-class, high-quality products and services, then you're left making shoes with low-cost labor," says Linda Y. C. Lim, a Singaporean who heads the University of Michigan's Southeast Asian Business Program.

Asia's infrastructure is also a crucial battleground for the industrial world's technology and financial giants. Japanese companies lead in winning 27% of the work on Hong Kong's $20.3 billion airport project. Anglo-French GEC-Alsthom sees its victory over Germany's Siemens in Korea as a stepping-stone for other high-speed train deals. Nynex, regarded as slow-footed at home, put itself on the map throughout Asia by scoring the $3 billion alliance with Thailand's CP group. "Asia is our growth machine," says Michael J. Heath, Asia/Pacific managing director for Nynex.

In some ways, the Asians must make the massive infrastructure push just to avoid choking on the growth they have already achieved. With auto use exploding, traffic jams are paralyzing capitals from Beijing to Bangkok. Airports are overwhelmed with long lines of travelers. Energy needs are growing exponentially, and the demand for mobile telephones, faxes, and new television services is taking off.

To be sure, there are boondoggles, white elephants, and mismanagement aplenty. The $11.2 billion Three Gorges Dam hydroelectric project in China, in particular, is a deal skeptics think will never happen because it is too grandiose. Taiwan's $17.1 billion Mass Rapid Transit program has been plagued by mysterious fires and cracks in its support pillars, not to mention corruption and contract disputes. Similarly, Thailand's politics have stalled projects that might ease Bangkok's notorious traffic.

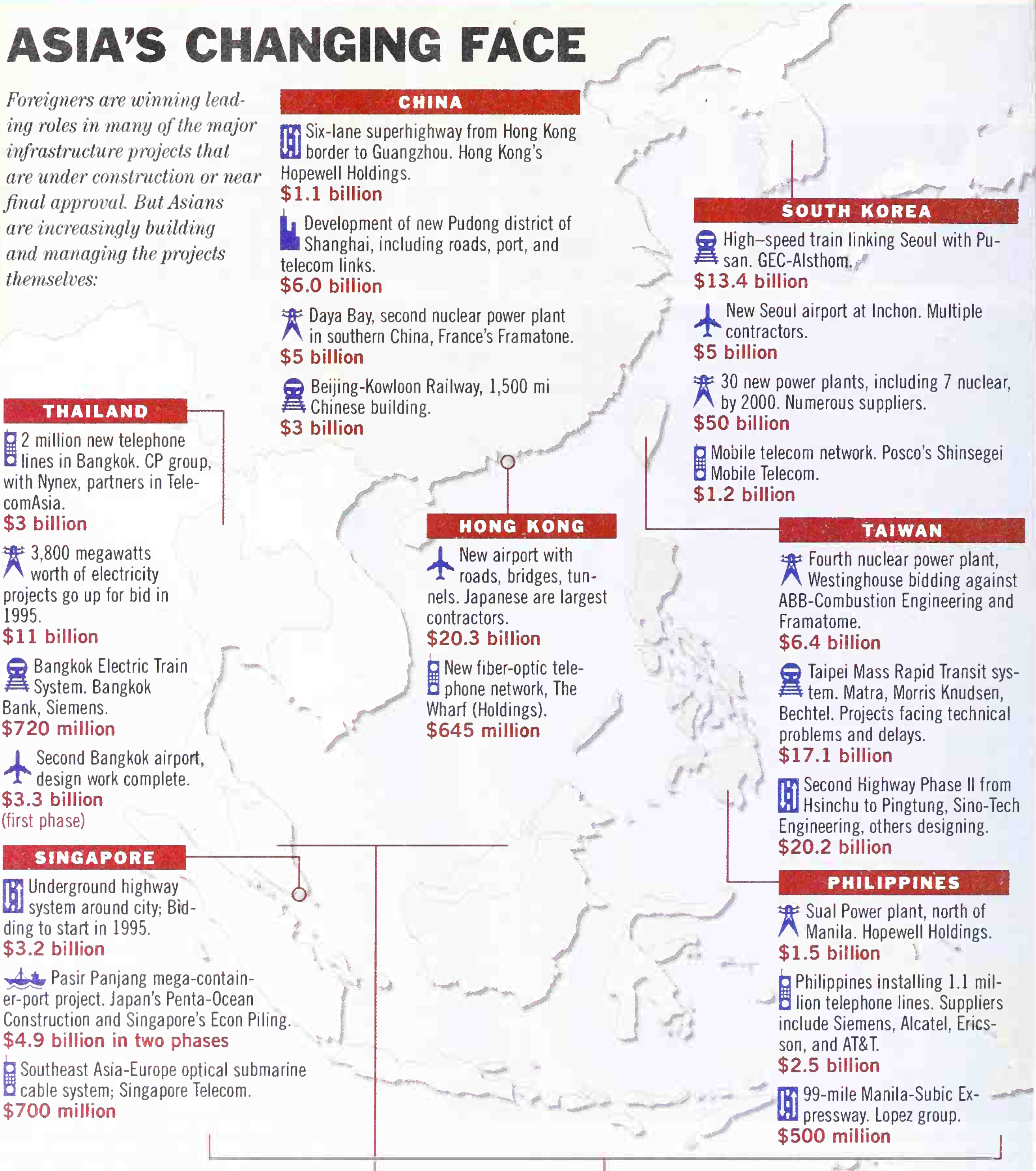
FOREIGN AID. The fact that some Asians are managing the infrastructure challenge better than others could create competitive gaps among nations once considered on a par with one another. Malaysia, for example, is doing a better job than neighboring Indonesia. It has only 10% of Indonesia's 190 million population, but the quality of the government's decision-making, combined with a competitive private sector, has played a role. In October, Renong, a private company, completed a 560-mile superhighway the length of the Malay peninsula without foreign help. In power, the Ekran group is clearing a site in the heart of Borneo's tropical forest to build a dam and 2,500-megawatt power plant. It will create a lake the size of Singapore.

To catch up, Indonesia is giving foreigners a bigger role. The government has lifted a ban on foreign investment in sensitive areas such as electrical generation, airports, and telecoms. "The Indonesians are realizing that they have to change or they are going to fall way behind," says Cesar C. Zalamea, president of American International Group's Asian investment arm.

Likewise, among the traditional Four Tigers, three of them—Singapore, Hong Kong, and South Korea—seem to be pulling ahead of Taiwan. Taiwan still boasts loads of cash and technology, but it has made such a mess of its infrastructure that it is attracting a shrinking volume of foreign investment. Even its own manufacturers fear that power outages, lack of clean water, and chronic traffic tie-ups

ASIA'S CHANGING FACE

Foreigners are winning leading roles in many of the major infrastructure projects that are under construction or near final approval. But Asians are increasingly building and managing the projects themselves:



THAILAND

2 million new telephone lines in Bangkok. CP group, with Nynex, partners in TelecomAsia.
$3 billion

3,800 megawatts worth of electricity projects go up for bid in 1995.
$11 billion

Bangkok Electric Train System. Bangkok Bank, Siemens.
$720 million

Second Bangkok airport, design work complete.
$3.3 billion
(first phase)

SINGAPORE

Underground highway system around city; Bidding to start in 1995.
$3.2 billion

Pasir Panjang mega-container-port project. Japan's Penta-Ocean Construction and Singapore's Econ Piling.
$4.9 billion in two phases

Southeast Asia-Europe optical submarine cable system; Singapore Telecom.
$700 million

CHINA

Six-lane superhighway from Hong Kong border to Guangzhou. Hong Kong's Hopewell Holdings.
$1.1 billion

Development of new Pudong district of Shanghai, including roads, port, and telecom links.
$6.0 billion

Daya Bay, second nuclear power plant in southern China, France's Framatone.
$5 billion

Beijing-Kowloon Railway, 1,500 mi Chinese building.
$3 billion

HONG KONG

New airport with roads, bridges, tunnels. Japanese are largest contractors.
$20.3 billion

New fiber-optic telephone network, The Wharf (Holdings).
$645 million

SOUTH KOREA

High-speed train linking Seoul with Pusan. GEC-Alsthom.
$13.4 billion

New Seoul airport at Inchon. Multiple contractors.
$5 billion

30 new power plants, including 7 nuclear, by 2000. Numerous suppliers.
$50 billion

Mobile telecom network. Posco's Shinsegei Mobile Telecom.
$1.2 billion

TAIWAN

Fourth nuclear power plant, Westinghouse bidding against ABB-Combustion Engineering and Framatome.
$6.4 billion

Taipei Mass Rapid Transit system. Matra, Morris Knudsen, Bechtel. Projects facing technical problems and delays.
$17.1 billion

Second Highway Phase II from Hsinchu to Pingtung, Sino-Tech Engineering, others designing.
$20.2 billion

PHILIPPINES

Sual Power plant, north of Manila. Hopewell Holdings.
$1.5 billion

Philippines installing 1.1 million telephone lines. Suppliers include Siemens, Alcatel, Ericsson, and AT&T.
$2.5 billion

99-mile Manila-Subic Expressway. Lopez group.
$500 million

MALAYSIA

560-mile North-South highway is completed. Malaysia's Renong group.
$2.3 billion

Private company Binariang creating advanced two-way satellite system, including television service. Hughes Aircraft.
$1 billion

Bakun Hydropower project under construction in Sarawak. Malaysia's Ekran group
$5.8 billion

INDONESIA

Coal-fired power plant in central Java. Hopewell Holdings.
$1.8 billion

Paiton power plant in east Java, also coal-fired. GE Capital, Mitsui, and Mission Energy.
$2.5 billion

5 million telephone lines to be built. AT&T, Bell Atlantic, Nynex, NTT, as well as companies from Britain, Australia, and France.
$7.5 billion

ill gnaw away at their competitiveness.

One reason Taiwan has failed is that it aited too long. Now, it is faced with the sk of doing too much at once. Yet its ractious internal politics don't allow Tai- ei to relinquish management control of ig projects to nonpartisan consortiums civil authorities. In the case of its ill- ted MRT, Taiwan did hire Bechtel, Mor- son Knudsen, France's MATRA, and hers—but didn't listen to them. he lesson is that a closed, highly oliticized decision-making model n't good enough.

HIGHWAYS *Asian nations are scrambling to build freeways that can unsnarl traffic jams in cities from Shanghai to Bangkok*

Among foreign companies, who will reap the biggest rewards from Asia's infrastructure boom? In power, General lectric and Westinghouse Electric re fighting ABB Asea Brown Bove- , Siemens, Hitachi, Mitsubishi eavy, Toshiba, and others. U. S. ompetitors also are battling to anage power plants: California's ission Energy will manage a $2.5 illion coal-fired plant in Java. CMS nergy, the Dearborn-based parent f Michigan's Consumers Power, is anaging Philippine power plants. n telecommunications, AT&T, the aby Bells, Motorola, GTE, GE's in- rmation-services unit, and IBM are oing head to head with the likes of rance's Alcatel Alsthom, Canada's orthern Telecom, Germany's Sie- ens, and Japan's NEC and Toshiba.

Overall, the Japanese see Asi- 's infrastructure spending as a ajor growth engine for them- elves. But they don't own the ame. Against Japan's construc- on companies, for example, the mericans enjoy an undeniable ead in advice, design, and project anagement. Bechtel Corp. and luor Corp. are involved in doz- ns of deals, but so is a surprising- deep cross section of smaller ompanies. Two examples: Black Veatch of Kansas City, Mo., a leading esigner and builder of power plants, and reiner Engineering Inc. in Dallas, which esigns airports. "The U. S. is hugely ompetitive," says Will Liley, managing irector of Peregrine's Asian Infrastruc- ure Fund in Hong Kong.

LLIANCES. The Americans achieved heir advantage in design and manage- ent skills partly because Japanese con- truction companies have been able to ely on rigged bidding in their own mar- et rather than honing their competitive edge worldwide. Similarly, Japanese telecom-equipment makers have been more sheltered than their U. S. rivals. They also are more reluctant to transfer technology. So while the Japanese sold switches, optical cable, and other equipment worth $2.3 billion in 1993, they are not at the cutting edge of forming alliances to help Asians build their telecom systems. "Japan is a little behind Europe and the U. S.," acknowledges Yoshio Utsumi, director-general of international affairs at Japan's Posts & Telecommunications Ministry.

Among Europeans, the French and Germans are mounting a surprisingly aggressive push. To create jobs back home, governments, companies, and financial institutions are teaming up to offer advanced technology at sweetheart prices. Beneath the chaos of Shanghai's cluttered streets, for example, schoolgirls in bright, flowered skirts ride subway cars built by AEG, a unit of Daimler Benz, near Berlin. The $250 million deal was made possible by German government soft loans.

European companies such as Siemens acknowledge that their willingness to give away technology is one advantage over Japanese rivals. "The Japanese have no real interest in helping China become a real economic power by transferring knowhow," says Juergen Oberg, Siemens' executive director for the Far East. "For Germany, it's easier to be best friends in areas far away."

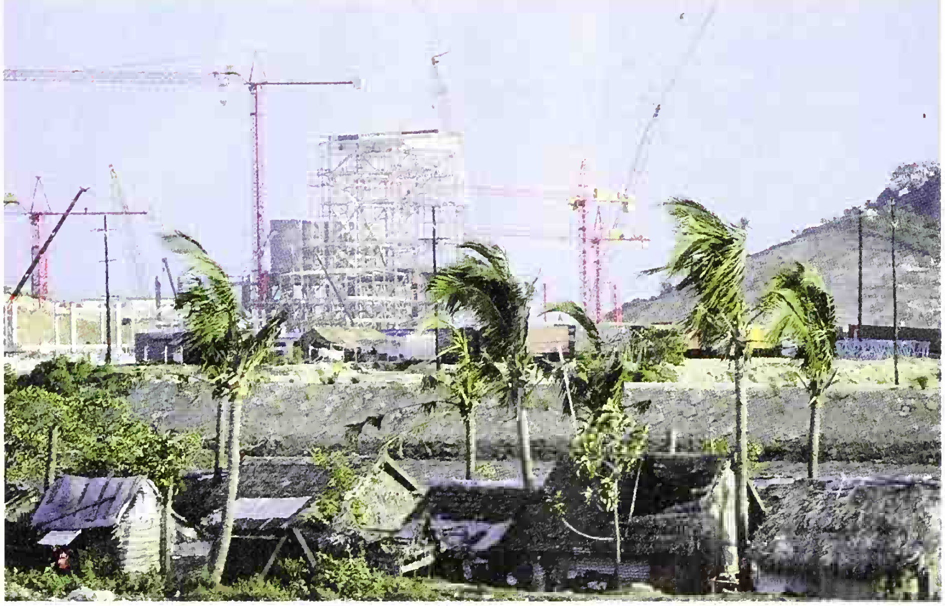
The Europeans also seem guaranteed a seat at Asia's table because of an almost universal desire to use three-way competition among the Europeans, Americans, and Japanese to extract the best deals. "A lot of the countries want to have a U. S. presence, a European presence, and a Japanese presence," says Nynex' Heath. "There's a propensity to carve up the pie."

Where will all the money come from? World Bank funding, European soft loans, and Japanese aid are no longer enough. As a result, Asians are starting to tap private capital from around the world. "The demands simply outstrip available capital," says AIG Chairman Maurice Greenberg, who has launched a $1 billion fund to invest in the high-return equity portion of major deals. Investors such as AIG and Peregrine want guaranteed 20% or higher annual rates of return. That strikes some Asians as too dear. So the big funds haven't yet been able to fully invest.

It's all a question of what price Asia will pay for the money. Asian officials and industrialists argue that coming up with

JEFFREY AARONSON/NETWORK/ASPEN

While the Japanese reap construction contracts, U.S. companies lead in advice, design, and project management



POWER

Black & Veatch, a U.S. company, is a leading designer of power plants such as this one in the Philippines

PHOTOGRAPH COURTESY BLACK & VEATCH. ILLUSTRATIONS BY ALAN BASEDEN

the equity isn't the problem. Their governments are often willing to put up certain amounts of capital, and equipment providers are eager to help finance the sale of their equipment. The need instead is for big flows of money at lower rates.

U. S. investment banks are trying to act as the bridge between Asian needs and Western markets, but they have had limited success. Merrill Lynch, Morgan Stanley, Goldman Sachs, and others are bringing Chinese power plants and Indonesian satellite companies to the New York Stock Exchange. But the Chinese share prices have not done well, partly because investors don't believe the companies will yield high enough profits.

QUESTION MARK. Gradually, however, the terms of the engagement are shifting in Asia's favor. One key is that the Japanese are playing a quiet but important role in making the money flow. Although Japanese banks are not winning high-profile advisory roles or innovating with the latest instruments, they have huge financial muscle. Rather than looking for the big fees that Western investment banks are after, Sanwa Bank Ltd., Industrial Bank of Japan, and others are moving huge amounts of money through plain-vanilla instruments such as project finance and syndicated loans.

Moreover, Asia's own capital markets are evolving with astonishing speed. Thailand's Electricity Generating Co. is raising $180 million in the Bangkok market this fall. Malaysia has been able to fund its highway and power projects in its own currency, the ringgit. Singapore is even exporting capital. So a large percentage of Asia's projects are going to move ahead, whether the West's investors come along or not. All of which helps explain why Hopewell Chief Executive Gordon Wu says: "Money is a commodity. You can buy as much as you want."

Aside from financial capital, the Asians are also developing their human capital—the skills needed to handle such rapid, complex growth. Because so many Asian decision-makers are equipped with MBAs or educations from the best Western universities—and so many are advised by the likes of Bechtel or Morgan Stanley & Co.—it's only a matter of time before they will absorb the management and design skills they need. That's even true in China. "All of us working in China realize we are probably working ourselves out of future opportunities as the Chinese obtain the experience," says Don Hackl, a Chicago architect designing high-rises in Shenzhen.

China is clearly the major question mark. After fast progress in allowing power plants such as Shajiao to be built, decision-makers in Beijing scuttled similar deals because of a perception that foreigners were making excessive profits. These leaders have been able to insist that China not grant foreign investors rates of return above 12% a year, and they've stalled on allowing the spread of the build-operate-transfer (BOT) model that is sweeping Southeast Asia.

"LEAPFROGGING." In telecommunications, however, where decision-making is less centralized, there is huge momentum. China is starting from a primitive position, with only two phone lines per 100 people, but ministries, regions, and municipalities are buying digital switches, fiber-optic cables and other such gear. Most executives agree China could move from 1950s-level systems to 1990-level systems in the space of only two or three years. "What they are buying and installing is state-of-the-art technology," says Jay Carter, AT&T Network Systems President for Asia/Pacific. "It really is leapfrogging."

The problem is, Chinese decision-making in telecoms is so fragmented that all the gear may not function together smoothly. An advanced digital AT&T system in Guangzhou may not communicate with a slightly different Alcatel system in Tianjin. "If they want a national, homogeneous interoperable system, that will be a challenge," says GE Information Services' Daniel Shih in Tokyo.

But even if the infrastructure push in China is uneven, the raw momentum is unmistakable. In sectors where the center is paralyzed, such as power, provinces are still pushing ahead with smaller power plants that don't require foreign financing. There are even hints in Beijing that the government will soon start allowing greater returns on the big power deals. Other projects are either done or nearing completion: Gordon Wu's six-lane highway cuts through former rice paddies to connect Guangzhou with the Hong Kong border at Shenzhen. A major new rail link between Beijing and Guangdong is nearly complete.

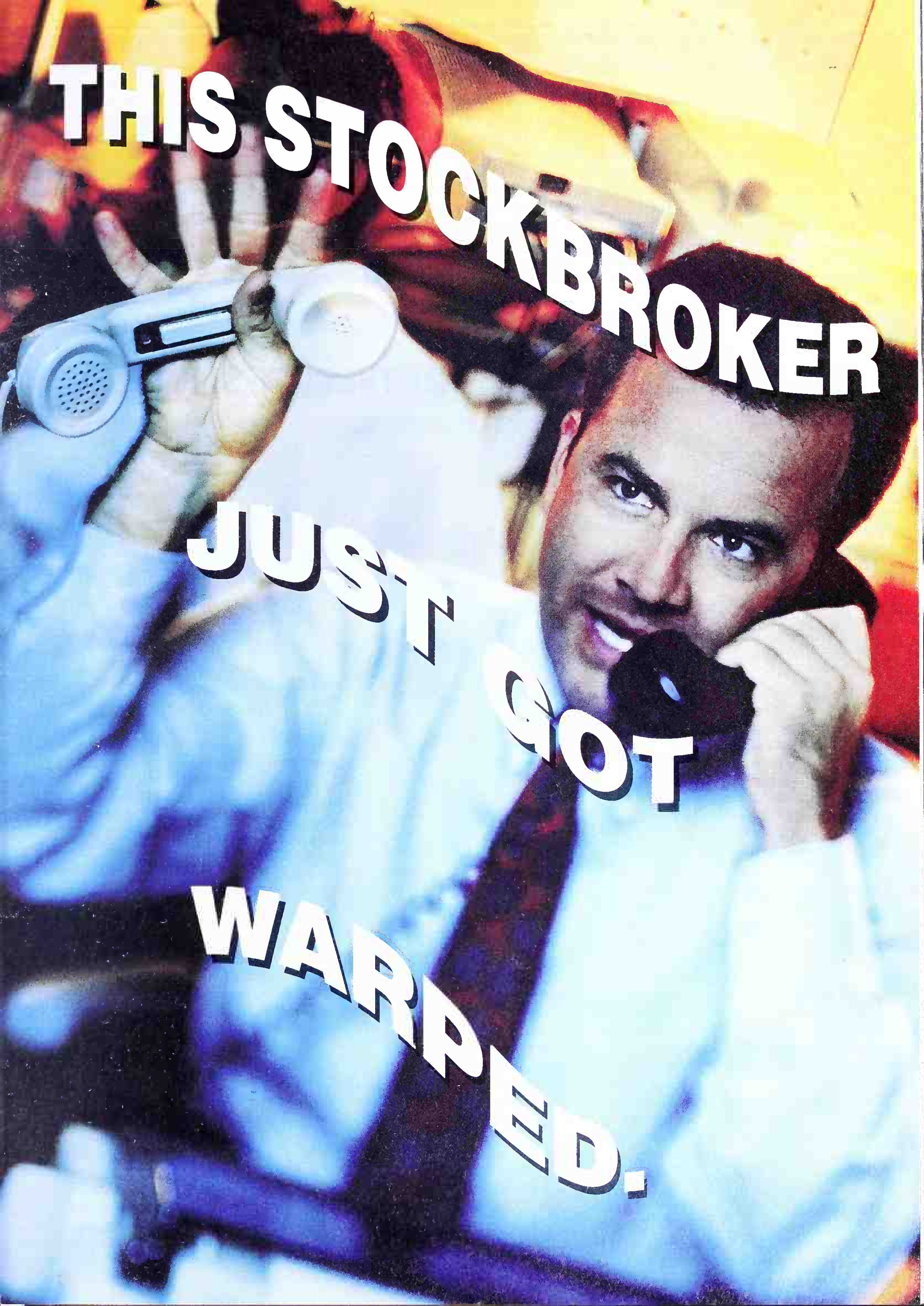
The question is whether China's leaders can make it all happen fast enough. This speed—and quality—of decision-making is a challenge for the entire region. The countries that allow

HOW MUCH ASIA WILL SPEND

According to one estimate, Asia will need $1.9 trillion by 2000

	TRANSPORTATION	POWER	TELECOM	OTHER
	IN BILLIONS OF DOLLARS			
ASEAN	$74.0	$64.1	$21.0	$63.3
CHINA	968.4	54.0	25.2	NA
HONG KONG	23.2	12.8	1.2	29.6
KOREA	132.3	46.2	32.3	145.7
TAIWAN	124.3	28.5	9.6	84.1

DATA: PEREGRINE'S ASIAN INFRASTRUCTURE FUND


THIS STOCKBROKER
JUST GOT
WARPED.

decisions to be made by qualified technocrats rather than corrupt generals or squabbling politicians are making faster progress. So, too, are the countries that find the right formulas to attract the best foreign technology and financing.

The winners from the outside will be those who transfer technology and provide financing at a price the Asians are willing to pay. They won't concentrate on one-shot sales but will become part of long-term alliances. They also will keep pushing into newer technologies, because Asians clearly want to become exporters of infrastructure themselves. Singapore already is exporting telecom expertise. Korean companies are trying to export nuclear-power-plant knowhow and, soon, a rash of new players such as Thailand's CP will be on the move in telecoms.

In short, Asia's infrastructure spending is shaping up as a massive transfer of technology and human capital. The Asian winners will set the stage for the next leg of their spectacular economic emergence—and foreigners who play it cleverly will enhance their global competitive clout. Thus Asia's infrastructure building is about more than pouring concrete. It's about defining who wins—and who falls behind—in the 21st century.

By William J. Holstein in Hong Kong, with bureau reports

HIS DREAM: REVAMP SHANGHAI. THE COST: $100 BILLION

URBAN DEVELOPMENT

Xu (right) at a Hong Kong conference: Using old ties to the power elite to solve problems

Xu Kuangdi is Shanghai's $100 billion man. As the city's executive vice-mayor, the ex-metallurgy professor heads a committee that approves infrastructure projects in Shanghai and its new development zone, Pudong. Roads, bridges, tunnels, and subways worth $6.2 billion have been built, but that's just a start. Shanghai hopes to spend $50 billion on itself and $50 billion on Pudong by 2000.

Xu's sophistication speaks volumes about the challenge foreign companies face in Asia. Decision makers such as the English-speaking Xu, 57, combine the best expertise of their native lands with that of the West. Hugely ambitious, they have access to world-class advice about how to make multinationals such as General Electric Co. and ABB Asea Brown Boveri (Holding) Ltd. compete fiercely against each other. They also boast outstanding political connections.

IDEA MAN. Xu's most important connection dates to 1989, when he was vice-president of the Shanghai University of Industry. Having spent two years as a technical manager with Saab in Sweden, Xu was a critic of the Shanghai municipality's heavy-handed central planning. His views attracted the attention of reformer Zhu Rongji, who had just become Shanghai's mayor. Over breakfast one morning while both were part of a delegation traveling in Europe, Zhu asked Xu to become director of Shanghai's planning commission.

"I don't believe in planning," Xu recalls saying.

"That's what I need," Zhu replied. "Someone with new ideas."

Xu took the job and by August, 1992, had been named executive vice-mayor. Zhu, now China's vice-premier in Beijing in charge of the whole country's economy, remains one of Xu's biggest supporters. In short, both men are part of the Shanghai-based network of officials managing China's economy.

To cope with Shanghai's infrastructure challenge, Xu has won help from World Bank experts, and he consults with an advisory panel of 23 foreign CEOs, including the heads of American International Group, Bank of Tokyo, Toshiba, and L. M. Ericsson. Xu hopes to harness that expertise to reestablish Shanghai as China's economic center. A student of development around the world, he says he wants to avoid white-elephant projects like Brazil's capital, Brasília, or its huge Itaipu dam. "We must keep the speed of infrastructural growth balanced with overall economic growth," Xu says. "If it's too fast, then you're putting too much money into cement."

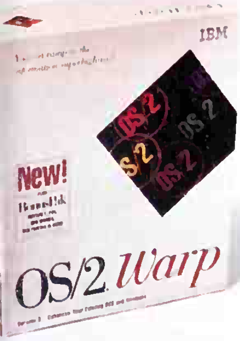
It is a task of mind-numbing complexity because the pressure is on to do everything at once. Pudong, located across the Huangpu River, is in effect a 46-square-mile construction site, including export processing and trade zones, technology areas, and a financial district. Throughout the Shanghai area, construction of new highways is forcing massive relocation of residents into high-rise apartment buildings.

CAPITAL QUEST. Xu's biggest headache? How to finance it all. So far, he has tapped the Asian Development Bank for bridges, the World Bank for sewage projects and new roads, and German government cheap loans for $250 million in subway cars supplied by AEG Corp.

But to achieve his ambition will require far greater flows of foreign, private capital—and that's still controversial in China. Xu doesn't have ideological difficulty with the build-operate-transfer model, which guarantees foreigners the profit levels they demand. Beijing, however, is balking these days at allowing foreigners much more than 12% annual profits. Against that backdrop, Xu is negotiating with GE and ABB over two 1,200-megawatt power plants, each costing $2 billion. The "annual return ratio," as Xu delicately puts it, is the key issue. If anyone can cut the best deal with a foreign company while keeping Beijing happy, Xu is the one. That's what it will take to keep Shanghai's infrastructure boom on track.

By William J. Holstein in Shanghai

HE'LL DO ANYTHING TO AVOID A CRASH.



On a typical day, stockbroker Bret Williams makes his personal nputer do some very atypical things.

He imports live market data off the ticker he same time that he's reading the stock e on-line, he same e that his nputer is firing off e-mail to a client, l at the same time that it's faxing his lunch er (pizza, usually).

He runs his PC without fear of crashing. any one of his applications ever goes down, rything else stays up.)

And he gets more out of the software he knows and uses, like Windows™ and DOS.

Bret has OS/2 Warp, the operating system that offers true multitasking, Crash Protection,™ Internet-access – not to mention a BonusPak filled with productivity applications.

The price is also less than you ever thought possible: under $90.

Of course, you're welcome to do your own risk assessment.

OS/2 Warp is available now. (For stockbrokers and anyone else looking for a great investment.) To get warped, stop by your local software dealer, or call 1 800 3 IBM-OS2. Ask for a free demo disk.

e new 32-bit, multitasking, multimedia, Internet-accessed, crash-protected, Windows-friendly, totally cool way to run your computer. **OS/2® WARP**

IBM

Warp is available from your software dealer. It is also available from IBM for $89 by calling 1 800 3 IBM-OS2.
er prices may vary. OS/2 Warp consists of OS/2 Version 3 and BonusPak. IBM, Operating System/2 and OS/2 are registered trademarks of the
tional Business Machines Corporation. Crash Protection and the OS/2 logo are trademarks of IBM. Windows is a trademark of Microsoft Corporation.
4 IBM Corp.

RUSSIA

A RUSSIAN GAS GIANT MAY GET SOME FOREIGN FUEL

Gazprom's proposed sale of an equity stake is sparking debate

During the recent Kremlin Cup tennis tournament, executives from Germany's Ruhrgas had plenty of reason to ply officials from Gazprom, the Russian gas monopoly, with vodka and cognac. Gazprom is Ruhrgas' biggest supplier. But the Russian company hasn't been behaving very nicely, lately. Hoping to grab a bigger share of the European market, it has linked up with one of Ruhrgas' major competitors and is now stealing business and denting Ruhrgas' profits. "All of the top people at Gazprom were our guests," says Reiner Hartmann, chief of Ruhrgas' Moscow office. But Gazprom isn't backing off.

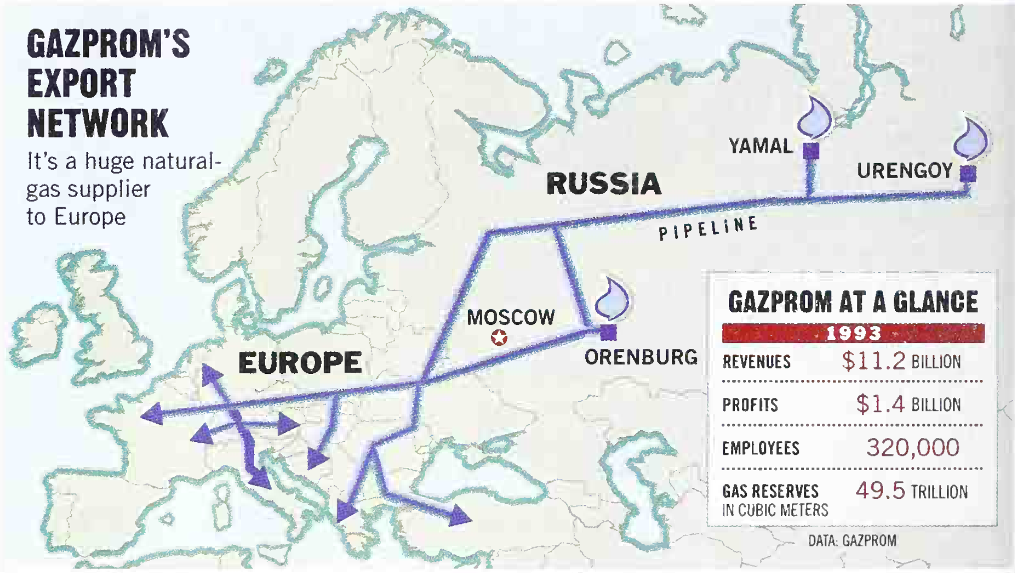
Gazprom, the world's largest gas producer with a huge 38% of global reserves, is a monster in the German market and the rest of Europe. And Gazprom's output dwarfs the combined world production of the biggest Western producers, including Royal Dutch/Shell, Exxon, Mobil, and British Petroleum.

SOCIAL CONCERNS. Russian gas was a huge issue in the 1970s as the U.S. unsuccessfully tried to prevent Europe from becoming dependent on the Soviet bear. Now it's about to be a hot topic again because this big, mysterious company is planning to sell a 9% chunk of its equity to foreign investors. The planned sale, which is being quietly orchestrated by the London-based investment bank Kleinwort Benson Group PLC, has sparked a debate about Gazprom's prospects and its real worth. Staggering estimates of the value of its assets are being bandied about, ranging from $250 billion to $740 billion. "The truth," says Gazprom Deputy Chairman Valery V. Remizov, "is somewhere in between."

If Gazprom were a Western company, one could determine its value by assigning a dollar figure to its reserves in the ground. But it's a much more complex animal. It can't be separated from Mother Russia and all the risks and problems there. It's owed at least a billion dollars by Ukraine and other former Soviet republics. It has huge social and political obligations, such as providing housing, schools, and health care for its 320,000 employees, many of whom are not directly engaged in the gas business. Remizov says that some 3.7 million people depend on the company. "It is not clear what their assets and their liabilities are," says Julia Nánay, an analyst with Petroleum Finance Co., a Washington consulting firm, or "where the money from this offering will go."

INTRIGUING PLAY. Gazprom's options are trading on the Vladivostok Stock Exchange at $5 per share—a price that would give a $125 billion total valuation—bigger than Royal Dutch Shell's $101 billion. Some market participants think Gazprom could go for a price in that range—although insiders and the Russian public have been able to buy in for much less.

Pricing issues aside, Gazprom definitely is an intriguing play. With its vast 140,000-kilometer pipeline network, it controls nearly 100% of the Eastern European market and about 25% of the Western. The volumes it pumps westward will likely expand in the coming years as demand for cleaner fuels increases. By 2010, European demand for gas is likely to grow by about 50%, to almost 600 billion cubic meters, according to energy consultants Purvin & Gertz Inc. "We see tremendous scope in Russia's increasing exports to Europe, but that does depend on them remaining a reliable business partner," says London-based managing partner Michael Corke.



GAZPROM'S EXPORT NETWORK

It's a huge natural-gas supplier to Europe

GAZPROM AT A GLANCE

1993	
REVENUES	$11.2 BILLION
PROFITS	$1.4 BILLION
EMPLOYEES	320,000
GAS RESERVES IN CUBIC METERS	49.5 TRILLION

DATA: GAZPROM

At home, Gazprom is a political powerhouse. Its former boss, Viktor Chernomyrdin, is now Prime Minister, and he stays in close touch. Gazprom's present boss, Rem Vyakhirev, is a career Chernomyrdin protégé. With that kind of clout in the Kremlin, Gazprom officials push economic policies that favor their interests. Unlike their counterparts in the Russian oil patch who are courting Western companies, they are trying to keep foreigners out of the gas industry—except in areas where specialized technology is needed. As Russia's leading hard currency earner, Gazprom can also call on Kremlin backing to pursue

Estimates of Gazprom's asset value are staggering, ranging from $250 billion to $740 billion s aims in the former Soviet Republics nd Eastern Europe.

Despite being a holdover from the old oviet economy, Gazprom gets good narks from many executives who have ealings with it. While critics chide its rojects for taking on Soviet-style garantuanism, Gazprom is generally rearded as well managed and sophistiated. Says a Western energy executive Moscow: “Of all the companies we've ome across in Russia, Gazprom is defnitely the most professional.”

OSTLY RISK? Foreign investors will oon have a chance to express their terest in Gazprom. The company and s advisers at Kleinwort Benson are oping to entice Western energy compaies such as Amoco, Texaco, Conoco, aly's ENI, and British Gas, as well as stitutional investors.

But privatization is not expected to eep Gazprom from going ahead with e big, risky projects that some energy ecialists think are a mistake. Much of e money from the upcoming stock sale the West is expected to go toward e $35 billion Yamal-Europe project at would produce gas from new fields the Yamal Peninsula in western Sibea. Yet some institutions, notably the Vorld Bank, question whether producg and delivering the gas from Yamal ill be too expensive.

Gazprom, like its counterpart in the l industry, Lukoil, is also playing hardall in the former Soviet republics. Afer spending up to $1 billion of its own unds helping develop the big Karachaank fields in northwestern Kazakhstan, azprom is insisting on participating ith British Gas and Italy's AGIP in a 7 billion project there. Russia is also aking it clear through diplomatic chanels that anything behind the former on Curtain is Gazprom's turf.

Some European gas suppliers worry at Gazprom could use alliances and its ze to eventually dominate their home arkets as well. “Gazprom is a serious- large company, and there are some oncerns of an unholy alliance between azprom, British Gas, and Ruhrgas. If ese players teamed up they would be a position to influence price,” says ohn Astrop, commercial director of Kietica Ltd., a British-based pipeline and pply joint venture between Conoco nd PowerGen.

If Gazprom can get the financing to evelop its huge projects and upgrade nd build pipelines, it seems destined play a pivotal role in Europe's enery supplies. It also might well prove a rewd stock play—unless its problems home cause it to flame out.

By Peter Galuszka in Moscow, with tanley Reed in New York, Stewart Toy Paris, and Heidi Dawley in London

---

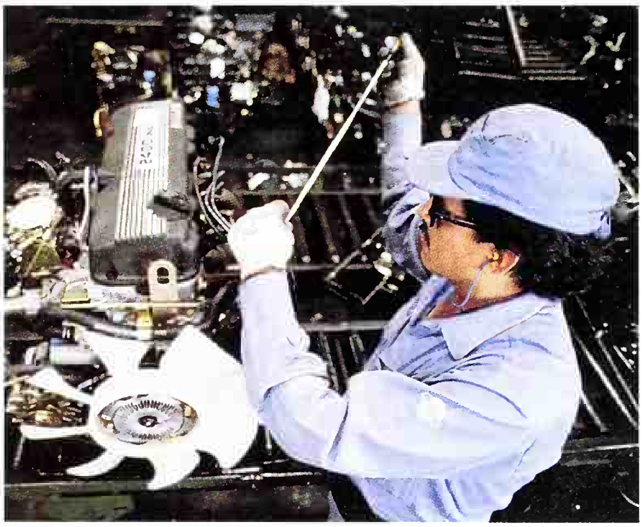
MEXICO

THE JAPANESE HAVE A YEN FOR MEXICO AGAIN

Encouraged by NAFTA and Salinas' reforms, they're coming back

Outgoing Mexican President Carlos Salinas de Gortari did all he could to make nice to the Japanese—visiting Tokyo, even sending his three children to the Japanese school in Mexico City. But the efforts did little to attract Japanese capital. Memories of earlier Mexican projects gone sour and the country's billion-dollar debt write-offs under the Brady Plan were stronger.

Now, economic progress is doing what goodwill could not: bringing back Japanese investment after a six-year hiatus. The North American Free Trade Agreement restored Japanese confidence in Mexico, and the foreign-investment law passed last November, extending many NAFTA guarantees to offshore investors, brought extra reassurance. Lower inflation and a balanced budget helped, too. “Mexico has changed,” says Hiroshi Takita, president of Mitsui de México and the Japanese Chamber of Commerce. Total Japanese investment for the first eight months of 1994 was more than $165 million, surpassing any yearlong figure in the past decade.



NISSAN IN MEXICO: *The biggest Japanese investor*

SERGIO DORANTES/SYGMA

TRAILBLAZERS. Japanese companies were also encouraged last month when the Mexican government named the foreign competitors it will allow into its once closed banking sector. Fuji Bank Ltd. and Bank of Tokyo Ltd. will open Mexican subsidiaries early next year—giving Japanese investors an additional sense of security.

A few companies haven't waited for banks to blaze the trail. Honda Motor Co. announced in May that it would spend $50 million to expand its six-year-old motorcycle plant in Guadalajara to produce Accords as well as motorcycles. Honda was clearly influenced by the success of Nissan Motor Co., which has been in Mexico for 30 years and accounts for more than half of Japanese investment in Mexico.

Under NAFTA, foreign manufacturers have seven years to position their parts suppliers to meet the new local-content minimums. Many suppliers are heading for the *maquiladoras* along the border, which will retain their tariff privileges until 2001. In early November, Matsushita Electric Industrial Co. said it would invest $36 million to open a battery plant in Tijuana, where heavyweights such as Sanyo and Sony Corp. make televisions. Toshiba Corp. is spending about $30 million to expand its *maquiladora* color-TV-chassis plant.

Auto and electronics makers aren't alone. Aoki Corp. led a Japanese investor group in building a $110 million resort in Cancún that opened last month. And Dowa Mining Co. formed a $38 million joint venture with Mexico's Industrias Peñoles to mine zinc and lead concentrate outside Mexico City. Next, trading companies Mitsui, Mitsubishi, and Itochu propose building a $1.6 billion refinery for Petróleos Mexicanos in Oaxaca state.

Japanese investors still gripe that Mexico doesn't offer the tax and other incentives they get in Asia and the U.S. “Apparently, the Mexican government thinks the economic opening will be enough,” grumbles Tomomi Taguchi, general director of Bank of Tokyo's new subsidiary. But so far, the opening has indeed been enough to draw Japanese capital. Once Taguchi's Mexican office opens, even more will follow.

By Elisabeth Malkin in Mexico City, with Robert Neff in Tokyo

EUROPE

NOW LIFTING OFF IN EUROPE: NO-FRILLS FLYING

Scrappy outfits modeled on Southwest may give big carriers fits

No doubt about it, EuroBelgian Airlines Express will be a shoestring operation. Travelers on the new Brussels-based carrier, which starts up with six daily flights on Nov. 24, will get no meals, no free newspapers, no connecting flights. But what they will get is a rarity in Europe: a deeply discounted ticket. Vows Managing Director Victor Hasson: "We will shake up the European airline industry."

IRRESISTIBLE: *At $175, EBA's Brussels-Rome flights are a hit*

The Old World's cozy system of sky-high fares, state-owned carriers, and controlled competition could certainly be in for a shock. There's no predicting the ultimate success of EuroBelgian or other upstarts that may follow. But if enough of them appear, their mere existence could change the game in the European Union, which has deregulated fares for flights between member countries. As a result, says airline consultant Bertrand d'Yvoire: "I expect a free-for-all quite comparable to what we've seen in the U.S."

European consumers already are demonstrating a pent-up demand for cheap tickets. EuroBelgian advance fares between Brussels and Rome begin at $175 round-trip, at least one-sixth the Alitalia or Sabena midweek advance fares on the same route (table). Taking one of these high-priced flights convinced Hasson, who already operates a small charter airline, to set up a regularly scheduled service. His strategy is closely based on Southwest Airlines in the U. S. Southwest's specialty—short-haul flights, low fares, and super-efficient use of planes and crews—has generated profits while U. S. giants like American Airlines have lost millions.

Michael O'Leary is a Southwest fan, too. The 33-year-old chief executive of Ireland's Ryanair remodeled the foundering airline in 1991 to mimic the Texas carrier. Ryanair now flies between Dublin and five British cities for less than $109 round-trip. The company claims to be the lowest-cost and fastest-growing scheduled airline in Europe. Predicts O'Leary: "Short-haul, cost-efficient airlines will sprout up all over Europe."

EuroBelgian's Cheap Fares

	EUROBELGIAN*	FULL-FARE RIVALS**
BRUSSELS-ROME	$175	$1146
BRUSSELS-VIENNA	175	1284
BRUSSELS-BARCELONA	175	503

*Unrestricted round-trip fare, less airport tax

**Alitalia, Austrian Airlines, Iberia. Round-trip midweek fare

Europe's biggest airlines don't cherish the prospect of new competitors swarming about, and they know that after 1997 every domestic airline market will be thrown completely open to competition. So one response has been to start up their own low-fare subsidiaries. Lufthansa, for example, has launched Lufthansa Express for domestic service, and a low-cost rival, Deutsche BA, is owned 49% by British Airways. Says Ulrich Schulte-Strathaus, vice-president for international relations at Lufthansa: "We're getting ready for the onslaught." Lufthansa may eventually extend its Express operation outside Germany. Even Italy's Alitalia may start up a no-frills subsidiary early next year, according to one insider.

"BLEAK FUTURE." If the new services prosper, the casualties could start mounting. Nick Cunningham, an analyst at London brokerage Barclays de Zoete Wedd Ltd., sees "a fairly bleak future" for some of Europe's old-style flag carriers: "If they didn't make money under regulation, how are they going to make money in a deregulated environment?" Belgium's Sabena, Spain's Iberia, and Portugal's TAP are often mentioned as possible victims.

The big caveat is that structural problems could halt the spread of no-frills service. Labor can cost twice as much as in the U.S., making it tough to profit from cheap fares. Train service already offers a low-cost alternative to air travel. While underused airports exist, overcrowding at the biggest airports means they can't easily accommodate startups. And state aid to ailing flag carriers will help them compete by artificially maintaining a high quality of service.

Yet for many entrepreneurs the prospect of reinventing an industry will be too exciting to pass up. Richard Branson, the owner of Virgin Atlantic Airways, was recently asked if he has plans to join in the fun. "Watch this space," is his answer. There will be plenty to watch in Europe's skies.

By Paula Dwyer, with Heidi Dawley in London

To handle the blizzard of reservation calls during the busy season, Taos Valley Resorts had to ask many potential customers to hang on. Unfortunately, too many simply hung up.

Sprint Business created a real solution: Enhanced 800$^{\text{SM}}$ Service instantly transferred calls to Taos operators at other sites, so customers got through quickly. And reservations jumped 30%.

We've also helped put their marketing communications in peak condition with SprintFAX®. At the push of a button, they now send timely promotions and snow updates to more than 200 newspapers and travel agents simultaneously. It gives Taos Valley Resorts a real edge over the competition.

No matter what business you're in, Sprint Business can help you turn communications technology into a powerful business tool. One that can help make you more profitable. And isn't that why you're in business in the first place?

Find out how we can help your business do more business. Call 1-800-598-5000.

When Sprint Business took our customers off hold, business snowballed.

India Hatch
President
Taos Valley Resort Assn.

REAL BUSINESS	REAL PROBLEM	REAL SOLUTION	REAL RESULTS
Taos Valley Resort Association	Sales lost due to busy reservation lines	Calls re-routed instantly to available operators	30% more reservations boosted profits

Sprint® Business

©1994 Sprint Communications Company L.P

EDITED BY STANLEY REED

CLINTON'S BIGGEST FOREIGN POLICY HEADACHE: CONGRESS

While schmoozing with Asian leaders on his recent trip, President Clinton was careful to reassure them that the Republican takeover of Congress wouldn't alter U.S. foreign policy. But that's wishful thinking. The centerpiece of Clinton's international strategy—expanding global trade—is going to come under heavy fire from Republican isolationists. And the new Chairman of the Senate Foreign Relations Committee, Senator Jesse A. Helms (R-N.C.), a combative cold war throwback, is giving every sign that he will battle the President on international relations.

That's too bad because the Administration has made much bigger strides than it gets credit for in shifting Washington's focus from cold war confrontation to protecting and expanding American economic interests in Russia, Asia, and Latin America. Now, it will be tougher to complete the transition. With the GOP in the driver's seat, Congress will be able to blunt Clinton initiatives by cutting off funds, rejecting accords, and blocking political appointments.

HANOCK PIVEN

CLOSE CALL. The first big test will be a down-to-the-wire vote on a global trade pact around Dec. 1. "This is the most important vote on trade in the decade," says Senator Daniel P. Moynihan (D-N.Y.). "If we don't pass it now, it would be a disaster."

Odds are Clinton can muster just enough votes to win approval of the General Agreement on Tariffs & Trade implementing legislation. But it will be close. The new GOP congressional leaders—Senator Bob Dole of Kansas and House Speaker Newt Gingrich of Georgia—have pledged their support. But Helms and many newly elected Republicans fear GATT's rulemaking World Trade Organization will crimp U.S. sovereignty. They may succeed in postponing the vote until next year so they can revise it to their liking.

If Clinton loses "fast track" authority on trade, he doesn't stand a chance of extending NAFTA to other Latin nations

The GOP traditionally has been the party of free trade. There are many stripes of GOP politicians, from pro-business moderates such as Senator Richard G. Lugar of Indiana to Representative Ileana Ros-Lehtinen of Florida, a Cuban exile firebrand. But the newcomers have cut their teeth on the politics of America Firster Ross Perot. They're reluctant to renew Clinton's authority to negotiate future trade pacts on a "fast track," which gives him a free hand to close deals without congressional interference. If he loses fast track, Clinton doesn't stand a chance of extending the North American Free Trade Agreement to other Latin American countries. Already, Mexicans are furious over California's voting in anti-immigration legislation that they consider racist.

Senator Helms's influence will also rattle U.S. relations with Russia. Helms is poised to take an ax to the U.S. Agency for International Development, so Moscow can kiss any new U.S. aid goodbye. Russians are also edgy about GOP support for quick NATO membership for Poland, Hungary, and the Czech Republic. Says Georgy Arbatov of Moscow's Institute for U.S.A.-Canada Studies: "All this will create a fertile ground for nationalistic and anti-Western moves in Russia."

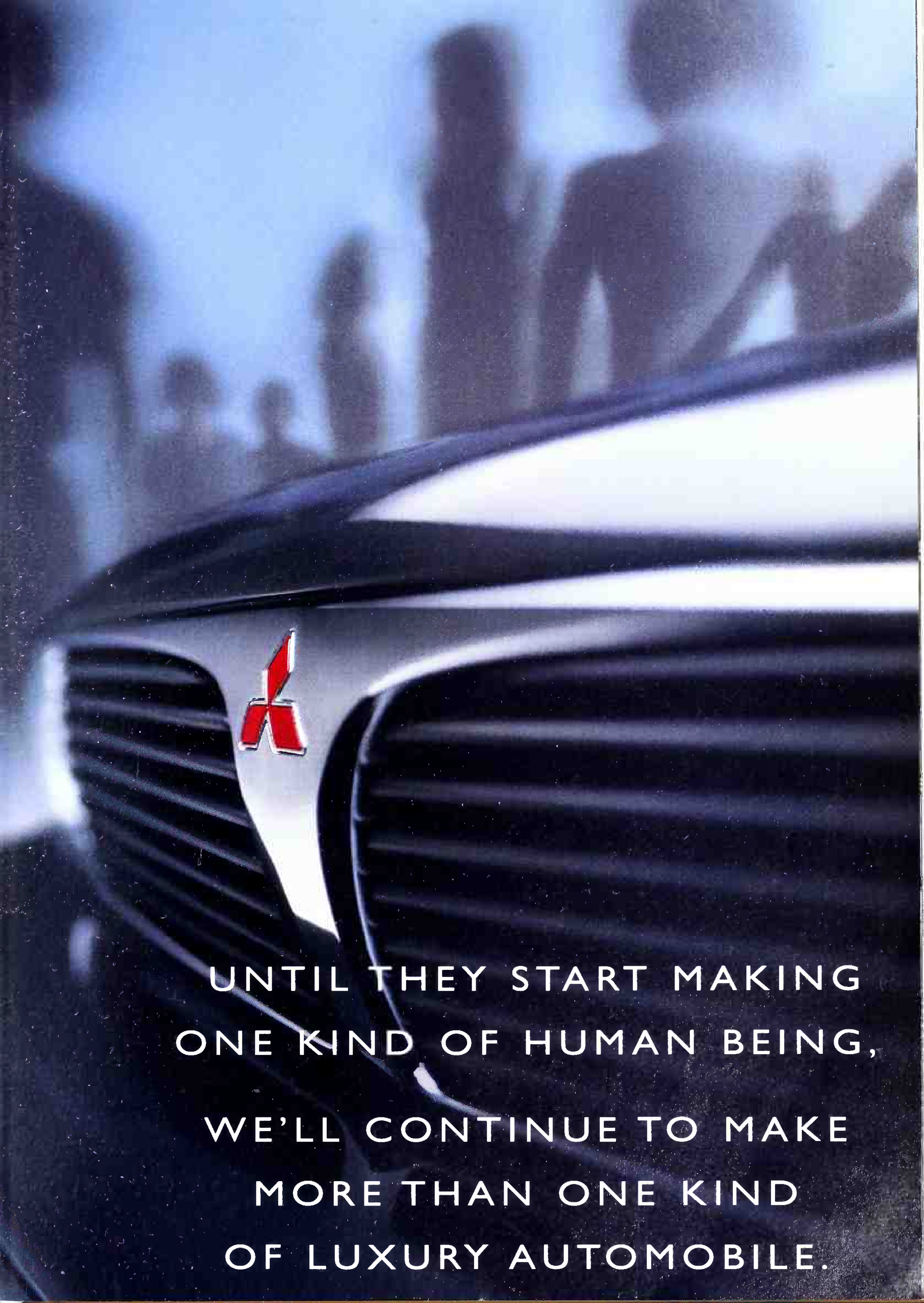
NIGHTMARES. Helms will likely give Clinton big trouble on China, too. The Administration has spent the past six months mending relations with Beijing by putting economics ahead of human rights and reestablishing military ties. But ardent anticommunist Helms and Asian subcommittee Chairman Frank H. Murkowski (R-Alaska) could stop that effort cold. Both are staunch Taiwan backers, and while they likely won't attack China's trade privileges, they will shift the Hill's focus from U.S.-Japan trade spats to China's human-rights abuses and missile trafficking to regimes hostile to the U.S.

One China-based executive of a major American consumer-products company worries that U.S. companies could be cut out of lucrative deals in China. "If Helms and other conservative Republicans make an issue of Taiwan independence or abortion in China," he says, "it might have a major impact."

With such problems, it might seem like a good time for Clinton to shake up his international team. Trouble is, with Helms in the catbird seat, getting any new figures confirmed will be a nightmare. So Secretary of State Warren M. Christopher's job looks a lot more secure than it did before the election.

Clinton is about to discover what other Presidents who presided over divided government learned all too well: Sometimes the biggest headaches in foreign policy lie at the other end of Pennsylvania Avenue.

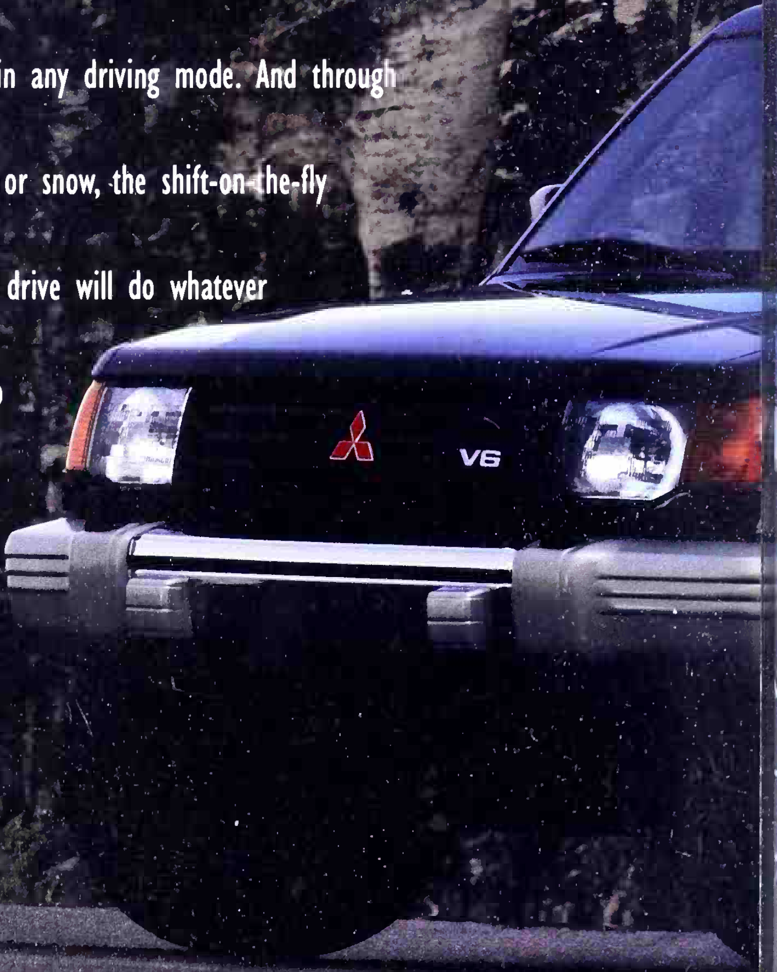
By Amy Borrus and Douglas Harbrecht in Washington


UNTIL THEY START MAKING
ONE KIND OF HUMAN BEING,
WE'LL CONTINUE TO MAKE
MORE THAN ONE KIND
OF LUXURY AUTOMOBILE.

THE IDEAL VEHICLE FOR "TYPE A" PERSONALITIES.

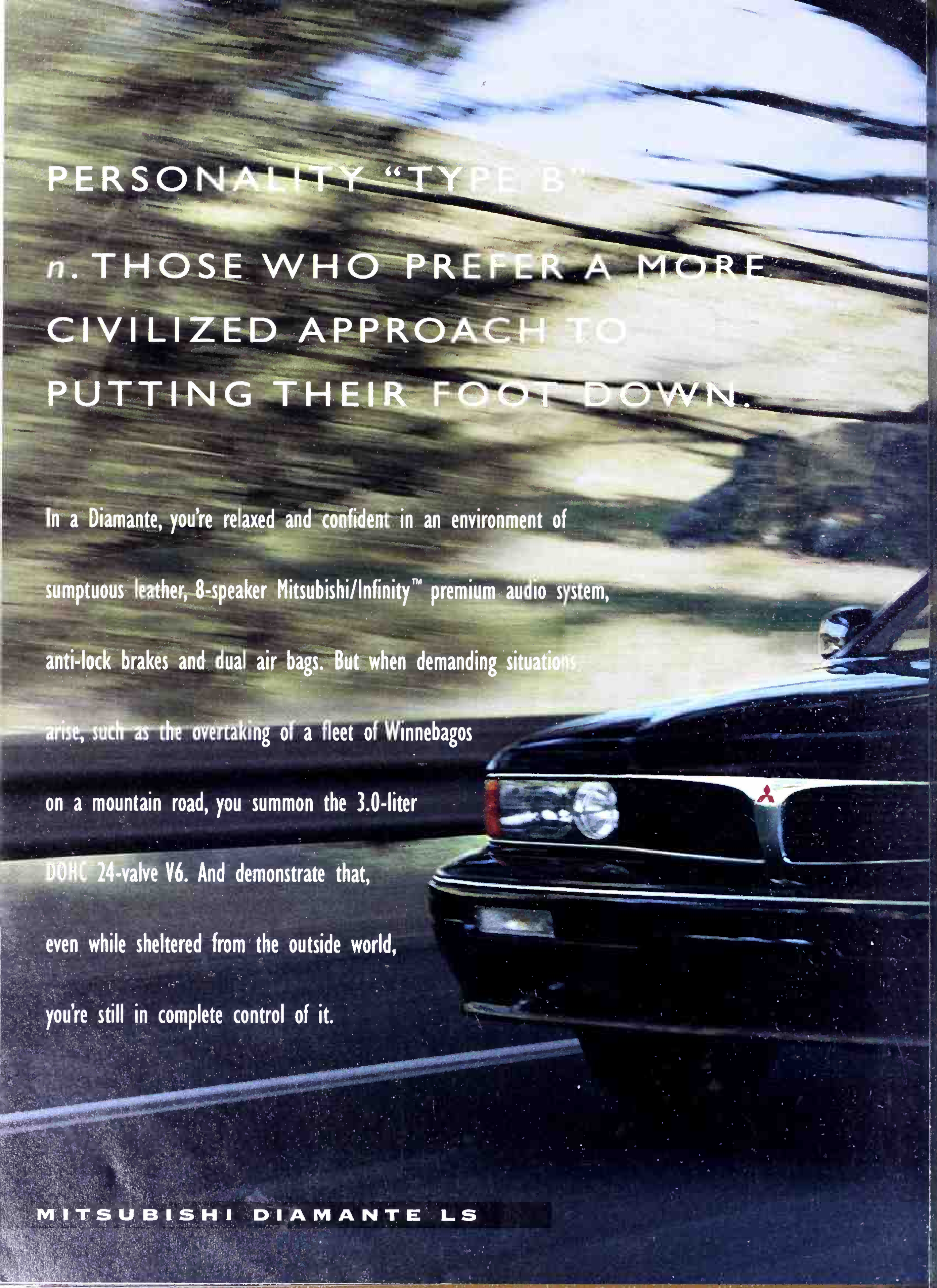
AGGRESSIVE ON THE OUTSIDE. UNCOMPROMISING ON THE INSIDE.

The 3.5-liter DOHC 24-valve V6 engine roars with an intimidating 214 horsepower. The anti-lock braking system works overtime in any driving mode. And through rain, sleet or snow, the shift-on-the-fly four-wheel drive will do whatever it takes to get ahead.* Inside the elegant, spacious cabin, you and six fortunate acquaintances unwind on plush leather seats† and revel in the ride. And let the Montero do all the dirty work.

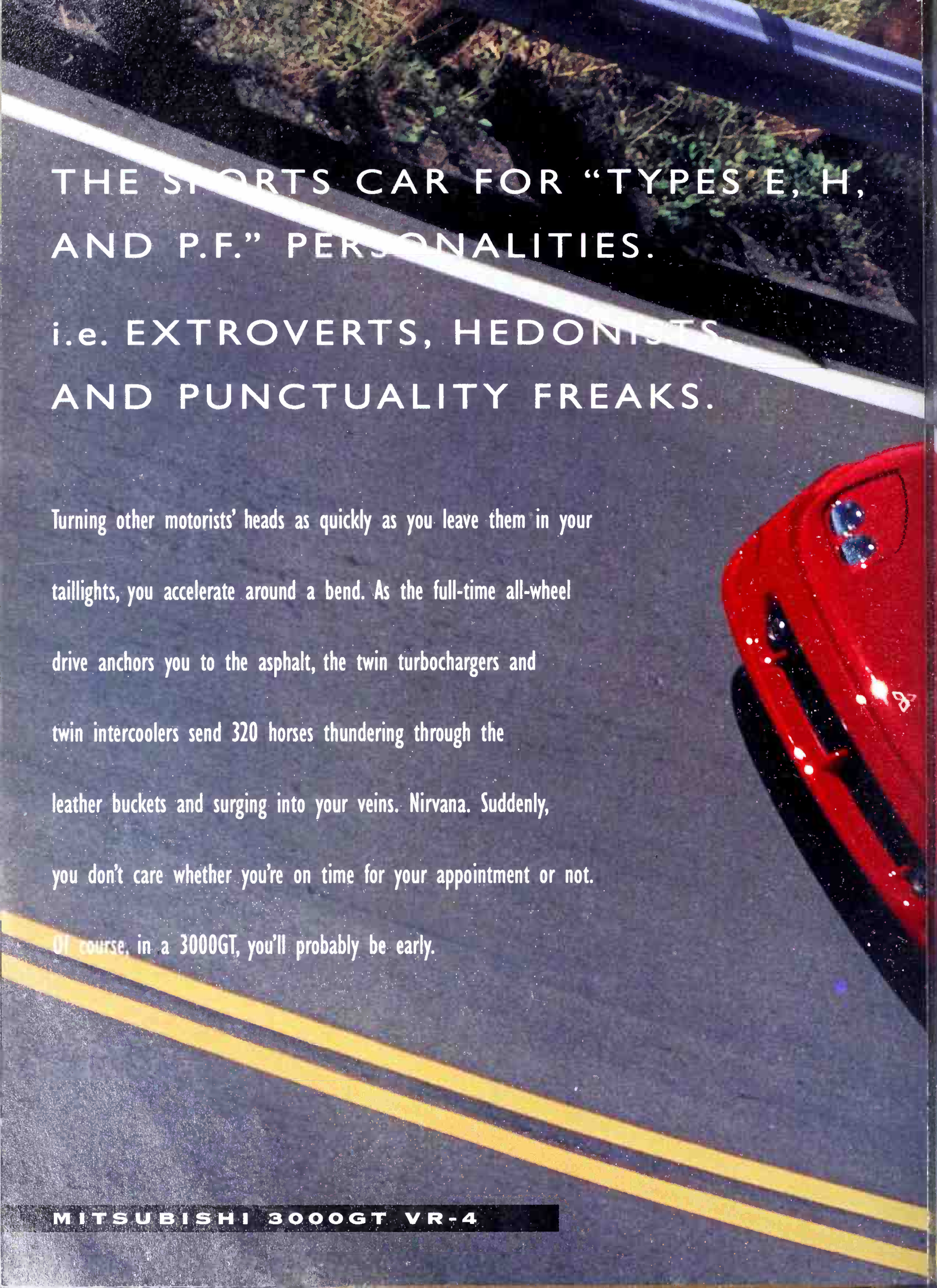


MITSUBISHI MONTERO SR

*Remember to drive responsibly when going off-road. †Montero SR shown with available Leather and Wood Package, chrome wheels, and roof rack.


PERSONALITY "TYPE B"
n. THOSE WHO PREFER A MORE CIVILIZED APPROACH TO PUTTING THEIR FOOT DOWN.
MITSUBISHI DIAMANTE LS

In a Diamante, you're relaxed and confident in an environment of sumptuous leather, 8-speaker Mitsubishi/Infinity™ premium audio system, anti-lock brakes and dual air bags. But when demanding situations arise, such as the overtaking of a fleet of Winnebagos on a mountain road, you summon the 3.0-liter DOHC 24-valve V6. And demonstrate that, even while sheltered from the outside world, you're still in complete control of it.



THE SPORTS CAR FOR "TYPES E, H, AND P.F." PERSONALITIES.

i.e. EXTROVERTS, HEDONISTS, AND PUNCTUALITY FREAKS.

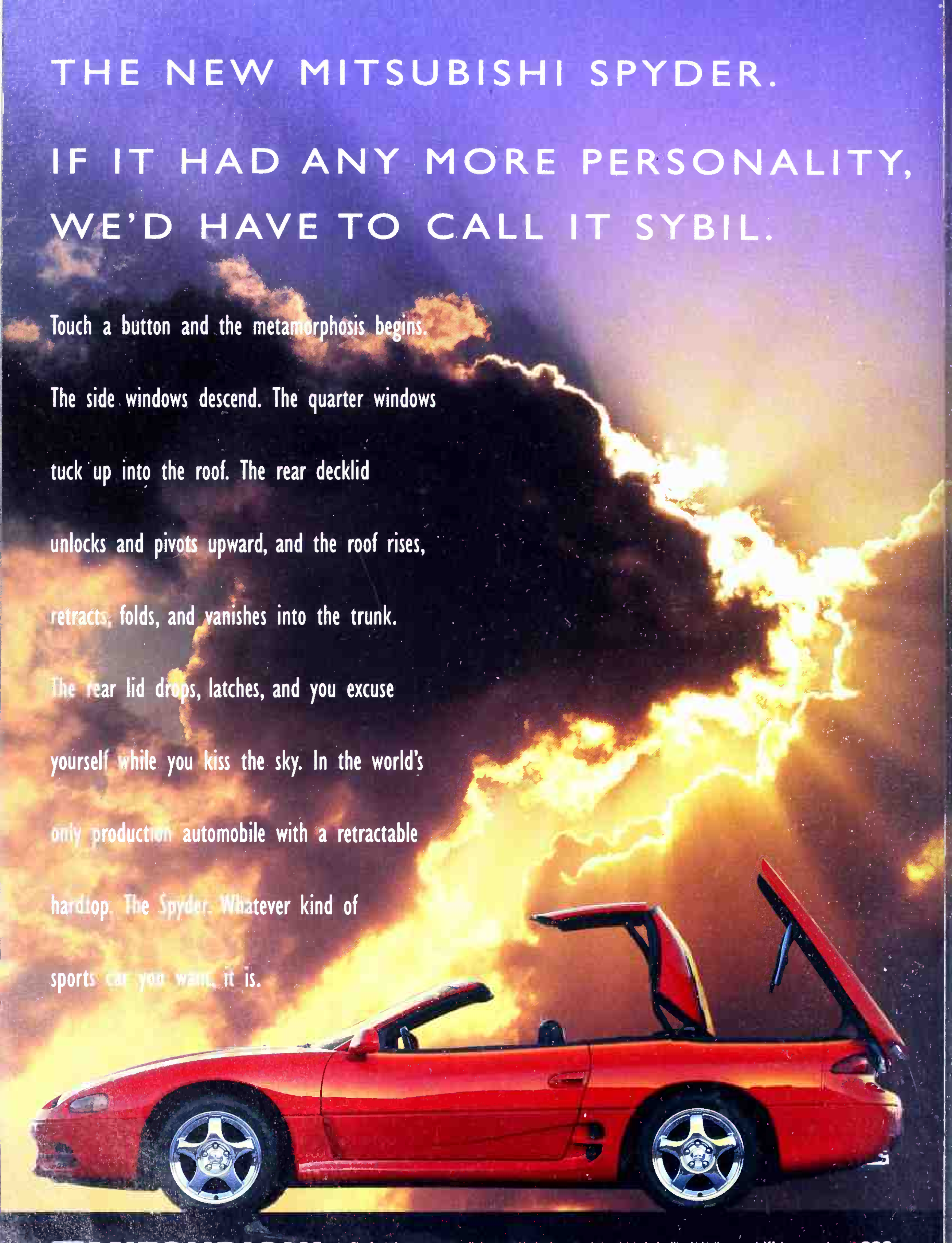
Turning other motorists' heads as quickly as you leave them in your taillights, you accelerate around a bend. As the full-time all-wheel drive anchors you to the asphalt, the twin turbochargers and twin intercoolers send 320 horses thundering through the leather buckets and surging into your veins. Nirvana. Suddenly, you don't care whether you're on time for your appointment or not. Of course, in a 3000GT, you'll probably be early.

MITSUBISHI 3000GT VR-4

THE NEW MITSUBISHI SPYDER.

IF IT HAD ANY MORE PERSONALITY, WE'D HAVE TO CALL IT SYBIL.

Touch a button and the metamorphosis begins. The side windows descend. The quarter windows tuck up into the roof. The rear decklid unlocks and pivots upward, and the roof rises, retracts, folds, and vanishes into the trunk. The rear lid drops, latches, and you excuse yourself while you kiss the sky. In the world's only production automobile with a retractable hardtop. The Spyder. Whatever kind of sports car you want, it is.



MITSUBISHI
The New Thinking in Automobiles℠

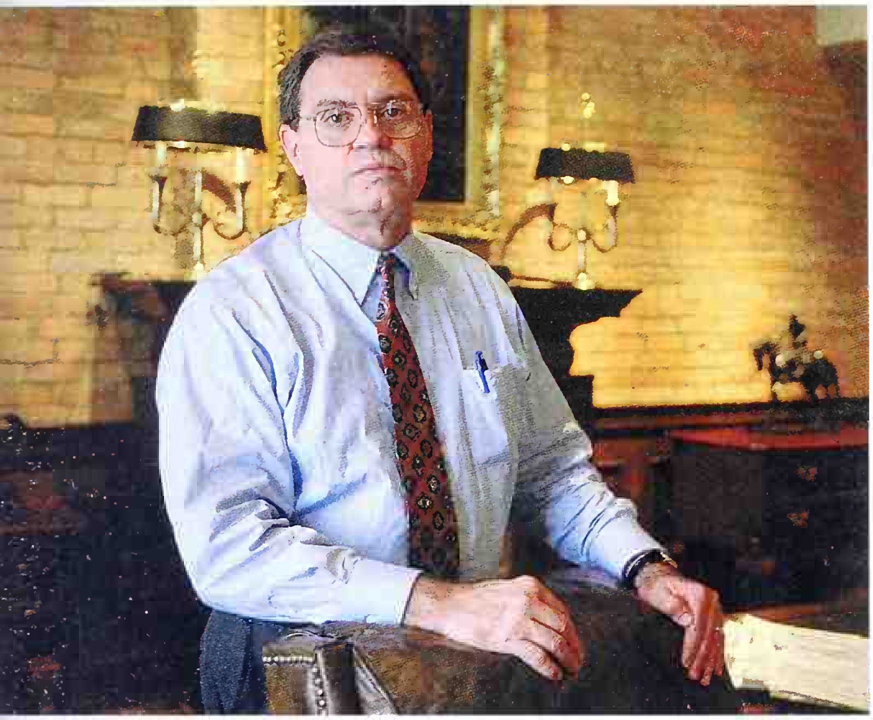
The Spyder's computer-controlled retractable hardtop was designed jointly by Mitsubishi Motors and ASC Incorporated. This vehicle is considered a convertible under Federal Motor Vehicle Safety Standards. Vehicle shown is a pre-production 1995 VR-4 model. SL model will also be available. Final production models may feature minor trim variations. For more information on the Spyder, call 1-800-SPYDER1. For information on Mitsubishi's other luxury vehicles and nearest dealership, call 1-800-55MITSU.

asc

UNITIVE DAMAGES

JACKPOTS FROM LABAMA JURIES

string of mammoth awards has insurers starting to flee



TTORNEY BEASLEY: *His punitive-damages tally this year exceeds $110 million*

MIKE CLEMMER

When a lawsuit involves a $1,000 discrepancy over a used-car loan, the case usually winds up being settled—unless you live n Alabama. Willie Ed Johnson, a 28-ear-old nursing-home orderly from the mall hamlet of Clayton, Ala., sued Merury Finance Co. of Northbrook, Ill., for raudulently inflating a used-car loan by 1,000. On Aug. 4, a jury sided with ohnson, awarding him $90,000 for his njuries.

The jury then hit Mercury with $50 nillion in punitive damages, one of the argest such awards in the country this ear. Mercury Finance denies any vrongdoing and says its lending practics adhere to established industry stanlards. The company vows to fight the ase as well as a class action brought y Montgomery plaintiff attorney Jere . Beasley, Johnson's lawyer, and severl other copycat suits.

What's really strange about the Johnson award is that it isn't strange at all. Johnson is one of dozens of plaintiffs in Alabama who have taken disputes over a few thousand dollars and turned them into multimillion-dollar bonanzas. Alabama's punitive-damage boom has snagged companies ranging from Ford Motor Co. to Sears, Roebuck & Co. to Prudential Insurance Co. This year alone, Alabama juries have awarded more than $170 million in punitive damages, not including wrongful-death judgments. "I've been studying jury verdicts for many years, and I've never seen anything like this," says George L. Priest, a professor at Yale University Law School. "It's clear that something is out of control."

Certainly, Alabama isn't the only place where jumbo damage awards occur. In August, a New Mexico jury awarded 81-year-old Stella Liebeck $2.9 million for third-degree burns she suffered after spilling a cup of McDonald's coffee in her lap. In October, Paula A. Coughlin won a $5 million punitive-damages verdict from Hilton Hotels Corp. when a Las Vegas jury faulted the company for lax security related to the Tailhook sexual-harassment scandal.

Yet such high-profile cases are relatively rare in most states. In Alabama, they are becoming the norm:

- An agent for Prudential was charged with misleading an Alabama couple about their policy. Their alleged loss: perhaps as much as $30,000. Yet the couple won $430,000 in compensatory damages. Punitive damages: $25 million. The case was settled in October for an undisclosed sum.
- A car owner sued BMW of North America Inc. for failing to disclose that its cars were damaged by acid rain during shipment from Germany. Jurors determined that the plaintiff's vehicle was devalued by $4,000. Punitive damages: $4 million. The amount was cut to $2 million on appeal.

Who's to blame for the punitive-damages explosion? The plaintiffs bar says Alabama has weak consumer-protection laws and inadequate insurance regulation, providing a virtual invitation for unscrupulous companies to take advantage of consumers. The courts, they argue, help ferret out and redress corporate misconduct. "These companies look at rural counties as a place where they can take advantage of people," says Beasley. Adds Bruce J. McKee, a plaintiff lawyer in Birmingham: "Juries serve an important consumer-protection function in the vacuum of other regulation."

BITTER ELECTIONS. For their part, businesses accuse trial lawyers of controlling judges' rulings through hefty campaign contributions. Citing an industry-sponsored study showing that Alabama trial lawyers outspent California trial lawyers in state campaigns from January 1990 to June 1994—$5 million to $3.4 million—business leaders contend that plaintiff lawyers abuse the courts at the expense of business. In fact, some insurance companies have said they will no longer operate in the state. "This feeding frenzy in Alabama is the No. 1 issue with the business community," says Sidney L. McDonald, a small-business owner in Huntsville and chairman of Alabama Voters Against Lawsuit Abuse, a group that has fought to oust justices deemed too proplaintiff.

The upshot is that punitive-damage awards have become Topic A in the Heart of Dixie. The issue turned traditionally sleepy judicial races into bitter

Alabama's weak consumer-protection laws may encourage lawsuits aimed at redressing grievances

JUSTICE HORNSBY: *Targeted by business*

and hotly contested battles. The reelection of Chief Justice Sonny Hornsby of the Alabama Supreme Court is still too close to call and likely to be challenged no matter what the outcome. Probusiness groups had singled out Hornsby, who they say has presided over the increase in awards since he was first elected in 1988. Upheld punitive-damage awards have spiked from $1.7 million that year to $18.9 million in 1993, according to court records and Gibson, Dunn & Crutcher, a law firm that studied the issue on behalf of client Life Insurance Co. of Georgia.

Three other incumbents were reelected, but probusiness interests are declaring a moral victory. "The election should tell the court that the public perceives a major problem," says Ken D. Wallis, general counsel of Alfa Insurance Group in Montgomery.

Whichever side is right—and to some extent both are—the punitive-damages phenomenon in Alabama has taken on a life of its own. "Things come into vogue in the law, and punitive damages have caught on here," says Francis H. Hare Jr., a Birmingham plaintiff attorney. As multimillion-dollar verdicts more frequently make headlines, jurors get comfortable awarding them. Plaintiff lawyers ask for them more often and target counties known for big verdicts. Thirteen of the top 18 punitive-damage judgments this year have come out of only three counties. And that, in turn, jacks up the price companies must pay to settle litigation. Business is well aware of the situation. Guy Marvin III, general counsel of Independent Life & Accident Insurance Co. in Jacksonville, Fla., keeps a map in his office marking in red the counties in Alabama he deems especially hostile to business.

READY AX. Still, Hornsby, a former plaintiff lawyer, disparages claims that Alabama's punitive-damages record is off the charts. "We are not out in left field," insists Hornsby, noting that 10 states have adopted Alabama's established procedures for reviewing jury verdicts. "We're the mainstream." Hornsby points out that when juries do get out of hand, his court has been ready with the ax. The state Supreme Court reviewed roughly $52 million in punitive-damage verdicts during fiscal years 1992 and 1993, according to court records. Only $29 million, or 55%, of those verdicts were upheld. A $25 million punitive award against Northwestern Mutual Life Insurance Co. was sliced in half.

Yet from another perspective, Alabama appears far from the norm. From 1987 to August, 1994, for example, Alabama's courts upheld $53.1 million in punitive-damage verdicts. That's three times the amount affirmed in neighbor states Georgia, Mississippi, and Tennessee combined, according to Gibson, Dunn & Crutcher. The firm's client, Life of Georgia, was hit in June with a $15 million punitive-damage judgment in a fraud case. (That amount was reduced by a trial court judge to $12.5 million, and the case is now on appeal.) Gibson Dunn also reports that in 1994 punitive-damage awards upheld in Texas greatly exceeded those in Alabama—$13.6 million vs. $4.8 million so far this year. But on a per capita basis, Texas, widely seen as the most plaintiff-friendly forum in the nation, trails Alabama—77¢ to $1.16.

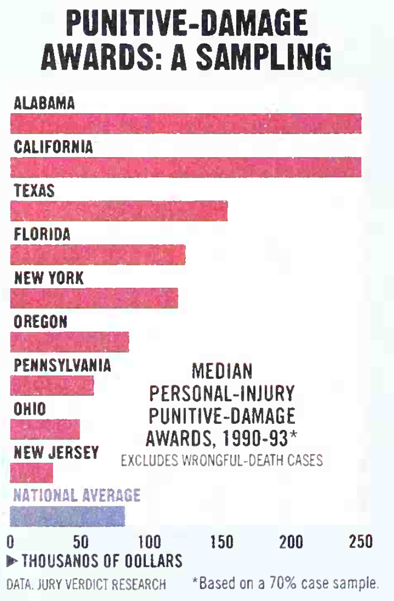
With such scary prospects, insurance companies are starting to flee the state. Over the past few months, as many as 10 insurers have announced they either won't accept new business in Alabama or are scrapping plans to invest further there. Some that remain say legal costs have eaten into their profits. The problem has gotten so bad that state insurance regulators have spoken out at post-trial proceedings in at least 13 punitive-damage cases about the negative impact excessive verdicts have on business

The close election and GOP victories overall have given companies hope that they are a step closer to tort reform. Ten states have caps on punitive-damage awards and four states outlaw such awards completely. Yet Hornsby and other judges say there is no need for such caps, which were declared unconstitutional by the Alabama Supreme Court in 1993. Says Circuit Judge William H. Robertson who presided over the Mercury Finance and Prudential trials: "The cases I've tried with big judgments have been deserved. I don't care where the jury is—New York City or Clayton, Ala. With the same facts, you're going to get the same verdicts."

FLOURISHING ECONOMY. Instead, some judges support diverting a percentage of megaverdicts to state coffers to discourage plaintiffs from using the courts as a lottery. Some of those funds could go to beef up paltry consumer-protection resources. Alabama's insurance department, for example, has only four people to handle some 40,000 complaints annually. Tighter enforcement would deter lawsuits, says Beasley, 59, a former lieutenant governor who is perhaps the state's most successful plaintiff lawyer. Just this year, he has won punitive-damage verdicts of more than $110 million.

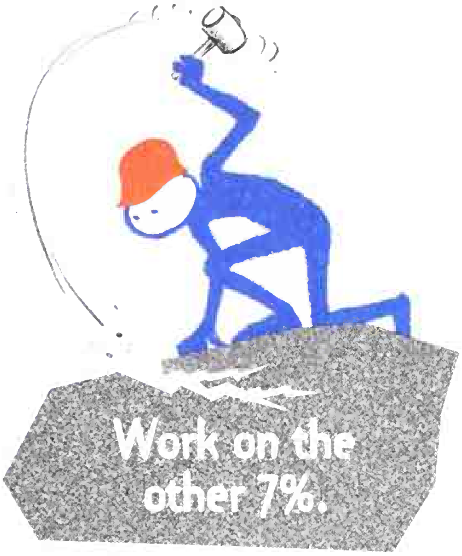
Despite the complaints of business groups, the state economy is flourishing. Alabama is outpacing the national average in per capita income increases, and unemployment is lower than it has been in years. Whether huge punitive-damage awards ultimately will hurt the state's economy remains to be seen. But companies that stay had better heed the words of Jimmie C. Fryer, a math teacher in Louisville, Ala., who served as the jury foreman in the Mercury Finance case: "If you're going to do business in Alabama, you'd better do it right."

By Linda Himelstein in Montgomery, Ala.



DATA: JURY VERDICT RESEARCH *Based on a 70% case sample.

What's the **most important thing** to do after keeping 93% of our toxic chemical waste out of the environment?



© 1994 CMA

CHEMICAL MANUFACTURERS ASSOCIATION

The EPA and the Chemical Manufacturers Association have targeted 311 compounds as top priorities for action. We kept 93% of these compounds out of the environment through treatment, recycling and energy conversion. While we feel our most recent report was good, we know there's more work to be done. Find out more about how our 180 members and partners are working for change. **Call 1-800-624-4321.**

RESPONSIBLE CARE®

Is she more loyal to your competitio
than she is to you?

©1994 AT&T Global Information Solutions. All Rights Reserved.

Relationship marketing. Frequent customer programs. Companies spending millions building customer loyalty.

A lot of which they could be saving. If only they knew more about the people they're marketing to.

For instance, if an airline knew that 15% of its best customers racked up twice as many miles on another carrier, think how it could change the way they market to them.

If a soft drink company knew which customers in specific neighborhoods of every city wanted which product, think how it could impact distribution and promotions.

There's no doubt about it. Customer information can be the most powerful tool a company has.

And of all the information companies out there, we're the one that best unites the strengths of both computing and communications in our solutions.

Our Get IT, Move IT, Use IT™ Customer Focused Solutions are already at work. Helping one of the world's largest retailers understand customer buying habits by store. So they can stock what people want most, while reducing out-of-stock occurrences and markdowns.

Helping banks minimize the time and expense of loan approvals. Reducing processing time to as little as 15 minutes, while cutting out up to 25% of the cost. Helping phone companies cross-sell services and identify new opportunities.

There's a Customer Focused Solution tailored to your industry. And your company.

Call 1 800 579-5722. We'll tell you more.

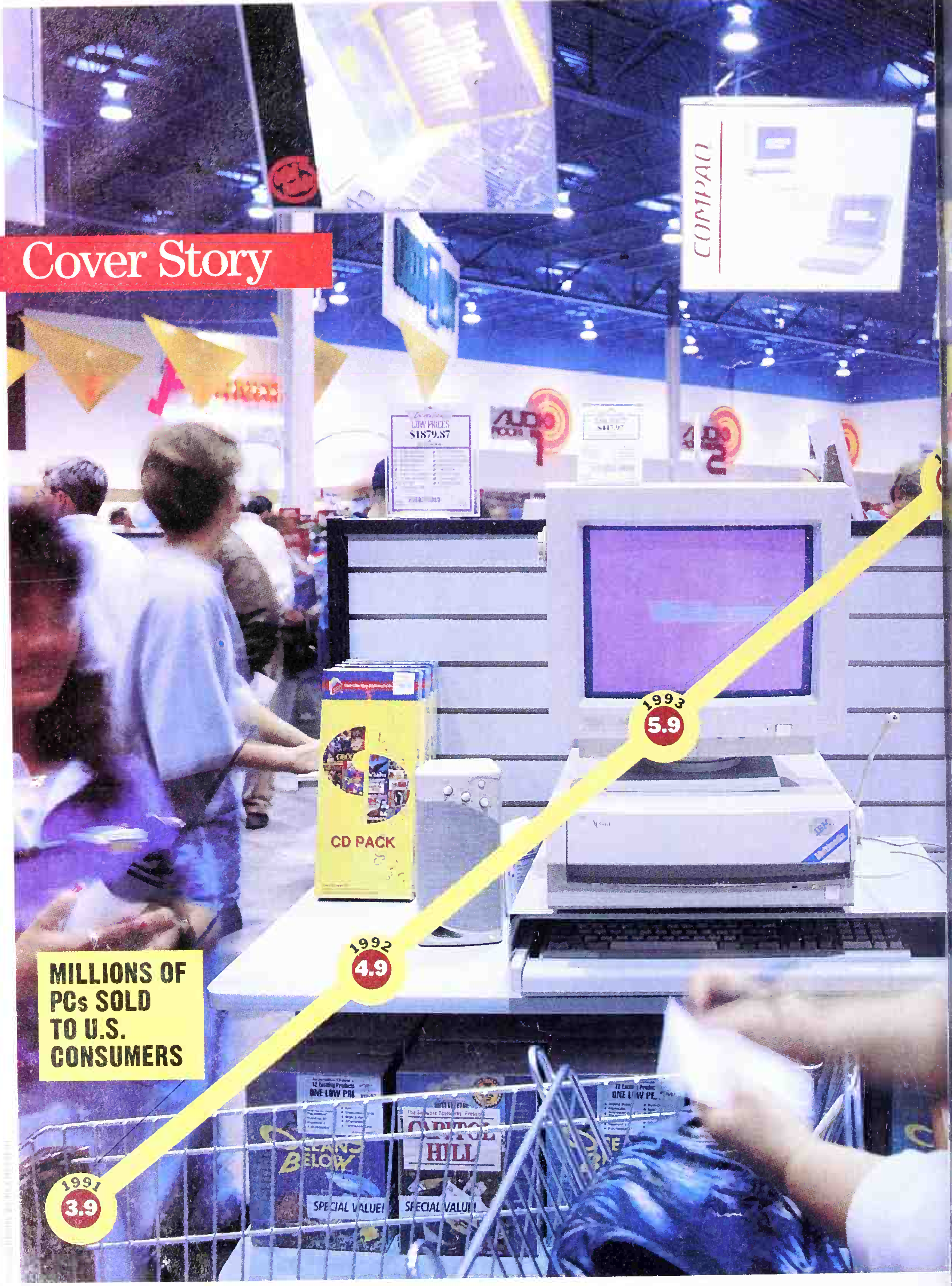
AT&T Customer Focused Solutions. Turning information into understanding.

GET move USE IT™

Now that NCR and AT&T are one, computing and communications have come together to help you get, move, and use information.

AT&T
Global Information Solutions

Cover Story


MILLIONS OF PCs SOLD TO U.S. CONSUMERS
1991
3.9
1992
4.9
1993
5.9
CD PACK
COMPAQ
LOW PRICES
$1879.87
SPECIAL VALUE!
CAPITOL HILL

HOME COMPUTERS

Sales explode as new uses turn PCs into all-purpose information appliances

By the time the holiday festivities have died down, the last of the decorations returned to the basement, and the Christmas tree put out by the curb, Americans will have plunked down some $9 billion during 1994 to buy nearly 7 million home computers. That's a full 40% of all the personal computers sold in the U. S. this year. And with growth in consumer sales projected to keep outpacing the increases in sales to business, the home will easily become the biggest PC market by the year 2000. Fifteen years after the first anxious parents ran out to get Junior an Apple II or a Commodore PET to put under the tree, PCs have become about the hottest consumer-electronics category around, and one of the biggest—second only to color TVs.

And this time the home PC looks like anything but a passing fad. Today's home PCs have something for everybody—multimedia "edutainment" for the kids, personal-finance packages for Mom and Dad, plus on-line services and software for every conceivable interest and pastime—from 3D Home Architect to Leisure Suit Larry. Millions of Americans continue to use home PCs for the same word processing or spreadsheet work they do at the office. But increasingly, the new, multimedia PCs are taking on a different role—as a family entertainment center and all-purpose appliance for the Information Age. "The three key consumer-electronics categories—audio, video, and communications—are coming together in the PC," says Anindya Bose, director of research at market researcher Link Resources Corp. in New York.

ROARING START. In short, the home PC is rapidly becoming Mr. and Mrs. North America's on-ramp to the Information Superhighway. PCs, not TVs, are becoming the "platform" for delivering all sorts of new digital products and services—from on-line magazines to interactive games to home shopping and virtual classrooms. Which is why, from every corner of the computer industry, engineers, strategists, and marketing executives are figuring out how to break into the home market.

TECHIE TYKE: *At age 3, Nicole Baumgartner can already navigate her way through stories*

No one is more determined to win the home front than Microsoft Corp. The software giant, which long ago sewed up the lead in both operating systems and applications programs for the business market, has a hugely ambitious plan to become the biggest force in the home market, too. Its year-old Consumer Div. is off to a roaring start, and this fall, the company has laid the groundwork for an array of consumer products and services. It has agreed to buy Intuit Inc., the top supplier of personal-finance software, jumped into home banking, and hired

0% INTEREST!
1995
7.7
START A REVOLUTION

BUZZING BAZAAR: *Tandy's Incredible Universe stores can't keep up with the demand for multimedia*

Cover Story

a new chief operating officer with a long resumé in consumer marketing.

That was the warm-up. On Nov. 14, at Comdex, the industry's annual nerdfest in Las Vegas, Chairman William H. Gates III unveiled the Microsoft Network, an on-line service that he says will draw millions more consumers into the Information Age. He also outlined his vision for a brave new world of computer-based consumer electronics (page 92). "Microsoft overall is making an excellent series of announcements," concedes Robert P. Mainor, a vice-president at on-line network operator CompuServe.

It's already clear that computer and software makers—and even such suppliers of digital "content" as movie studios and cable-TV operators—ignore the home-PC phenomenon at their peril. By now, all major studios routinely develop interactive programs based on their movies or characters. Director Steven Spielberg is so high on the new medium that he bought a stake in Knowledge Adventure Inc., a top supplier of edutainment CD-ROMs.

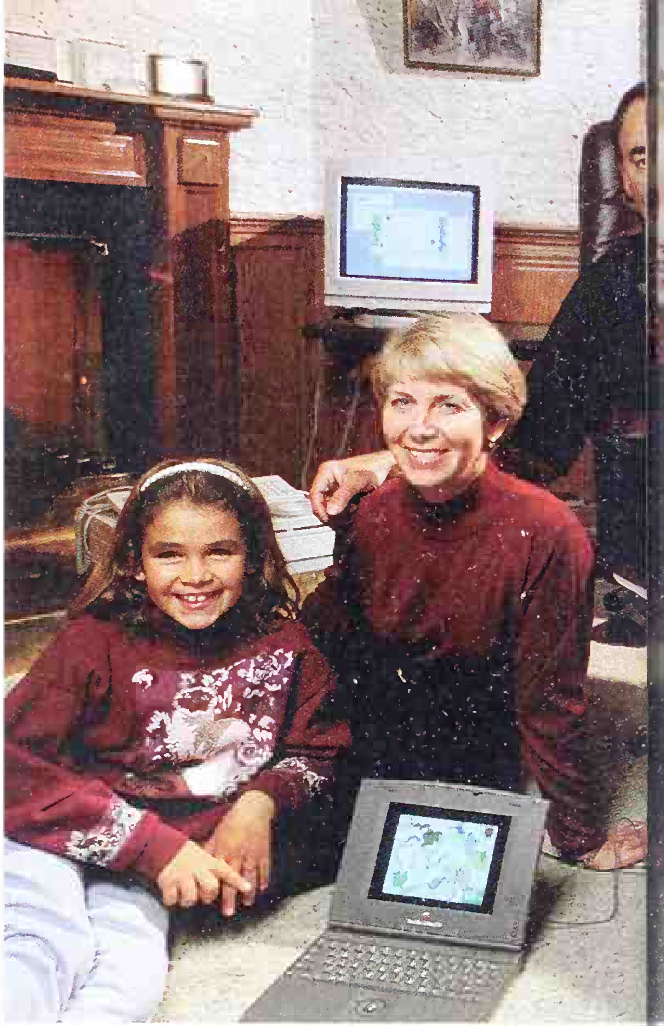
"THROUGH THE ROOF." If you don't know what has Spielberg so excited, wander into any consumer-electronics store. The Christmas season hasn't officially started, but at Incredible Universe, Tandy Corp.'s chain of gargantuan consumer-electronics bazaars, the PC departments are jumping. Families huddle around dozens of multimedia PC models—machines that talk, sing, play music, show video clips and, at a breathtaking pace, are luring Americans into a new world of electronic recreation. The stores have a separate room full of education software and computers for trying out disks or hooking up to the Internet. Interest in multimedia is so high the stores can't keep up: At the beginning of November, each stocked 1,000 CD-ROM titles; by the end of the year, they will offer 2,500. "Our multimedia sales, both computers and software, are through the roof," says Richard D. Hollander, general manager of the Incredible Universe division.

"Computers are fast becoming more important in the home than a television set," says an AST marketer

Already, the surge in home-computer buying has rearranged the industry pecking order (table)—and will likely continue to shape the fortunes of PC makers. With home-PC sales charging ahead at 30% this year and business-PC sales growing at 8%, the winners in the home market are moving up.

Take Packard Bell Electronics Inc. The Westlake Village (Calif.) PC maker blazed the trail for everyone into the new home-PC market by talking its way into mass-merchandise chains such as Sears, Roebuck & Co. and Price Co. in the late 1980s. In the first nine months of this year, it jumped over IBM to No. 3 in the U. S. market, from fourth place last fall. At Apple Computer Inc., traditionally a leader in home PCs, the big consumer binge is improving the fortunes of the whole company. Strong sales of home PCs, especially the multimedia Performa 630, helped boost revenues 16%, to a record $2.49 billion for the quarter ended Sept. 30. That made Apple the top supplier of PCs in the third quarter, according to market researcher Dataquest Inc.

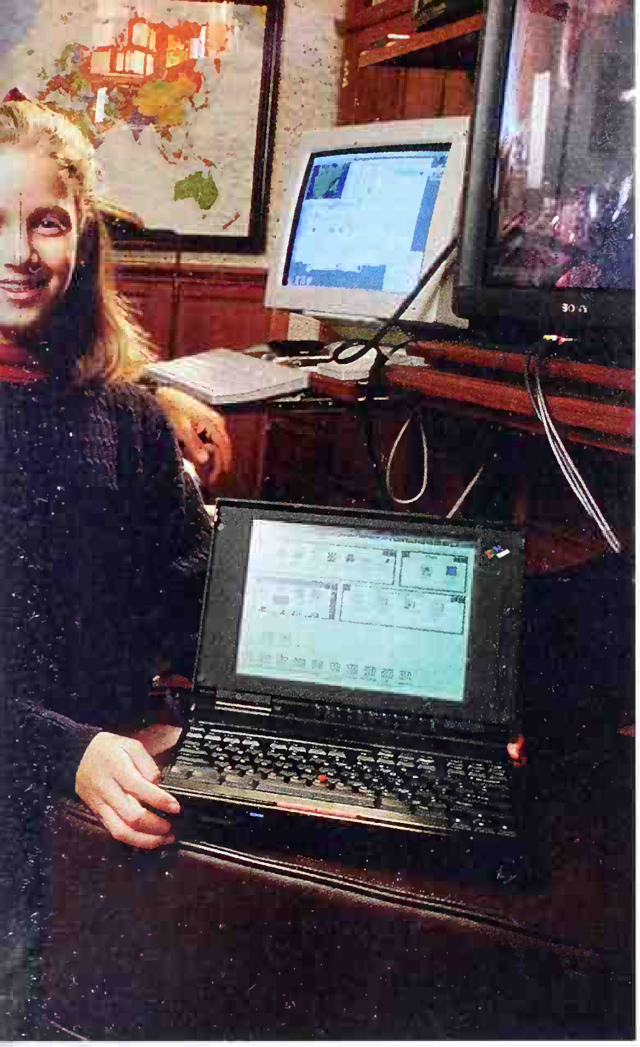
The most stunning victory, however, may be that of Compaq Computer Corp. Its first line of machines aimed specifically at consumers—the Presarios—is a huge hit. Total consumer sales have gone from almost nothing to nearly 20% of the company's projected $11 billion sales this year, analyst say. That is making the Houston-based company the bigge PC maker in the world. While Apple shipped more computer in the third quarter, Dataquest expects Compaq to come o on top for the year.



There are some PC makers who are doing fine without pursuing the home market, such as Hewlett-Packard Co. an Digital Equipment Corp.—but they're in the minority. Th standout is Dell Computer Corp., whose sales are up 13% s far this year. Citing low profitability, it pulled out of mass-market stores and is refocusing on mail-order sales to exper enced buyers. "Even if the PC is destined to be the key co sumer-electronics appliance of the late 1990s, we're no interested," says Chairman Michael S. Dell.

STALE LINEUP. On the other hand, missing this year's home PC boom helped put IBM's PC business in a funk. It started th year with $700 million worth of unsold computers, leftove from last Christmas. And for most of the year, while Compa Packard Bell, and Apple were pumping out new multimedi models, IBM stuck with a stale lineup of PS/1s. In Septembe it replaced the PS/1 with an all-new Aptiva line. But stung b last fall's debacle, the company grossly underestimated de mand and can't fill all orders—a situation that will not chang until early 1995. Analysts say IBM PC sales will wind up flat fo the year, pushing Big Blue down to No. 3 in the world marke

IBM still has time to recoup in the home-PC market, thoug Even after this yearend binge, only 36% of U. S. household will have computers. That leaves a good portion of the 6 million PC-less homes to bring into the Information Age. An as millions of home PCs are rendered obsolete, there's healthy replacement market. This year, for the first time



PCs APLENTY: *The Schoendorfs of Palo Alto, Calif., each have their own Mac or PowerBook so family members get the time they want for games, homework, and business*

ightly more than half of home PC sales are to consumers ho already have bought before, says Packard Bell.

There's also a growing number of multiple-PC families. A ataquest study found that 16% of families that own a multimedia PC bought a second computer because the kids were ogging the multimedia machine. Not your typical Amerian family, the Schoendorfs of Palo Alto, Calif., have a PC iece. Parents Nancy and Joe, both venture capitalists, use PowerBook and a Mac Quadra, respectively, to work up usiness plans, check E-mail, and scour databases for inforation on companies they're interested in. Megan, 7, uses er Mac II for games: She's partial to an electronic version of Monopoly. For 12-year-old Katie, though, the Mac LC is mostly for homework. "I don't want to prioritize who gets to use the computer," says Mom. "I don't want there to be any excuse for Katie not to go the extra mile."

IBM can't count on a nation of four-computer families anytime soon. But it is preparing for a nation—and world—of PC users. Two months ago, it set up a high-level task force to coordinate a broad strategy for consumer markets—an effort that Chairman Louis V. Gerstner Jr. says is a top priority. The task force is looking into all sorts of goods and services that become possible when PCs can juggle text, voice, music, video, and communications. Big Blue, says James A. Cannavino, IBM's chief strategist, needs to be "a player when the consumer wants to part with some money."

TECHNOLOGY SEA CHANGE. If they position themselves correctly, PC makers may catch a huge and long-lasting wave—some say rivaling television. While cost and relative complexity may keep PCs from ever matching TV's 98% penetration rate in U. S. homes, it is likely that a majority of homes will have PCs by the end of the century.

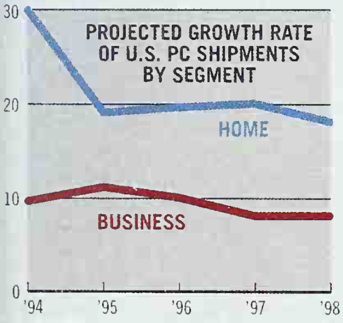
Already, the new information appliances are changing consumer behavior. When AST Research Inc. surveyed buyers of its Advantage PCs, it found that the average household logged 18 hours a week on the computer—nearly double the time spent watching TV. A full third of the families subscribed to on-line services, many to more than one. "Computers are fast becoming more important in the home than a television set," says Dennis Cox, AST's marketing director for consumer products. Market researcher Inteco Corp. in Norwalk, Conn., found PC households are likely to cancel premium movie channels and spend their time with on-line services and CD-ROM titles.

"We're going through a sea change in terms of people's attitudes toward technology—from very unaccepting to quite accepting," says G. Richard Thoman, the senior vice-president who heads IBM's Personal Computer Co. In 1985, only 22% of the population felt positive about technology, he says. By 1995, the technophiles are projected to reach 56%; by 2005, 68%. That means a more receptive market for "a whole series of products that will emerge out of this PC/consumer-electronics area," he says.

It's a global phenomenon, too, though it's playing out on a slower schedule outside the U. S. In France, giant retailers such as Carrefour have been furiously opening up computer departments and in the first few months of 1994 saw sales of home PCs jump 50%. But the drop in PC prices and explosion

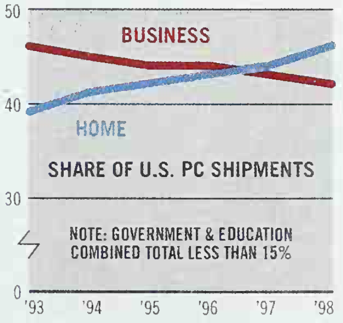
FOR COMPUTER MAKERS, HOME IS WHERE THE ACTION IS

Sales to consumers are growing faster...



DATA: DATAQUEST INC.

...And will become the biggest part of the market...



DATA: LINK RESOURCES CORP.

...Reordering the leaders in the personal-computer industry

1993	
TOTAL	**14,775,000**
TOP 5 COMPANIES	PCs SHIPPED
APPLE	2,086,000
IBM	2,064,000
COMPAQ	1,541,000
PACKARD BELL	963,000
DELL	728,000

1994 (FIRST 3 QUARTERS)	
TOTAL	**13,000,000**
TOP 5 COMPANIES	PCs SHIPPED
COMPAQ	1,700,000
APPLE	1,517,000
PACKARD BELL	1,379,000
IBM	1,109,000
GATEWAY	677,000

DATA: DATAQUEST INC.

CHART BY LISA KNOUSE BRAIMAN/BW

of multimedia titles is just beginning on the Continent. "There are about the same number of households in Europe, but there is now three times the penetration in the U.S.," says Andreas Barth, senior vice-president at Compaq Computer Europe. Still, he predicts that the market will take off, and by 2000, 50% of European homes will have PCs—a huge jump from today's 8%.

Japan may be slower to embrace PCs. While many Japanese homes have word processors and video-game machines, only 7% have PCs. To create greater acceptance, PC makers are creating new designs specifically for the Japanese consumer. IBM Japan, for example, has created the PS/V Vision computer for Japanese homes. It doubles as a TV or stereo. By the middle of next year, IBM will test the waters in the U.S.

Wherever they sell, PC makers are adapting to a new reality: Consumers, not business customers, are now dictating
how PC technology evolves. It's the 3-year-old playing M
Putt Putt Joins the Parade and the teenager playing SimCit
2000 who are pushing the envelope in Silicon Valley thes
days. "We used to think the home computer was the low-en
computer," says Ronald Chwang, president of Acer Americ
Corp. "Now, it's driving the technology."

Consider Intel Corp.'s Pentium chip. Because there are fe
business applications that take full advantage of the chip'
speed, corporate buyers have not switched en masse. Bu
thanks in part to an Intel ad blitz, consumers are snapping u
multimedia Pentium PCs. Dealers say roughly 25% of home PC
now sold are the Pentium variety—vs. 10% of business PCs
Ditto in the Mac world, where 30% of Apple's Power Macs ar
going into the home. "Consumers are much more concerne
about product obsolescence than price," says Lise J. Buyer, a
analyst at T. Rowe Price Associates Inc. in Baltimore.

Compaq is betting that Intel is wrong. Compaq is not pushing Pentiums to consumers—yet. The company will have Pen

MICROSOFT WANTS TO MOVE INTO YOUR FAMILY ROOM

Most office workers spend their days with Microsoft—using a computer that runs Microsoft Corp.'s operating systems and/or applications programs. Now, Chairman William H. Gates III wants to go home at night with them, too.

From edutainment software for the kids to home shopping and interactive television, Gates is pushing Microsoft to the forefront of a new home-electronics revolution. It's an opportunity that Gates has had in mind for years. "The consumer market was part of the original vision," he says. "We now have the chance to make it come true."

The first step was creating the Consumer Products Div. Launched last December to sell entertainment and reference titles on CD-ROMs, it has become the hottest growth area at the company's Redmond (Wash.) headquarters. It employs 650 full-time workers, is hiring hundreds more, and has hundreds of contract employees—programmers, artists, musicians—working on new disks. Currently, 60 titles are available, ranging from the Magic School Bus to NBA Basketball, and one new title will be added every week from now until next June. Early next year, the division plans to release Utopia, software to make using PC applications easy for every member of the family. An on-screen character will act as an assistant, memorizing which programs a consumer uses, for example. Utopia will also perform such functions as maintaining an electronic calendar. "Instead of mastering the PC, you're having an experience," says Patricia Q. Stonesifer, vice-president of the Consumer Div.

The sweep of Gates's ambition in the home market is just now becoming apparent. In recent weeks he has laid out plans to buy Intuit Inc., the top seller of personal-finance software, signed a deal to offer electronic banking with Chase Manhattan Bank, agreed to jointly develop technology for electronic shopping with Visa International, and launched a $100 million advertising blitz. The latest addition to the company's four-man office of the president is Robert J. Herbold, a 30-year veteran of consumer-marketing powerhouse Procter & Gamble Co. He dreamed up
system for tracking and predictin
sales of dozens of products.

> “The consumer market was part of the original vision”
>
> — BILL GATES

Gates chose the Comdex compu
show to outline his consumer visi
Before a packed house in Las Veg
Nov. 14, he ran a film showing all
of gadgets—from dashboard PCs t
handle videoconferencing to walle
computers for electronic shopping
that he says will be in use by 2005

At a press conference later that
Gates officially introduced the Mic
Network, the on-line service that
compete with companies such as C
puServe, Prodigy, and America On
The network, scheduled to go live
mid-1995, will be a key "platform"
delivering an array of new Micros
services. It will, says Gates, "beco
reason to buy a home computer."

NET APPEAL. That would represen
huge turnabout. While on-line ser
have more subscribers than ever,
about 5% of all PCs are hooked up,
Nathan Myhrvold, senior vice-pre
of Microsoft's Advanced Technolog
Group and chief architect of the o
strategy. Worse, he asserts, some
works still have 100% annual chur
rate—meaning that while thousan
customers are signing on each mo
thousands of others are dropping

Microsoft has a new approach t
Myhrvold says will make the netw
more appealing. To generate bette
"content," for example, the compa
making its system more entreprer
al and freewheeling. Instead of off
a broad array of services in the ba
price, the Microsoft Network will
more à la carte. Microsoft will cha
as little as $5 per month for basic
vice—about half what the competi

m-based Presarios early next year. For now, Compaq argues
at cheaper 486-based machines are a better value. Analysts
so say that because Compaq can use low-priced 486 clones, in-
ead of Intel chips, it can fatten its bottom line. "Consumers
e not asking for Pentium; they're being told they need it,"
ys Gian Carlo Bisone, marketing vice-president at Compaq.
RAND IDENTITY. Who's right? Most likely, nobody will know
til the quarter is over. But it's good policy not to underes-
nate the sophistication of today's home-PC owners. Take
era McCloud, a 69-year-old Tulsa grandmother. She bought
Tandy computer in 1986 because she wanted to keep records
her ancestry using a genealogy program. Two years ago, she
graded to a Packard Bell 486, and when she discovered
e built-in Prodigy software, she signed up. Now, her four
ult children—scattered throughout the West—use it to
ep in touch. Vera logs on twice a day, retrieving mail or up-
ting her stock portfolio, which she keeps on a spreadsheet.
Or check out what's happening at the Baumgartner home in
Bellevue, Wash. After several Saturday mornings perched on her dad's lap, 3-year-old Nicole finally mastered the mouse—and never looked back. Now she sails through interactive story programs such as *Just Grandma and Me* and *The Tortoise and the Hare*. "It's not just the read-to-me feature anymore, either," says her father, Mike, a 37-year-old pilot for Alaska Airlines Inc. "She clicks on the things that move, she's recognizing words, and she can back herself out to the DOS prompt." Dad uses Quicken to manage his finances and logs on to CompuServe for stock quotes and to download his employer's monthly crew schedules, saving him a trip to the airport.

To cater to these savvy consumers—and draw in the millions of neophytes perched on the sidelines—PC makers are rethinking every aspect of their businesses, from research, design, and manufacturing to marketing and advertising. Instead of dictating strict pricing, service, and return policies to dealers, PC makers are begging retailers—from Wal-Mart Stores Inc. to Office Depot Inc.—for shelf space. And no longer do

s—and let com-
that supply
news services,
e-shopping
whatever fees
el are appropri-
ese content pro-
says Myhrvold,
ep most of the
e. Existing ser-
uch as America
Inc., typically
ntent companies
the revenue as-
d with their
the service and
hem from
g consumers a
m. "You're go-
see a lot of inno-
from us in on-
vice," says

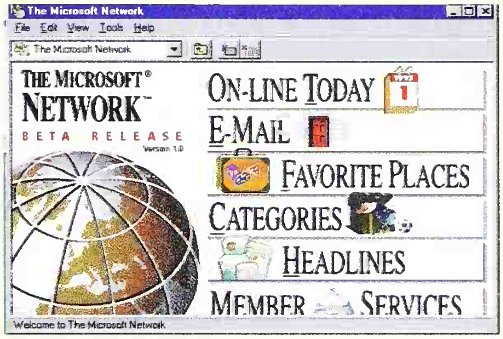
petitors are al-
seeing red. They
crosoft will have
—and unfair—
age when it
shipping Win-
5 next year because each copy of
v operating system will include
re to sign up for the service with
e click of the mouse. That means
mid-1996 some 10 million to 20
Microsoft Network-equipped
es will likely be in use—vs. 6
subscribers for all on-line ser-
ow. One of the complaining rivals
e Computer Inc., which bundles
re to connect to its e-World net-
ith every Mac. Because Micro-
s 80% of the PC operating-sys-
arket, says Peter H. Friedman,
l manager of Apple Online Ser-
"that brings into question re-
-of-trade issues." Gates says us-
ndows 95 as a distribution
l does not shut anybody else out.

MICROSOFT: TARGETING CONSUMERS

- With Microsoft Network, an on-line service that will be included with Windows 95 next spring, Microsoft aims to build an electronic kingdom of services.

- Microsoft's pending $1.5 billion acquisition of personal-finance-software leader Intuit would give Microsoft a hot-selling consumer title—and an entrée into electronic banking.

- A $100 million TV and print ad campaign is aimed at transforming Microsoft into a household name.



- The latest addition to Microsoft's Office of the President, former Procter & Gamble exec Robert J. Herbold, brings a consumer-marketing perspective and a keen interest in on-line advertising.

- In January, Utopia debuts. This graphical software uses a "home" metaphor to organize home-PC applications. The kids might play games in the "den," for example. It includes an electronic calendar, too.

- To fill holes in its consumer line, the company contemplates more acquisitions, joint ventures, and alliances.

So far, no word from the Justice Dept. on Microsoft's on-line plans. But the government, which earlier this year ended a Microsoft antitrust investigation with a consent decree, is reviewing the Intuit buy. Justice has asked for additional data on the deal, but Gates says the review is "routine."

DIAL-A-SCORE. The Microsoft Network, which is to be built up over the next three years, may serve as the software maker's bridge to the Information Superhighway. Initially, it will operate on phone networks, but industry sources say it can work over cable-TV networks, too. That could make the service a means for delivering interactive TV. Already, Microsoft Baseball, a CD-ROM reference program, includes software to dial up an electronic newsletter with daily scores. In the future, that newsletter could turn into a video update, allowing you to scan for the footage you missed the night before. The Consumer Div. is developing CD-ROM packages for children that go along with TV programs.

The whole consumer push, in fact, is entwined with Microsoft's plans for the convergence of computing and video. Microsoft is loading up on Hollywood talent, including some top technologists from Lucasfilm Ltd. They're cranking out CD-ROMs now but could someday make movies. Gates now travels to Hollywood to talk with Jeffrey Katzenberg and David Geffen, and industry rumors have Gates a potential investor in the new studio Katzenberg and Geffen are creating with Steven Spielberg. Says Gates: It's "easy to read too much into" his Hollywood visits.

But he admits that he's on the prowl for more ammunition for the consumer market. Acquisitions, joint ventures, and other collaborations with consumer software companies and Hollywood studios are all among the options. "You'll see us doing a few deals every year," says Gates. Think of it as the second computer revolution. "The PC industry has come a long way, but that's nothing compared with what's going to happen," he vows.

By Richard Brandt, with Amy Cortese, in Las Vegas

BEYOND BEIGE: *Apple is among those companies experimenting with new designs for the home computer*

ads boast of megabytes, video memory, and lightning-fast hard disks. The message: Create brand identity and sell the product just like a car or a can of beer.

PC makers are borrowing the tried-and-true techniques of packaged-goods manufacturers. Now, they run focus groups and poll dealers—instead of listening only to their engineers. After talking to consumers and retailers, IBM added a low-end, $1,200 model to its new Aptiva line and dropped the nonmultimedia versions it had planned.

With consumer tastes fickle at best, manufacturing has to be reengineered to keep up. Compaq and IBM, among others, are trying to build only what dealers order—with the goal of shipping within a few weeks. At Compaq, regional sales managers no longer submit sales forecasts based on specific models. Instead, they estimate how many machines with a certain chip or disk drive will be needed. The idea: Stockpile parts, not specific configurations that consumers may no longer want a few months hence. Compaq CEO Eckhard Pfeiffer thinks the company can be 90% accurate with this system. "We want to tailor production to actual market needs rather than projected needs," he says.

HOLIDAY HYPE. To ensure a positive "out-of-box" experience—and cut down on calls to help desks—PC makers have created software that lets consumers get started easily. AST, Packard Bell, and other PC makers include their own how-to programs that make it simple to run the machine for first-time buyers. Packard Bell even color-codes all the connectors so that you don't plug the keyboard into the mouse socket.

With the stakes so high in the consumer market, ad budgets are soaring, too. Apple is spending more this holiday season than it has for a decade, and IBM and Compaq are both planning $100 million campaigns—about what it costs to launch a new car. And on Nov. 5, Apple even began testing a 30-minute infomercial that recounts—in cinematic style—the experiences of three generations of a family as they set out to buy a home PC.

There are also the kind of marketing tie-ins you might expect from packaged-goods makers. Compaq struck a sweepstakes deal with Keebler Co. that gets its name on 30 million snac packages, such as O'Boisies potato chip Apple last month introduced the Macintosh Performa Money Magazine Editio loaded with 21 different finance and reference programs. The publisher will ge royalties on each machine. Apple is looking for other partners in education, entertainment, and home-office markets.

Next move for PC makers: work on giving home PCs a mor homey look. "If the PC is going to be the centerpiece, it has t fit in with the other consumer electronics in the home," say Beny Alagem, chairman and CEO of Packard Bell. His company has made the boldest strides, with a curvaceous monito and detachable side panels that come in different colors. An this month, it started shipping a PC swathed in the blac plastic of high-end audio components.

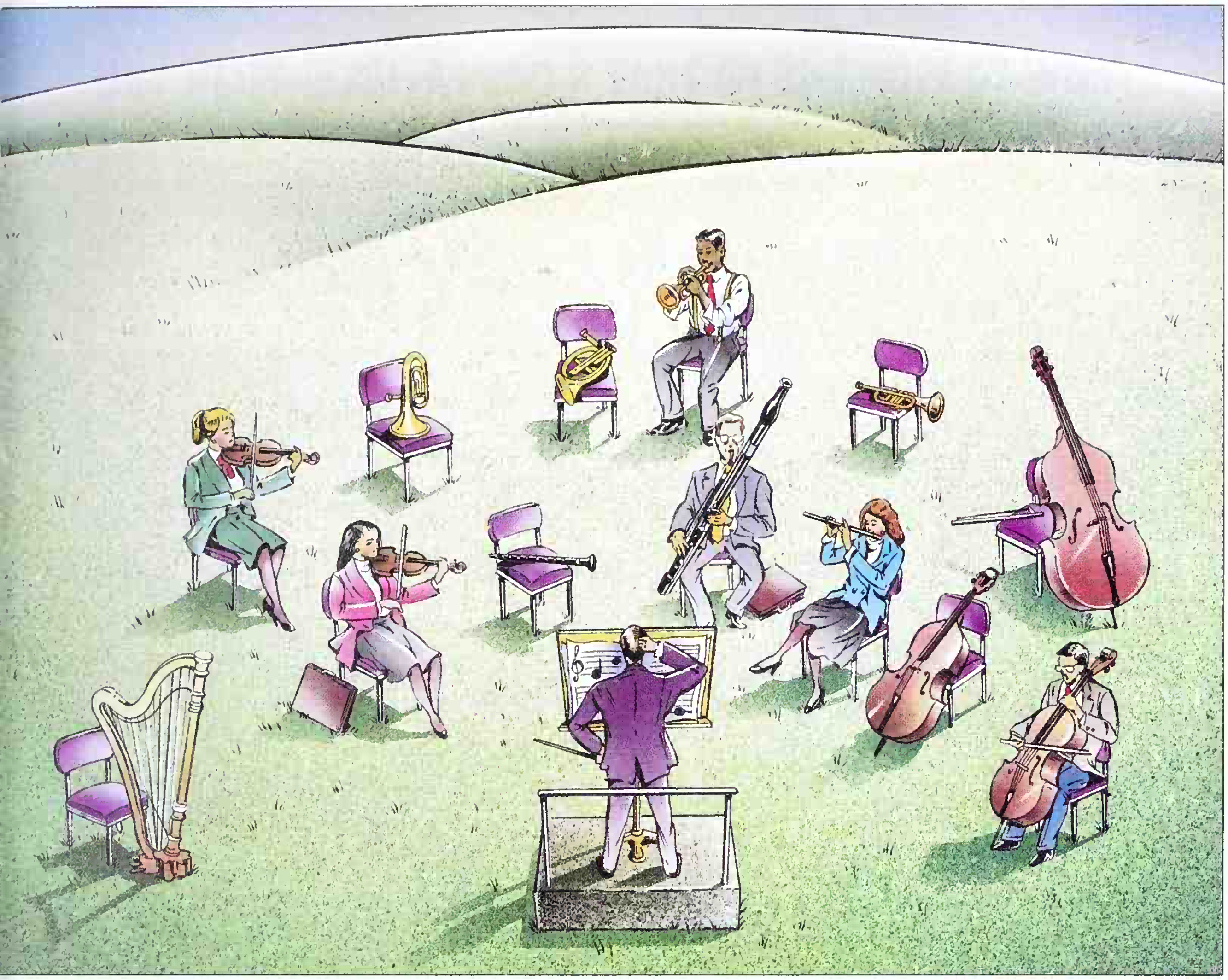
MR. PC HEAD. Apple, long applauded for its attention to design thinks it's too early for a radical redesign, but it is doing extensive research. "What's the vocabulary of the home?" ask Robert D. Brunner, Apple's director of industrial design. "It' not gray plastic." Apple is experimenting with colors an fabrics, and has a mock-up of a computer designed for wood grain finishes on the box and even on the keyboard. "Wood," he says, "is a great material for a palm rest."

Compaq is also working on ways to make computers a mor aesthetically welcome addition to the family. So far, there's development project that has produced a lightweight machin for kids—dubbed Mr. PC Head—that is portable and looks lik a small TV with legs. That working model may never see th light of day, but it does provide a hint of what may come. Mor likely are models designed to double as the household stereo Compaq is also working to come up with a range of kid-pleasing designs.

Whether the home computer is ultimately swathed in fabric, gets a wood-grain finish, o resembles Barney, consumer can count on one thing: The personal computer is going to become a fixture in their living rooms, kitchens, and dens. Nearly 20 years after the first crud personal computers were cobbled together, the PC is finding home—yours.

By Larry Armstrong in Los Angeles, with Ira Sager in Ne York, Kathy Rebello in Sa Francisco, Peter Burrows in Dallas, and bureau reports

THE DARK AGES: *Circa 1982, computers lacked the sound and music kids enjoy today*



How are you going to conduct business now?

Scaling back was difficult. But now the challenge is to create a new working arrangement and get the most out of your remaining players.

That's where Arthur Andersen can help. Experienced Arthur Andersen professionals, armed with our proprietary Global Best Practices knowledge base, compare your operating practices to the best in the world—within your own industry, and across the board.

In our trained hands, the Global Best Practices knowledge base is the most thought-provoking resource of its kind. Delivered to our professionals by CD-ROM technology. Updated throughout our global network. And unsurpassed in its depth and scope.

So Arthur Andersen professionals can share insight with you into which practices could create a new working harmony. Together, we can then compose more creative ways to help reengineer your operations.

Find out how you can out-perform the competition—on paper and in practice. For your brochure or to discuss with us personally how Global Best Practices can work for your company, call 1-800-445-5556, today.

Best Practices.
Putting insight into practice.™

ARTHUR
ANDERSEN

©1994 Arthur Andersen, Arthur Andersen & Co, SC. All rights reserved.

ARTHUR ANDERSEN & CO, SC

HOW TO PICK THE PC THAT'S COMPATIBLE—WITH YOU

So you're ready to go shopping for a home computer. Even if this isn't your first time, you may find the choices and trade-offs mind-boggling. But a little forethought can make the process a bit less nerve-racking.

If you're a veteran, you've already made the first choice—Apple Macintosh or IBM-compatible PC. The decade-old contest between the two major home-computer formats continues. Apple Computer Inc. still claims an edge in ease of use, but Microsoft Corp.'s Windows is closing the gap. And more new software—especially for the home market—is being written for PCs.

Still, the decision often boils down to personal taste. "It's like asking which brand of coffee you use," says Bart Delaney, president of the New York Personal Computer Users Group.

Cover Story

Next, ask yourself how much computer you need—now and tomorrow. If you're not planning to crank out fancy newsletters, you may do fine with a Mac based on Motorola Inc.'s dated 68040 microprocessor, or a PC using Intel Corp.'s old 486SX chip or a clone. These PCs are a bargain—$900 to $1,500, depending on options.

But if you want to be sure to have the firepower for next year's cutting-edge software, it's worth looking at a PC based on Intel's Pentium or an Apple PowerMac, which uses the PowerPC chip. You'll pay more (table), but you may not have to trade up again for years. "I usually tell buyers to get the fastest chip they can afford," says James K. Hurd, vice-president for research at National Software Testing Labs Inc., a unit of McGraw-Hill Inc., publisher of BUSINESS WEEK.

If you're like most consumers this year, you'll probably want a multimedia PC to run CD-ROM software. Make sure that the entire system conforms to the so-called MPC-2 standard, which calls for a double-speed CD-ROM drive, a 16-bit sound card, and speakers. If you are adding on a CD-ROM drive, you can skip the triple- and quad-speed drives. At about $400 to $500, they're as much as triple the price of current double-speed drives but offer only slight performance gains with current CD-ROM software.

For communications, insist on a so-called v.32 modem that handles data at 14,400 bits per second (BPS), and consider spending the extra $100 for one conforming to the new v.34 standard, which runs twice as fast. Although on-line services are just now moving to the v.32 standard, it is expected that many will soon turn to the faster v.34.

SAVE NOW, PAY LATER. One area not to skimp on is the monitor. Avoid those that seem to flicker or have too much glare. The current standard: a so-called noninterlaced monitor that has a 0.28 dot-pitch screen. Monitors can cost from $200 to $2,000, but "a good monitor will last longer than anything else," says Hurd.

Also remember there's more to a PC's price than what's in a box. A cheap off-brand PC may work like an IBM or Compaq Computer Corp. machine, but if something goes wrong later on, you may have trouble finding replacement parts—or the clonemaker who assembled the PC. Spending more now may save you grief later.

Some expenses you can defer. One is add-on memory. Most systems now come with eight megabytes of main memory—plenty for today's software. You may be told you need more to run Windows 95. True, but by the time the new Microsoft software ships—possibly as late as the end of next year—prices may be well below today's typical $180 per 4-megabyte memory module.

Among the biggest pitfalls to be aware of are special "bundles" that promise lots of features—including dozens of software programs—at an impossibly low price. You may get a top-brand computer, but it may have a tiny disk drive, an inferior monitor, a slow modem, and last year's software.

To finish off your home-PC system, you may also want a new printer. Ink-jet or bubble-jet printers from Canon Inc. and Hewlett-Packard Co. offer laser-like printing—some in full color—at $200 to $400. But nothing beats a laser printer for overall quality. And if you can wait, you may be rewarded: Japanese giant Brother Industries Ltd. recently introduced a laser printer that retails for less than $400—the latest salvo in a laser-printer price war.

By Paul M. Eng in New York

CHOOSING THIS YEAR'S MODEL

MACINTOSH

The Mac still wins on ease of use, and it is simpler to buy since you don't have zillions of brands and options to choose from. But many software developers now write programs for Windows first.

IBM-COMPATIBLES

The big choice is between machines that are based on the new Intel Pentium chip and models that use the older 486 chip. You can save money with a 486, but don't settle for less than a 66 Mhz chip.

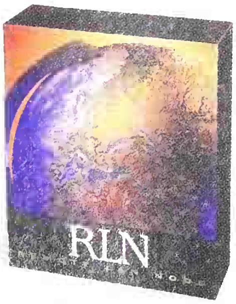
MODEL	Apple Performa 630	Apple PowerMac 6100	IBM Aptiva 530	Dell Dimension XPS P90
MICROPROCESSOR	33 Mhz 68040	60 Mhz PowerPC 601	80486 DX2/66 Mhz	Pentium 90 Mhz
MEGABYTES OF MEMORY	4	8	8	8
MEGABYTES OF HARD-DISK SPACE	250	250	424	540
COLOR MONITOR	15 in.	15 in.	14 in.	14 in.
PRICE (AT COMPUSA)	$1,900	$2,189	$2,140	$2,399*

DATA: BUSINESS WEEK, NATIONAL SOFTWARE TESTING LABORATORIES INC.

*Direct from Dell

How can you improve employee productivity when they don't even show up at the office?

The office is quiet. Desks are clean. You haven't seen an employee for weeks. And business has never been better. There's a perfectly good explanation for all this: RLN™ (Remote LAN Node®). It provides your employees with transparent access to all the resources on your LAN, no matter where they're working. Even on glamorous road trips to places like Secaucus, New Jersey. Once connected, they can access the mainframe, use groupware applications, check E-mail and more, like any local user. And since you won't be keeping your eye on every employee, every minute, we created superior management and security features. We also teamed up with Citrix® Corporation and their award-winning software to develop our optional Application Server. It can boost remote access performance of LAN-based applications by as much as 300%. So call today about RLN. And start improving the work ethic in your office. And out of it.



FOR MORE INFORMATION ON **RLN** CALL 800.348.3221 X 76EE

DCA®

© 1994 Digital Communications Associates, Inc. All rights reserved. DCA and Remote LAN Node are registered and RLN is trademarked by Digital Communications Associates, Inc. All other trademarks are property of their owners.
Outside the U.S., call 404.475.8380

STRATEGIES

CALL IT WORLDPOOL

Whirlpool is transforming the Continent's appliance market

It hardly looks like a revolution. In Whirlpool Europe's cavernous assembly plant on the shores of Italy's Lake Varese, dozens of ovens roll off a spotless new assembly line every hour. Some are boxy and Teutonic-looking and boast the top-of-the-line Bauknecht brand. Next come rounder, more modern models, sporting the Whirlpool name. And still others, part of a no-frills, utilitarian line, carry the Ignis brand.

But orderly as the goings-on appear, they represent an upheaval in Europe's appliance business. While the ovens' outer features differ, all share the same interior—"the parts that the consumer doesn't see," says Jeff M. Fettig, the 37-year-old president of Whirlpool Europe. That's a big change in how the appliances are built in Europe—and the clearest sign yet of Whirlpool's huge makeover since it paid $1 billion for the appliance business of Dutch consumer-goods giant Philips Electronics.

The acquisition was the first step in Whirlpool's plan to transform its largely domestic operation into a global powerhouse. Whirlpool acquired 47% of the Philips unit in 1989 and the rest in 1991. But the company it inherited was anything but global—and barely even European. Philips' amalgam of independent national companies churned out different appliances for each market: Washing machines built in Italy and Germany didn't share a single screw. Barely profitable, Philips had steadily lost market share for years.

But today, by building a coordinated Europewide organization and shifting manufacturing to common "platforms" that have European and U. S. appliances sharing technology and suppliers, Whirlpool has transformed the also-ran. Operating margins for 1994's first three quarters hit 6.5%, up from 3.6% in 1990, and market sha is up from 11.5% to 13%, just behi No. 2 Bosch-Siemens Hausgerate. A on Nov. 15, the Benton Harbor (Mic company announced a $240 million r structuring. Two U. S. plants will clos, while in Europe, 2,000 jobs will be cut Whirlpool finishes reorganizing its n tional sales and marketing units. "This the last big step remaining to move o business to a pan-European basis," sa Fettig.

PIERLUIGI CIPELLI

COMMON MARKET: *Fettig will use more shared platforms*

Its makeover nearly done, Whirlpo is poised for even bigger gains. A sle of new products is boosting pressure local rivals. And analysts say Whirlpool European experience puts it far ahead Maytag, General Electric, and Ele trolux in building an integrated glob business. "Whirlpool gets very hig marks in its global strategy," says Je ry Herman, an analyst at Kemper S curities Inc. in Cleveland. "They ar outpacing the industry dramatically."

BROWNING VERSION. Analyst Lawrenc J. Horan at Prudential Securities In expects European revenue of $2.4 bi lion, or 30% of worldwide sales of $7.9 billion. Operating earnings should be record $162 million, 28% of the total $57 million. Even rivals are impressed. "The took over a company that had lost it way and reinstated direction," says Lei Johansson, CEO of Sweden's Electrolu Group, Europe's market leader.

Whirlpool began by rational izing Philips' scattered assets Now halfway through a five year plan to slash $400 million in annual costs, Whirlpoo shut a surplus plant i Barcelona. It trimmed 3 warehouses to 16, and wil drop to 8 next year. It also centralized inventory control, chopping Philips' legion of 1,600 suppliers in half. Where Philips bought refrigerator power cords from 17 suppliers, Whirlpool uses two. Together, the moves cut inventories by one-third.

Whirlpool Cleans Up in Europe

Whirlpool has transformed Philips' sluggis European appliance business by:

RATIONALIZING ASSETS

36 warehouses cut to 16; will drop to 8 in 1995. Excess manufacturing capacity trimmed, while switch to Europewide logisti slashed inventory by one-third.

Whirlpool also faced a formidable task rebranding Philips' products. Starting 1994, it had to pay royalties to keep ing Philips' name. And its own brand as unknown in Europe. Worse, Philips' national ad agencies created a ca- ophony of conflicting messages. hirlpool scrapped the lot, tagged ap- iances with both the Philips and hirlpool names, and launched a $135 illion dual-branding campaign Eu- opewide. The strategy worked: hirlpool has now cut ie Philips name from s products in most of urope.

Whirlpool CEO David . Whitwam says the ompany is also shift- ig its European appli- nce business from hilips' engineering- riented culture to a ustomer focus. By aying consumers to lay with appliances at s Usability Lab in omerio, Italy, for ex- mple, Whirlpool dis- overed that microwave oven sales would nprove if it introduced a model that rowned food. The result: Swedish re- earchers developed The VIP Crisp. Now, 's Europe's best-seller, and Whirlpool ecently began making it in the U. S.

But maybe Whirlpool's biggest hange, and challenge, is in manufac- uring. National designers and re- earchers merged into pan-European eams that work closely with Whirlpool's . S. designers. Result: a series of new Vhirlpool products using common "plat- orms" that allow different models to be uilt on the same underlying chassis.

LEG UP. One example is the new vens coming off its Italian assembly ne. Where Philips paid archrival Elec- rolux to make 250,000 top-end Bauk- echt ovens a year, built its own name- ake ovens, and offered no cheap Ignis t all, Whirlpool will save big by build- ng all three around a common interior. he approach also lets Whirlpool make he most of technology. New clothes dryers feature a popular oversized door developed in the U. S. By 1996, 11 redesigned product lines will be launched, and 85% of European major appliances will feature common platforms.

> "They took a company that had lost its way and reinstated direction," says Johansson of Electrolux

If it succeeds, the strategy should boost European margins closer to the 10% earned in the U.S., increasing pressure on low-margin Euro-rivals. But they have doubts about Whirlpool's homogenization push. "Whirlpool sees Europe as a uniform market, but we also see the differences in customer demands and needs from country to country," says Bosch-Siemens spokesman Gunnar Pautzke. Whirlpool's Whitwam argues such national differences are exaggerated. "This business is the same all over the world," he says. "There is great opportunity to leverage that sameness."

That's just the global opportunity Whirlpool wants. While much remains to be done in Europe, it is increasingly putting its hard-won skills to work in Asia. Since last July, it has agreed to pay $110 million for 57% of Kelvinator of India Ltd., India's largest refrigerator maker. It's not alone: Rivals such as Electrolux and GE are also targeting the fast-growing region.

But if Whirlpool isn't alone, it's a step ahead. Whirlpool executives who oversaw the European rebranding are already working with Kelvinator, and Whirlpool will use the same strategy of making common platforms and sharing technology and design. Fettig says Whirlpool's ultimate aim is that "we'll be able to develop a product anywhere in the world capable of being manufactured anywhere in the world." While that goal remains years away, Whirlpool clearly has a good shot at cooking the world's dinner—and doing its wash, too.

By Patrick Oster in Brussels and John Rossant in Comerio, Italy

WORKING ACROSS BORDERS

pendent national subsidiaries merged regional companies. National design research staffs reorganized into Europe- roduct teams that now work closely with designers.

REDESIGNING PRODUCTS

onal appliances with no shared parts being replaced by European models on low-cost common "platforms."

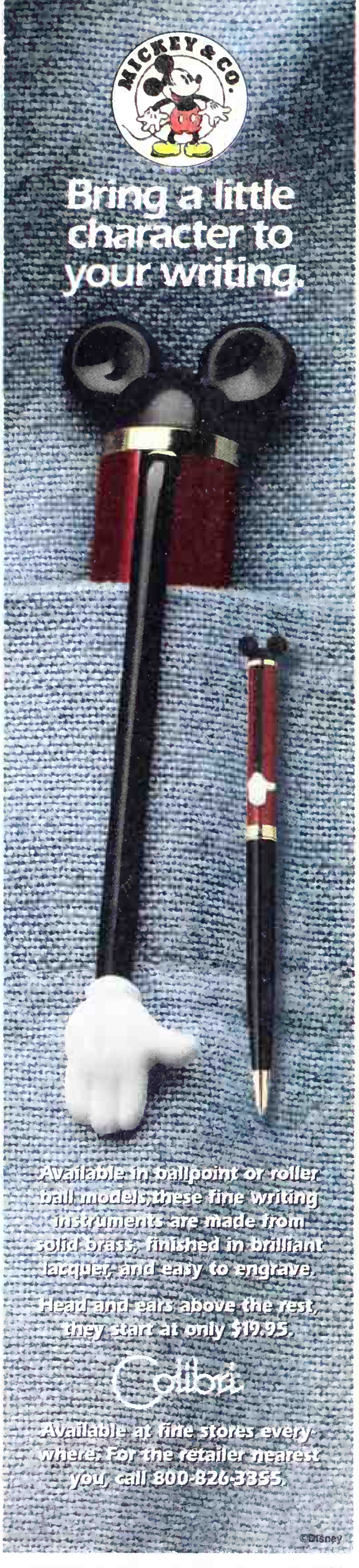
BUYING GLOBALLY

Slashed Philips' 1,600 suppliers in half; as common European products are introduced, pan-European and global sourcing will grow.

REBRANDING PRODUCTS

Launched $135 million "dual-branding" ad campaign to build Whirlpool brand name without losing Philips' customers. Now eliminating Philips' name from its products.

DATA: WHIRLPOOL EUROPE



Available in ballpoint or roller ball models, these fine writing instruments are made from solid brass, finished in brilliant lacquer, and easy to engrave.

Head and ears above the rest, they start at only $19.95.

Available at fine stores everywhere. For the retailer nearest you, call 800-826-3355.

MANAGEMENT

THE LEGAL STORM SWIRLING AROUND EXPRESS ONE

A Dallas airline fights a pilot's suit charging safety violations

In an industry better known for disappointments than triumphs, Express One International Inc. seems to show a lot of promise. The small airline owned by Alinda Hill Wikert, a granddaughter of oil tycoon H. L. Hunt, has built a successful charter and freight business. Its revenues climbed 50% last year, to $116 million. And in May, the Transportation Dept. gave Express One, based in Dallas, permission to operate scheduled flights around the country.

But instead of celebrating its growth, Express One finds itself embroiled in a nasty legal dispute over maintenance operations. In a lawsuit filed on Aug. 22 in U. S. District Court in Brooklyn, N. Y., Jack Farenga, a former pilot, claims he was fired in May for "writing up" in aircraft logbooks such problems as faulty weather-radar and navigational equipment on a Boeing 727, as required by federal regulations. Express One denies the allegations. Farenga was fired for insubordination, not maintenance write-ups, says Express One President Kevin Good. And the company fired back on Oct. 20 with a libel and slander counterclaim against Farenga, a former Eastern Air Lines pilot with 21 years of flying experience. In its suit, the airline cited comments Farenga allegedly made to BUSINESS WEEK as one reason for its legal action.

Farenga isn't alone in his criticism. More than a half-dozen other current and former Express One pilots interviewed by BUSINESS WEEK complained of frequent maintenance problems at the airline. Some say Express One keeps its inventory of spare parts lean and often delays repairs to keep planes moving and revenue flowing.

Most Express One pilots interviewed by BUSINESS WEEK—all but one on the condition of anonymity—don't believe the maintenance lapses are so severe that they jeopardize passenger and crew safety. Still, one pilot confides: "There were a few times we operated in the gray area." And many contend that the airline puts pressure on pilots to minimize repair complaints.

Express One vehemently denies the pilots' allegations. Alinda Wikert and her husband, James, chief executive of the airline, declined to comment. But in a statement, Express One said it "operates only safe, airworthy aircraft." Indeed, the airline hasn't suffered an accident since Wikert bought the compar, formerly known as Jet East, in 198

The charges come at a time when a line safety in general is under inten public scrutiny, after recent crashes USAir and American Eagle planes. An the National Transportation Safe Board on Nov. 15 recommended tough safety measures for commuter airlin

TAKING OFF. The flap at Express Or follows a period of rapid growth in whi the airline built a thriving cargo ar charter business. In 1992, it ferri around then Presidential candidate B Clinton. Over the past 2½ years, the ai line's fleet of Boeing 727s and DC- has more than doubled, to 40.

But Express One's expansion has ru into some regulatory turbulence. In la 1992, it signed a consent order with th Federal Aviation Administration to se tle 19 cases of alleged poor maintenanc and other charges from 1988 throu August, 1992, according to document obtained by BUSINESS WEEK under th Freedom of Information Act. The FA sought more than $1 million in penaltie But without admitting wrongdoing, Ex press One agreed to pay $120,000. An $259,000 was forgiven this year whe the airline took corrective action

In April, the FAA threatened the airline with a $45,000 fine for allegedly improperly deferring maintenance on a malfunctioning auxiliary power unit or a DC-9. The FAA says the problem should have been corrected in 10 days instead, the agency says Express One operated the plane on 63 flights between Nov. 3 and Nov. 23, 1993. Express One General Counsel Stephen R. Thompkins says the company disagrees with the

CAPTAIN FARENGA: WHY DID THE AIRLINE FIRE HIM?

Cloudy Skies

NOVEMBER, 1992 Without admitting any wrongdoing, Express One signs consent order with FAA and agrees to pay $379,000 in penalties for alleged maintenance and other violations. FAA waives $259,000 of that after airline changes some maintenance procedures.

APRIL, 1994 FAA threatens to fine Express One $45,000 for allegedly improperly deferring the maintenance on a malfunctioning auxiliary power unit on a DC-9. Airline disputes agency's interpretation of the regulations and insists the plane was airworthy.

MAY, 1994 Farenga writes up aircraft for numerous mechanical problems on charter flights, including malfunctioning navigational equipment. Pilot later fired for insubordination, company says.

AUGUST, 1994 Farenga sues Express One for back pay and damages, alleging he was wrongfully dismissed. Airline denies allegation.

OCTOBER, 1994 Express One files countersuit, accusing Farenga of hurting the airline's business through libel and slander.

TO R) PHOTOGRAPHS BY GARY SPECTOR, JOE LAIRD/DALLAS MORNING NEWS

A's interpretation of the rules and that e aircraft in question was never “un- rworthy.” The case is still pending. he FAA also confirmed two other in- estigations into maintenance proce- ures at the airline but declined to pro- de details. Express One says the quiries are routine. FAA inspectors say e airline has recently been coopera- ve and willing to correct any problems. ood says the airline's problems with e FAA are in the past. “This is a dra- atically different company since 1992,” e says.

LYING HIGH: *James and Alinda ikert hiked revenues to $116 million*

Many of the pilots interviewed by USINESS WEEK believe Express One is ushing to cut costs, and they cite its fi- ancial condition as one of the reasons: It ost $3.5 million last year, though it arned $1.8 million in this year's first alf. Often, they claim, repair problems re concealed by “pencil-whipping.” For xample, a mechanic might address a log- ook complaint by “re-racking,” or re- oving equipment from its mountings nd checking connections and then rein- talling the same part. The problem soon eappears, they claim. Express One's onunion pilots also claim that they're eluctant to protest too loudly for fear f losing their jobs. “There was a fear of oing anything that would attract at- ention,” says a former chief pilot. And ith jobs scarce, most are grateful for ny airline post. Counters Good: “I have bsolute confidence that if a pilot had a roblem out there, he will call me.”

NTIMIDATION? A former Express One ilot recalls that on a takeoff from ewark, N.J., last year, one of the three ngines failed. He turned around and ame back to the airport. Mechanics told im they could find nothing wrong with e engine. But the pilot refused to take ff again since the plane was already fly- ng legally with a broken generator. Soon fter, the pilot says he received a call rom Express One's chief operating offi- er, Frank McGill, questioning his rounding of the plane. Although he was ever threatened by McGill or ordered o fly the aircraft, the pilot says, he con- idered getting a call from a top execu-

How to buy something different for everyone.

AMERICAN EXPRESS
American Express Gift Cheque
THE AMERICAN EXPRESS GIFT CHEQUE

Simple. Buy the American Express® Gift Cheque. It's different things to different people because it allows them to buy practically anything, virtually everywhere. Packaged elegantly, it is a truly distinctive and memorable gift. Available at participating American Express® Travel Service Offices, banks, credit unions and AAA Clubs. For a location near you, call **1-800-472-2804.** For more information on corporate orders (over 20 Cheques) call **1-800-700-7621.**

AMERICAN EXPRESS **Gift Cheques**

We believe travel should open new doors.

From pampering you with luxuries to the personal way we greet you, our attentive staff embraces our philosophy. To celebrate the best of local culture. And to offer only the highest standards. Experience the difference by calling your travel planner or (800) 327-8585 and ask for our International Corporate Rates.

PAN PACIFIC *Hotels and Resorts*

(800) 327-8585

NORTH AMERICA: VANCOUVER, SAN FRANCISCO, SAN DIEGO, ANAHEIM, HAWAII, **PACIFIC:** AUCKLAND, GOLD COAST, VANUATU, PALAU, **ASIA:** HONG KONG, SINGAPORE, KUALA LUMPUR, JOHOR BAHRU, PANGKOR, JAKARTA, DHAKA, WUXI, NARITA

NO federal taxes.
NO load.
NO fees.
NO kidding.

Twentieth Century's #1 ranked Tax-Exempt Short-Term fund

One-Year Average Annual Total Returns
2.91%* as of 9/30/94
30-Day Current Yield **3.97%** as of 9/30/94
Tax-Equivalent Yields
6.20% 36% Tax Bracket
6.57% 39.6% Tax Bracket

Lipper Analytical Services, Inc., an independent mutual fund information service, ranked Tax-Exempt Short-Term #1 out of 33 short municipal debt funds based on its average annual total return for the one-year period ending September 30, 1994.*

With this fund, you pay no federal income taxes on the competitive yields you earn.** The fund manager is extending the waiver of *the entire management fee* for an additional year—until January 1, 1996.

To learn more about our full range of ***no-load*** tax-exempt mutual funds, call or write for a FREE Fixed Income information kit. The kit contains a prospectus with more complete information, including charges, expenses and minimums, which you should, of course, read carefully before investing.

Call today, toll-free:
1-800-345-2021
P.O. Box 419200, Kansas City, MO 64141-6200

TWENTIETH CENTURY® MUTUAL FUNDS

© 1994 Twentieth Century Services, Inc.
BSW

Investments That Work™

* The fund manager has waived its fee until January 1, 1996, which had a material effect on the average annual total return for the ranking period. In the absence of this waiver, the total return would have been lower. In addition, the current yield would have been 3.37% and the tax-equivalent yields would have been approximately 5.27% and 5.58% based on the 36% and 39.6% tax brackets, respectively. ▪ **2.91%** and **3.28%** are the 1-year and since inception (3/1/93) average annual total returns as of 9/30/94.

** Investment income may be subject to state and local taxes and the federal alternative minimum tax. Capital gains, if any, are taxable. ▪ Data quoted represents past performance and assumes reinvestment of all distributions. Past performance is no guarantee of future results. Investment return and principal value will fluctuate, and redemption value may be more or less than original cost.

GREAT NEWS: FEE WAIVER EXTENDED UNTIL 1996.

tive to be a form of intimidation. Suc tactics, he says, "make you take anoth look at things. You're not going to be picky." Express One's Thompkins say he can't confirm or deny the inciden based on the details provided by BUS NESS WEEK. The general counsel says p lots should be prepared to explain wh they're grounding an aircraft.

In his lawsuit, Farenga charges tha his dismissal was directly related t writing up maintenance problems. Hire in January, 1993, and promoted to captain in December, Farenga, 39, was d scribed by a former superior at Expres One as an "excellent" pilot.

Farenga's suit, which seeks back pa and $10 million in damages, alleges hi problems at Express One came to a hea in May. The suit says that after flight from Boston to Jamaica and back on Ma 23, Farenga "determined that certai mechanical difficulties with said aircra presented a danger to the passenger and crew aboard." Among the problem described by Farenga were an intermittently failing weather radar, fault navigational equipment, and an engin that was slow to power up.

He wrote up the alleged malfunction but problems persisted on a subsequen flight. He again wrote up the problems Upon returning home on May 30, the sui says, Farenga got a call from James Wikert, who said "that he was not a tea player because of his extensive maintenance write-ups of the aircraft." The Wikert fired Farenga, the suit says.

"ARGUMENTATIVE." Express One's countersuit says maintenance issues ha nothing to do with Farenga's dismissal Instead, the suit alleges among othe things that Farenga was "very argumentative" on the job. It also mention his alleged "indifference" to passengers citing an instance when he asked payin customers to change seats to accommodate his family members. Farenga wa asked to report to Dallas to discus these issues, according to the suit, which charges that Farenga argued about th trip and was fired for insubordination Farenga's attorney, John D. Rapoport says no one at Express One warne Farenga about his alleged attitude problems. And he dismisses the airline's sui as "nonsense."

Farenga's dismissal and subsequent suit has left Express One with a mess In its countersuit, the airline claims it has lost business because of Farenga's comments. At this rate, Express One may have to put off its celebration a bit longer.

By Wendy Zellner in Dallas an Phillip L. Zweig in New York

What Does a Multimedia Phone Call Look Like?

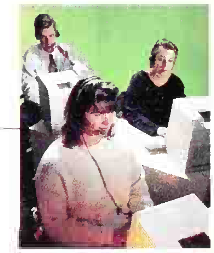
Market Projections

VIDEO CONFERENCING
Hold face-to-face meetings across the country at a moment's notice. Share graphics and documents without leaving your seat.

MULTIMEDIA MESSAGING
Send and retrieve — or store-and-forward — faxes, e-mail, voice mail and electronic bulletin board postings. On screen or by telephone.

BROADBAND TRANSMISSION
We're a technology leader in implementing customer-premise ATM. So you can get cost-effective wideband transmission on demand for imaging and enhanced data capabilities.

COMPUTER TELEPHONY INTEGRATION
Integrating phones and LANs is now an affordable reality. LANs can enhance data flow within the enterprise; Fujitsu's platform can extend that flow to the world.



CALL CENTER
Our Automatic Call Distribution capabilities mean you can prioritize, process and analyze thousands of incoming customer orders in a single work shift.

On the Fujitsu Multimedia Platform, it could look like an ad layout an associate has sent to your PC, or a proposal a colleague has bit-streamed from another sales office — even a workgroup member's face during a "virtual" meeting. The fact is, a phone call coming through your Fujitsu Multimedia Platform can look like anything you want to send or receive, from anyone else, anywhere else, in the country. For a White Paper on the "Future of Multimedia in the Workplace," call 1-800-553-3263.

VOICE DATA TEXT IMAGE VIDEO

FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

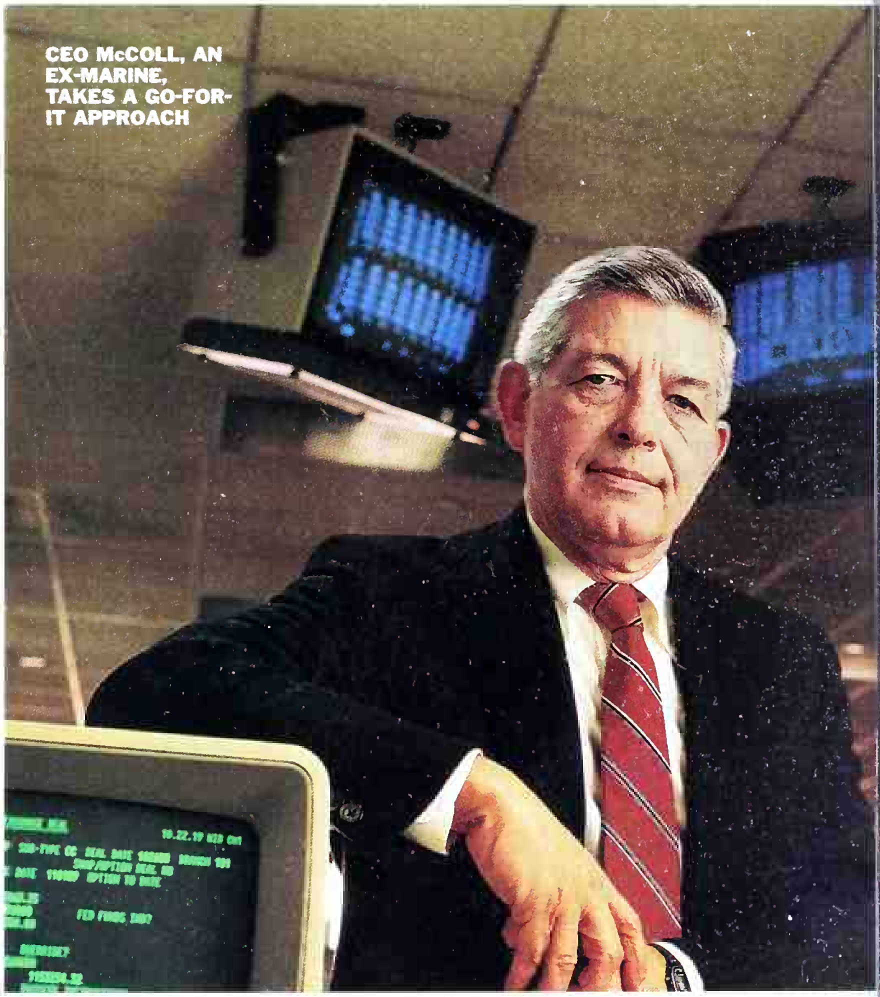
NATIONSBANK: AN EXCESS OF ZEAL?

Lawsuits charge its brokerage with high-pressure tactics. Regulators are asking questions

NationsBank Corp.'s vital statistics are as robust and bright as the shiny facade of its landmark headquarters in Charlotte, N.C. With an entrepreneurial zeal rare among bankers, NationsBank Chairman Hugh L. McColl Jr. has pursued an aggressive six-year acquisition and diversification spree that has made it the third-largest bank in the country, with assets of $171 billion in September. Profits for the year may top $1.7 billion.

One of McColl's major initiatives has been a campaign to go head-to-head with Wall Street. In 1992, the bank formed an ambitious joint brokerage venture with Dean Witter, Discover & Co. to market a variety of investment products through bank branches. It has also moved into investment banking and was one of the top three bank underwriters of corporate securities in 1993. Profit for the brokerage, NationsSecurities, was $41 million in 1993, nearly four times that of NationsBank's brokerage unit prior to the joint venture. And the bank's $94 million in 1993 investment banking income was more than double 1992's level.

TARGETS. NationsBank's gung ho style has had some unfortunate consequences, though. Its brokerage and investment banking units are the targets of lawsuits and other allegations of improprieties brought by customers and former employees. Federal and state authorities are investigating the brokerage and investment banking operations. Court documents and interviews with current and former brokers and customers portray NationsSecurities as a high-pressure sales operation in which poor-performing investments are foisted on unsophisticated customers. NationsBank investment banking representatives may have run afoul of laws prohibiting banks from refusing to provide credit unless a customer also hires the bank to perform some other service such as bond underwriting, a practice known as tying.


CEO McCOLL, AN EX-MARINE, TAKES A GO-FOR-IT APPROACH

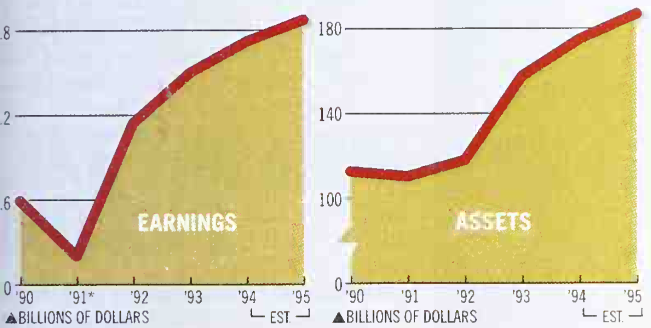
ROB KINMONTH

The allegations raise questions about how well NationsBank is managing its fast-track growth. True, the balance sheet looks great. And the alleged problems could well be isolated incidents not indicative of the bank's overall operations. Still, authorities are looking into whether lax oversight at NationsBank's headquarters contributed to the alleged problems at NationsSecurities. And competitors and former NationsBank employees say the tying incidents, which include two new possible examples uncovered by BUSINESS WEEK, may signal an overly aggressive approach to the investment banking business that lead bank employees to push the limits o proper conduct.

The brokerage operation has been s plagued with problems that NationsBank and Dean Witter on Nov. 3 ende the joint venture, with NationsBank reassuming sole control. In June, investors in Florida filed a class action charging the firm with engaging i racketeering, unfair trade practices breach of fiduciary duty, and "exploiting bank customers' trust in NationsBank." In July, three former brokers ed a complaint with the National As-ciation of Securities Dealers alleging broad pattern of fraud and seeking 50 million in damages. Later, 60 cur-nt and former NationsSecurities bro-ers, many from Dean Witter, filed an-her complaint with the NASD claiming e joint venture overstated the amount business brokers could expect at the rm. Dean Witter declined to comment NationsSecurities. NationsBank de-es all charges in these actions and is gorously defending itself in court and ASD proceedings.

The collaboration with Dean Witter as troubled almost from the start. ationsBank's top brokers voiced strong jections to the plans to hire rookies nd cut everyone's commissions. Vin-ent P. Walls, the Dean Witter execu-ve who became president and COO of ationsSecurities, went ahead anyway nd hired dozens of inexperienced bro-ers, explaining he wanted people "with bad habits," former brokers say. But he brokers then were assigned to bank ranches with no on-site supervision— recipe for trouble.

NATIONSBANK IS BOOMING . . .



*$1.5 BILLION LOAN WRITE-OFFS, $300 MILLION RESTRUCTURING CHARGE

DATA: COMPANY REPORTS, INTERSTATE/JOHNSON LANE ESTIMATES

. . . BUT PROBLEMS MAR SOME UNITS

BROKERAGE Former customers in a class action accuse NationsSecurities, the bank's brokerage arm, of improper sales practices such as overstating the safety of mutual funds that ultimately lost money. Former brokers complain in two separate NASD filings that NationsSecurities has pursued several questionable practices such as using a compensation system that caused brokers to push NationsBank products. Federal agencies including the Securities & Exchange Commission and the Office of the Comptroller of the Currency are examining allegations. NationsBank denies the charges.

INVESTMENT BANKING The OCC is investigating charges that NationsBank sometimes offers credit only to corporate customers who also hire the bank to underwrite bonds, a potentially illegal practice called tying. A BUSINESS WEEK investigation has found two new alleged instances of tying. NationsBank says it has a policy against tying.

DATA: BUSINESS WEEK

NationsBank's acquisitions spree has made it the third-largest bank in the country, with assets of $171 billion in September, 1994. The question is: How well has that growth been managed?

Court documents and former brokers lege that NationsSecurities even vio-ted Securities & Exchange Commission rules when it was building its brokerage force. Brokers say the firm ignored a rule prohibiting commission payments to anyone who does not hold a broker's license. Brokers routinely paid a set percentage of their commissions in cash to employees in their branches for referring customers to them. They also were given information about customers' accounts, such as when their CDs were maturing. A document in one lawsuit by former broker David Cray shows a "referral adjustment" of $964.35 allegedly paid to a bank employee on Cray's sales credit of $32,884.44—3% of the sale.

NationsBank has now moved to a system that rewards referrals to brokers within the bank's overall bonus system, former brokers say. But even with the controversial bounty payments, the bankers referred little business to their brokerage colleagues. An aide to the House Energy & Commerce Committee confirms that the panel is looking into NationsSecurities' compensation system. Former brokers say SEC investigators have interviewed them, and Florida and Texas regulators are looking into customer complaints about NationsSecurities' sales practices. NationsBank says various regulatory bodies have inquired about referral arrangements, and it believes its system complies with all relevant regulations.

The pressure to sell proprietary mutual funds was particularly intense, say current and former brokers. Selling non-NationsBank funds often generated less than half the commissions brokers earned for selling proprietary products. Sales contests abounded, and telephone sales scripts told brokers how to close sales by extolling the safety of investing in government bonds and warning about the brief availability of closed-end funds.

SHAKY. The Nations Term Trust 2003 Fund, a NationsSecurities closed-end Treasury-bond fund, was a case in point. Waving a brochure with a picture of the U.S. Capitol, NationsBank Senior Vice-President Dan Wroble told brokers at a sales meeting before the September, 1993, launch that "Hugh McColl has stated that if that building is still standing in the year 2003, people will get their money back," according to several who heard his pitch. NationsBank says McColl and Wroble did not make the statements attributed to them.

In any case, today, the 2003 Fund looks shaky. Launched just as interest rates pitched steadily upward, the fund lost 35% of its value in seven months. Though it was sold as a reliable vehicle for income as well as principal growth, dividends were cut 14% on Nov. 7. It was those representations that led Florida investors to file the class action, which claims that NationsBank failed to make clear the fund was not an insured, risk-free investment product. Says former NationsSecurities broker Catherine Hovis, who is a plaintiff in one of the brokers' actions against the firm, "Customers didn't know we weren't a bank. They really didn't."

Former brokers say that several months ago they sought to bring the troubles they perceived at NationsSecurities—failing products, lackluster income, and too many inexperienced, under-supervised brokers—to the attention of management. But they say their concerns fell on deaf ears. Several brokers say that at meetings with Charles King, NationsSecurities' executive vice-president—he is now president and COO—he simply urged them to sell harder and warned that sales targets would be raised, not lowered. Another group of brokers complained to Walls during a Cayman Islands trip awarded to top performers. "You're all prima donnas," several say Walls responded. Dean Witter says Walls has no comment.

BUD LEE

Now that NationsBank has taken back control of NationsSecurities, the bank's officials acknowledge a need for change. King says he will meet with "every single employee" on a road show to area offices. But he remains determined to push hard for growth. "We've got to establish ourselves as a leader in the industry," he vows.

> "Customers didn't know we weren't a bank. They really didn't"
>
> CATHERINE HOVIS, former NationsSecurities broker

ISOLATED? That get-the-business drive may lie at the root of NationsBank's troubles with alleged tying of services in its underwriting business. Competitors and corporations say NationsBank has a reputation for insisting on tying arrangements. Last summer, an Alabama investment banking firm, Merchant Capital Corp., which competes with NationsBank, released a letter in which NationsBank Senior Vice-President J. W. Davis told prospective client Anthony Forest Products Co. that its offer of a letter of credit was contingent on NationsBank's getting authorization to place Anthony's bonds. NationsBank released a statement describing Davis' methods as "an isolated situation clearly contrary to NationsBank procedures and firm policies." But the Office of the Comptroller of the Currency announced plans to investigate.

BUSINESS WEEK has turned up two other cases of alleged tying. According to several people who were present at the 1992 meeting, a NationsBank representative explicitly connected the bank's offer of a letter of credit to the Georgia Housing & Finance Authority to its getting the nod to underwrite the agency's bonds. "If you all want us to participate," one of the individuals recalls NationsBank representative Amy Forrestal saying, "you know we'll have to underwrite your bonds." Without a letter of credit, the authority's financing costs stood double—or worse. But the agenc walked away from NationsBank rathe than agree to a linkage. "We were fran ly affronted," one individual recalls a authority official saying. "If we had bee some kind of shrinking violet, we migh have been intimidated by their ap proach." The agency got a letter of cred it from another bank.

Executives at Consolidated Enginee ing in Kennesaw, Ga., say they had similar experience when they sought letter of credit last summer for a $5 mi lion bond issue backed by the Cob County Development Authority. Tyle N. Crafton, Consolidated's senior vic president for administration and financ says a NationsBank representative tol him that, "If you want a letter of cre it, with consideration and other thing you'd better give us the deal" to plac the bonds. Crafton says he objected "We felt like that was inappropriate and we said, 'Hey guys, isn't that ty ing?' They said, 'Oh, no, no, no, no.' Bu we felt like it was, and we still feel lik it was," Crafton says.

DRAWN GUN? Crafton and Lynn Howar Consolidated's controller, say they wanted Merchant Capital to underwrite thei deal, but NationsBank refused to wor with Merchants as a partner. The ban suggested other partners—large Ne York investment banks—but Crafton an Howard say their deal was so small tha those were unrealistic alternatives. Ult mately, they went along with NationsBank. "We felt very much like somebod had a gun drawn and pointed at us," say Howard. NationsBank says it has a co porate policy against tying and insist its employees never made comments at tributed to them in the Georgia Hous ing and Consolidated cases.

Hugh McColl declined repeated requests for interviews for this story. Bu in the past, when asked about NationsBank's rapid growth, McColl has claime he does not favor growth for growth' sake. His aim, regardless of size, is t make the most money possible. Still, h likes to tell associates that the free wheeling culture at NationsBank an NCNB, its predecessor, suits his ex Marine's go-for-it approach to business "If I were at Wachovia, I'd probably b an assistant vice-president right now or I would have been fired." he recently told an interviewer, referring to hi famously conservative crosstown riva "I don't think their risk tolerance is th same as ours." But given the problem at NationsBank, a smaller appetite fo risk might not be such a bad thing.

By David Greising in Atlant

ONEY MANAGERS

AKE THE MONEY MANAGER ND RUN

eliable fee income makes these firms prime buyout targets

rom California to Connecticut, financial-services companies are tripping over themselves in hot pursuit firms that manage that most precious commodities—money. With the stock arket going nowhere and the bond arket turning in its worst performance memory, money managers have someing these companies desperately want: sets that generate fees in both up and own markets.

In just the past week, two major eals have been signed. On Nov. 11, oston's United Asset Management orp. snapped up Provident Investment ounsel, which manages a pot of $14.5 llion for institutional investors. UAM id an estimated $315 million. And on ov. 14, Liberty Financial Cos. announced it had inked a deal with Newrt Asset Management, a San Francis- adviser handling $650 illion in individual and institional accounts.

TS OF BASKETS. No one can y for sure how many money anagers are out there. The instry has thousands of small tfits with a handful of emoyees managing under $1 bilon. Such firms survive because stitutional investors like to vest with a number of mangers. For example, the $78 bilon California Public Employs' Retirement System uses 33 money managers. But undoubtedly "there is a huge consolidation going on," says Charles B. Burkhart, president of Investment Counseling Inc. in West Conshohocken, Pa., which advises investment managers on strategy. Through September, 57 money managers have been gobbled up—a pace on track to top 1993's record 66 deals. The appeal: Money management can be highly profitable, with pretax profit margins of up to 50%. While the management fee on assets might be as low as 0.75%, a more common rate is 1.5%. In Provident's case, a 0.75% fee on its $14.5 billion would bring in a nifty $108.7 million.

Banks are accounting for more and more of the acquisitions. Interest rates are rising, and the spread between what banks pay for funds and what they charge borrowers is narrowing, so banks want more fee income. And as banks expand into financial services, they are also looking to buy up talent to manage assets in trust departments and to enhance their reputation with corporate clients.

Acquisitions of institutional money managers have surged partly because they are cheaper to buy than mutual-fund companies. While the average fund company has recently been selling for 4.3 times revenue, the figure for the average institutional money-management firm is 2.6 times revenue. In part, that's because mutual funds are tapping into the huge increase in retirement assets in 401(k) plans. Also, mutual-fund assets may stay on the books longer, since assets are based on a huge number of accounts, says Burt Greenwald, president of B. J. Greenwald Associates, a financial-services management consulting firm in Philadelphia. An institutional firm with fewer big accounts may be more vulnerable to client defections.

HANDS OFF. While they don't make the headlines, smaller money-management firms are in hot demand. UAM, it seems, is the rough model for many new firms springing up to buy small money managers. In the past 11 years, UAM has seen assets under management soar to $120 billion. In the past four years, its stock has more than doubled. And after making 40 acquisitions, UAM has built a highly profitable stable of investment-management companies that remain relatively independent. That hands-off approach is what makes UAM such an attractive parent to many firms.

Building a company by acquiring just pieces of money-management firms is the goal of William J. Nutt, president of Affiliated Managers Group, a Boston firm funded by venture capitalists TA Associates. Nutt, former president of Boston Co., is going after deals that may be too small for UAM: outfits with $500 million to $5 billion in assets that want to sell 50% to 60% of their firm. Another new player is Chicago Corp., which wants to build its investment-management arm by partnering with firms that manage assets of $200 million and up.

But even with all the consolidation, the lure of starting up a money-management firm is as strong as ever. Money managers have been able to do for themselves what they have not been able to do for their clients: make good money, even in a down market.

By Suzanne Woolley in New York

A SPATE OF RECENT DEALS

ACQUISITOR	TARGET	ESTIMATED PRICE MILLIONS
SWISS BANK CORP.	Brinson Partners	$750
PACIFIC INV. MGMT. †	Thomson Advisory Group	340
UNITED ASSET MGMT.	Provident Inv. Counsel	315
PNC BANK	BlackRock Financial Mgmt.	240
LEGG MASON	Batterymarch Financial Mgmt.	120*
LIBERTY FINANCIAL	Newport Asset Mgmt.	17

† Merger * $60 million is contingent on meeting revenue targets

DATA: BUSINESS WEEK, CERULLI ASSOCIATES

TIM GRAJEK

BY GENE G. MARCIAL

HOW CYRK MAY GET BURNED

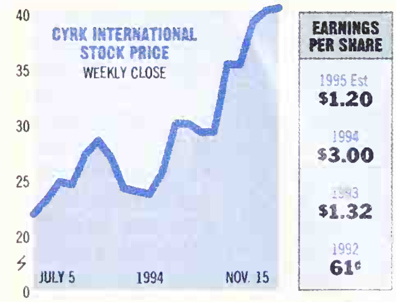
It has been a rip-roaring stock. Since Cyrk International's initial public offering in July, 1993, at 12 a share, it has rocketed to 40. No wonder it caught the eye of short-sellers—including the deep-pocketed breed. Concerns about Cyrk have prompted them to bet it will collapse to 10 within a year. Possible? Very—based on what the bears are projecting.

Does Cyrk have some patent or breakthrough to justify its meteoric rise? It seems not. What it has is Philip Morris: Cyrk designs and makes products used in promotional campaigns—baseball caps, T-shirts, etc. And Philip Morris is Cyrk's top customer, bringing in 78% of company sales in 1993 and almost 90% in 1994's second quarter.

In 1993, Cyrk had operating profits of $45 million from its $350 million worth of Philip Morris business, estimates one analyst who believes Cyrk has become the best "short idea" in the market. Here's why:

Mark Strassberg, publisher of *The Livermore Report*, a New York newsletter that highlights "risky and overvalued" stocks, is convinced Cyrk's earnings will tank next year. He thinks Philip Morris will cut purchases of Cyrk products, used mainly for its Marlboro Adventure Team promotion that rewards smokers with gift items.

JUST BLOWING SMOKE?



FISCAL YEARS END DEC.

DATA: BLOOMBERG FINANCIAL MARKETS, *LIVERMORE REPORT*

One reason: Antismoking groups charge that Marlboro's campaign entices youngsters to smoke. They say what Philip Morris is doing is socially unacceptable. Moreover, some Philip Morris stockholders question the lavish spending on the Marlboro campaign—which, they note, gives Cyrk a huge 14% pretax margin. They think Philip Morris should use the money for buying back shares or for increasing the dividend.

Philip Morris has already been cutting back on gear from Cyrk, notes Strassberg. Cyrk's backlog of Philip Morris orders fell from $137 million in June to $84 million in September, he says.

The shorts contend that, without Philip Morris, Cyrk will lose its business base. One analyst says Cyrk's sales to other customers would be only $50 million to $60 million—so earnings would drop to $12 million, or $1.20 a share.

"We doubt very much whether Cyrk can come up with another customer to replace Philip Morris," the analyst says. The company admits that its sales to other outfits, such as Mars, the candymaker, have been on the decline. Sales to Mars dropped from $24 million in 1992 to $13 million in 1993. Philip Morris declined comment. Cyrk did not return calls.

ROADMASTER GOES FREEWHEELING

Come December, bikemaker Roadmaster Industries will join the major leagues: Its stock will trade on the Big Board, revenues will double to nearly $800 million, and its board will gain financial mogul John Kluge. "I expect this ignored stock, now trading on the Amex at 3⅛ a share, will get a big boost when investors realize Roadmaster will have the clout to grow much faster," says an investment manager of a West Coast bank that owns nearly 5% of the stock.

This pro is betting the stock will double in less than 12 months, thanks to CEO Henry Fong's plan to transform Roadmaster into a $1 billion outfit.

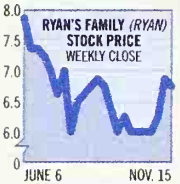
Roadmaster is acquiring four sporting-goods companies with total sales of $350 million from Actava Group, of which Kluge is chairman, for stock worth $80 million. That deal is expected to close in early December. The four target outfits: Diversified Products, Nelson/Weather-Rite, Hutch/Macgregor, and Willow Hosiery. Apart from bikes, Roadmaster currently makes Vitamaster fitness equipment.

One analyst expects Roadmaster to earn 45¢ a share in 1995, up from an estimated 30¢ this year and 26¢ las year. "The big kick in earnings wil come in 1996, when the acquisition take full effect," says this analyst. The deal gives Actava 39% of Roadmaster Dealmaker Jack Phillips, president and CEO of Actava, is expected to help Fong find other acquisitions.

RYAN'S LOOKS LIKE 'A SITTING DUCK'

Lately, restaurants have seemed pretty unappetizing to investors. Ryan's Family Steak Houses was no exception—down from nearly 8 a share in early June to 6½. But some pros have been paying attention recently. One reason, says a big fund manager is that its depressed price healthy cash flow, and small debt make it "a sitting duck for other, bigger restaurants." Ryan's sit-down restaurants—208 company-owned and 30 franchised—are located in 20 states, mostly in the Southeast and Midwest.

IT COULD SIZZLE



DATA: BLOOMBERG FINANCIAL MARKETS

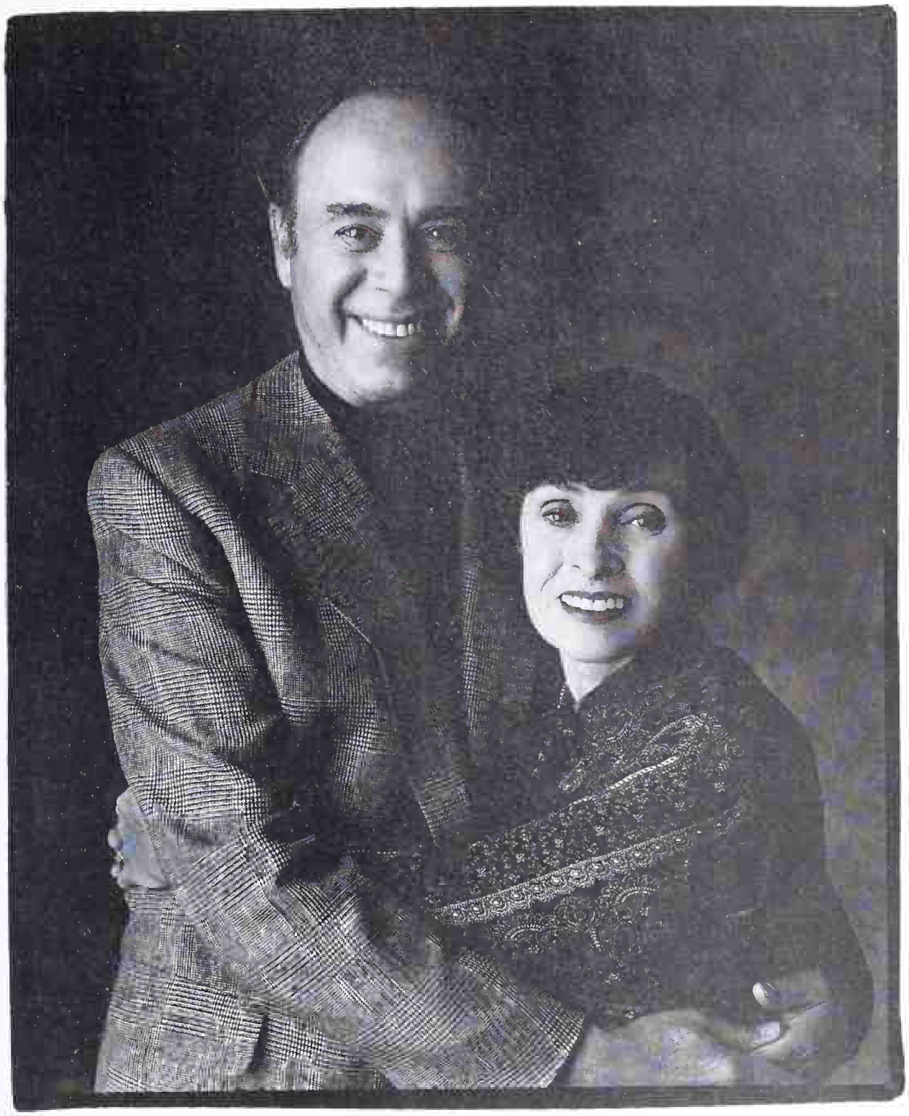
The stock has been punished for poor sales in recent quarters. But money manager Scott Black says: "We see signs of top-line [sales] growth coming back to the 15% pace, and margins snapping back to decent levels." So he has been buying shares. Black thinks the stock will command a price-earnings ratio matching the general market's—of 14.5—over the next 12 months. That means, he says, the stock is worth about 12.

Black figures Ryan's will earn 68¢ a share next year and nearly 80¢ in 1996, up from 1994's estimated 58¢. Part of the improvement will be due to the "scatter-bar" format at many restaurants. These food bars are dispersed in various locations in the restaurants, giving customers easy access to the food—mainly steaks, burgers, chicken, and fish.

The scatter-bar format, which analysts say improves customer flow, has bolstered sales and profit margins, which rose fast in the third quarter. If this keeps up, says one analyst, Ryan's will attract not only customers but also "buyers for the company." He insists that at least one major restaurant chain is eyeing Ryan's.

CHARTS BY ALBERTO MENA/BW

©1994 Merrill Lynch, Pierce, Fenner & Smith Inc. Member SIPC



The best relationships have no secrets.
The same goes for investments.

Defined Asset Funds℠ are unit investment trusts that have been a part of smart financial plans for over twenty years. Because unlike some other investments, you know what you're investing in before you buy. And these professionally selected portfolios of stocks and bonds are supervised rather than managed, so there's no management fee. To find out more, talk to one of the financial professionals below. For a free copy of "Investing with Defined Asset Funds," call 1-800-562-2926, ext. 591.

The Defined Asset Fund Sponsors

Merrill Lynch

Smith Barney • PaineWebber • Prudential Securities • Dean Witter

A free prospectus containing more complete information on any Defined Asset Fund, including all charges and expenses, is available. Read the prospectus carefully before investing.

intel inside
energy
EPA POLLUTION PREVENTER

ALONE, AMID THIS INCREDIBLE BEAUTY AND

(IT'S LOU, WITH TH

No matter how far away your job takes you, you can always stay in touch with an NEC Versa.™

NEC's line of notebooks offer the highest level of modularity imaginable, including wireless, satellite-based messaging, with our VersaPage™ PCMCIA option.

Or snap in additional RAM, hard disk storage, even an extra battery for those times when you are really far away from it all. Of cour when you happen to be at th office, just slide your Versa into Versa Docking Stati so you can take adva tage of a full range desktop capabilities.

VERSA S
VERSA V
VERSA M

DOR, SOMEONE IS SENDING YOU A MESSAGE.

IBERS YOU NEED.)

We also make sure everything u work on will look its solute brightest and arest. Choose a new, oto-quality 24-bit True olor display with 16.8 llion colors. Or you can select the first-ever high-resolution 800 x 600 color display, or choose one of our enhanced TFT or DSTN displays.

Consider a Versa for its modularity, its power, or its brilliant screen options, all backed by a three-year limited warranty. Or just do it for Lou, who needs to make sure you got those numbers. Call 1-800-NEC-VERSA.

SEE, HEAR AND FEEL THE DIFFERENCE™

NEC

Versa, VersaBay, VersaPage, Versa Docking Station, and See, Hear and Feel the Difference are trademarks of NEC Technologies, Inc. The Intel Inside logo is a registered trademark of Intel Corp. All other trademarks are the property of their respective owners. The Energy Star emblem does not represent EPA endorsement of any product or service. NEC GSA#GS00K91AGS5241

EMPLOYMENT

A SECOND WIND FOR BLUE-COLLAR AMERICA

A surge in retirements means factories will be hiring again

After holding several jobs in recent years, Steven B. Ball, 26, landed steady work last spring with a company that collects taxes for the state of Michigan. It only paid $12,000 a year, but he got off in time to attend night classes for a BA in management. Then, Ball's father-in-law told him that Chrysler Corp. was hiring. Ball hustled over to the auto maker's Jefferson North plant in Detroit, where the average age of the workforce is 54. By October, the son and grandson of boilermakers had a job on a Jeep assembly line that pays $30,000 a year, with overtime, and eventually will go to $50,000. "I went down as fast as I could," says Ball, whose wife's father and uncles all work at Chrysler.

Ball found something that, for the past decade or so, most blue-collar job hunters could only dream of: a well-paying job. Ever since U.S. manufacturers slammed into the global economy circa 1980, many have held hiring to a trickle in an effort to beat back rivals. But now, millions of factory workers are nearing retirement. And that will make room for a wave of hiring over the next decade.

The number of blue-collar jobs in the country will grow by only about 4 million through 2005, estimates the Bureau of Labor Statistics (BLS), reaching a total of 34 million. But over the same period, replacement hiring could open up another 8 million or so positions, the BLS figures. Better yet, the projections show, more than 8 million of these 12 million openings will be high-wage—paying more than $409 a week. "The older guys have a disproportionate share of the better blue-collar jobs," says Sylvester J. Schieber, research director at Wyatt Co., a benefits consultant. "But now they're starting to leave."

This demographic phenomenon could go a long way toward slowing the shrinkage of America's middle class.

STEVE BALL: FROM COLLEGE TO A JOB AT CHRYSLER

PETER YATES/SABA

BIRTHRIGHT "Good jobs may be a different kind of legacy that blue-collar parents leave their kids," says MIT economist Frank Levy

Scads of good job openings would help to offset, or even reverse, the average 15% drop in inflation-adjusted pay that the country's 25 million blue-collar men have suffered since 1979 (only about 5 million women hold blue-collar jobs). They also would brighten prospects for the 12 million of these men who are under 35 and will likely get many of the jobs. A factory hiring surge also might spur competition for labor in lower-paying service industries and lift pay there. "Good jobs may be a different kind of legacy that blue-collar parents leave their kids," says Massachusetts Institute of Technology economist Frank Levy.

The outlook may not be all rosy. Brisk blue-collar hiring, for example, may do little to narrow the widening gap between rich and poor. Because manufacturers want higher skills today, the best blue-collar jobs are unlikely to go to the bottom quarter of the workforce, wher wages have been hit hardest.

Nor is it certain that employers will fi all the jobs that open up. The Big Thre auto makers probably will replace mos of the 240,000 workers expected to r tire in the next decade. But executives other industrial companies with simil shares of older workers—such as Ger eral Electric Co. and Boeing Co.—ma look for alternatives to hiring. "Ther are lots of ways to meet an aging popu lation, and replacement is just one o them," says Dennis W. Rocheleau, GE' head of union relations. Indeed, if manu facturers follow the pattern of the '80 and aggressively import parts, expor jobs, and cut new-hire pay, the BLS pro jections could be too optimistic.

Still, most manufacturers are i fighting trim and have stopped losin ground to imports. So as many million of workers retire, employers could hav

Our Business Is Helping Yours Find More Ways To Make More.

Right now you could be hatching new ways to increase your productivity. That's important today not just to grow, but to survive. And we can help. You see, we go beyond creative financing to help you become more productive. Like helping one company develop order entry systems to reduce order delivery time from 28 days to 4. Or helping another create distribution and warehouse management systems that improved service and optimized resources to get more out of every dollar.

At GE Capital, we're 24 diversified businesses. And each one is committed to helping you become more productive in the competitive race. To find out more, call 1-800-243-2222. After all, nobody has more ways to help you make more.

GE Capital
Our Business Is Helping Yours™

AMERICOM • AUTO FINANCIAL SERVICES • AVIATION SERVICES • COMMERCIAL EQUIPMENT FINANCING • COMMERCIAL REAL ESTATE • COMPUTER LEASING
COMPUTER SERVICES • CORPORATE FINANCE GROUP • EMPLOYERS REINSURANCE • FINANCIAL GUARANTY INSURANCE COMPANY • FLEET SERVICES • GECC HAWA
GENSTAR CONTAINER • GLOBAL PROJECT AND STRUCTURED FINANCE • GNA • KIDDER, PEABODY • MODULAR SPACE • MORTGAGE INSURANCE • MORTGAGE SERVIC
PENSKE TRUCK LEASING • RAILCAR SERVICES • RETAILER FINANCIAL SERVICES • TIP/TRANSPORT INTERNATIONAL POOL • VENDOR FINANCIAL SERVICES

plenty of shoes to fill. The auto industry offers a foretaste of that. Ford, General Motors, and Chrysler employ about 440,000 unionized workers today. Their average age is about 47, with about 23 years on the job, primarily because the Big Three hired sparsely in the 1980s, says University of Michigan economist Sean McAlinden. Because many leave in their mid-50s, McAlinden figures that about half of today's workers will retire in 10 years and that the Big Three will replace 80% to 90% of them. "This is based on continued productivity improvements and a small increase in market share, of maybe 1% to 2%" over the period, he says.

Chrysler and Ford Motor Co. agree. Spurred by strong sales, Chrysler has hired more than 26,000 people since 1992: 18,000 to expand its workforce to 96,000, and 8,000 to replace departees. Ford's workforce has grown by nearly 5,000 since 1993, to 102,000. And it has hired an additional 10,000 replacement workers. Barring a collapse in auto demand or Ford market share, "we will replace more or less at the 5% to 6% attrition level," says Art Johnson, Ford's supervisor of employment planning.

ANXIOUS TO GO. GM is more of a question mark. It needs to cut its hourly workforce by 18%, to about 200,000 workers, analysts say. GM officials decline to discuss long-term replacement needs, since they're fighting with the United Auto Workers about downsizing. However, GM workers also are about 47 on average and have 20 years on the job. As a result, McAlinden sees heavy replacement hiring at GM starting in 1996 or so.

Other industrial companies are headed down the same road. Age 45-plus employees comprise 40% to 50% of the workforce at large manufacturers such as GE and USX Corp. This age group makes up 38% of the country's 16 million union members, who earn 20% more than other blue-collar workers vs. only 30% for the entire U.S. workforce.

The retirement bulge may not hit many manufacturers with full force for some years. One reason: Their pension plans often discourage early retirement. For instance, GE's 64,000 hourly workers typically get no pension until age 60. Still, the company's average retirement age is right at 60, in part because many factory workers don't want to work a minute longer than they must.

Just ask John Reder, who jumped ship at age 54. By 1993, he had put in 34 years at USX Corp.'s U.S. Steel group, where he earned $35,000 a year. Because his wife works as a cashier, he could retire on a $1,500 monthly pension. He also works 20 hours a week at a local supermarket. "Being in the mill so long, working shift work, you miss a lot with your family," says Reder. Other older men feel the same way: By age 58, half of men no longer work in their career job, defined as their longest-held job or a subsequent one held for more than 10 years, according to a 1993 study by University of North Carolina economics professor Christopher J. Ruhm. And by 2005, as baby boomers age, 26% of men will be 50 or older vs. 20% today.

The effect will be greatest in the manufacturing sector, where more workers can afford to bail out. More have pension plans—59%, vs. 28% of retail and wholesale trade employees. And they have higher wages and more years with their employer, so their pensions will pay more, according to a study of Census Bureau data by Wyatt's Schieber.

Take steel, which slashed its workforce in half in the 1980s. The industry's productivity now exceeds that of most overseas rivals, and the market has stabilized. Result: Bethlehem Steel Corp. has hired 350 workers since 1993 to replace retirees. It expec the pace to increase, sin 63% of its 20,000 worke are 45 or older.

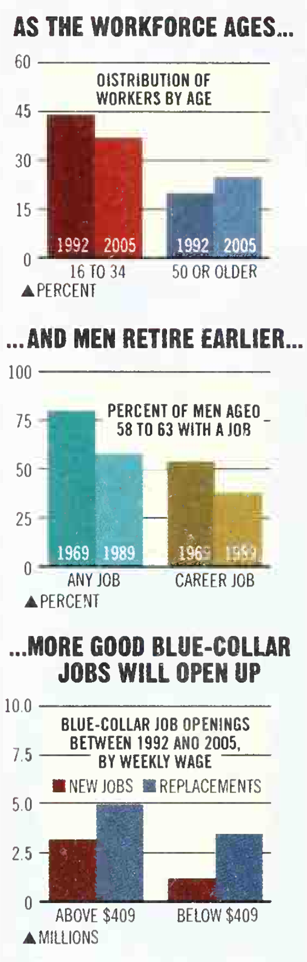
Employers will look f higher-skilled replac ments. Only 3% of Ford new hires since 1991 a high-school dropouts, v 19% of existing worker And a third have atten ed college, vs. 18% of cu rent workers. Bethlehe hires only one of five a plicants, who must fir have passed tests th measure literacy, mat and social skills. U. Steel, too, wants high skills—and has little tro ble finding them. "A l of college grads apply f jobs at the mills," say Charles R. Frame, th company's director of en ployee services. That bad news for dropout who historically hav used factory jobs to vau into the middle clas

Young blue-colla workers who do hav some education shoul get a big lift, howeve Employees under age will fall to 37% of the la bor force by 2005, v 44% today, the BLS say And the absolute numb of young men will drop by about 2 mi lion, to 24.6 million, by 2005. So it wi take fewer good jobs to offset the 198 declines, when young men lost about million high-wage jobs.

SERVICE BONUS. The ripple effect coul boost wages across Middle America. 4 million or so young men return to ma ufacturing, fewer workers would available in services. "That should rai wages in services—the opp site of what happened in th '80s," says Harvard labo economist Lawrence Kat

Most studies of job growt focus on net job creatio They usually show sma gains that probably wouldn boost wages. But with man well-paying jobs soon to com open, Middle America's futur may be rosier than in quite while.

By Aaron Bernstein i New York, with Stephen Bak er in Pittsburgh and burea reports


AS THE WORKFORCE AGES...

...AND MEN RETIRE EARLIER...

...MORE GOOD BLUE-COLLAR JOBS WILL OPEN UP

DATA: BUREAU OF LABOR STATISTICS; CHRISTOPHER J. RUHM, UNIVERSITY OF NORTH CAROLINA

Blue-Collar Retirement Bulge

Many good blue-collar jobs should open up at industrial companies with a large share of older workers

EMPLOYER/UNION	PERCENT OF HOURLY WORKERS 45 OR OLDER
BETHLEHEM	63%
GENERAL MOTORS	52
CHRYSLER	52
FORD	50
GENERAL ELECTRIC	50
USX	50
MACHINISTS UNION	42%
ALLIEDSIGNAL	40
XEROX	39
AFL-CIO	38
ALL U.S. WORKERS	30

DATA: BUSINESS WEEK

IT'S NOT IF. IT'S WHEN.

486, Pentium, PowerMac...

No matter how fast your PC is, t can't outrun a power problem

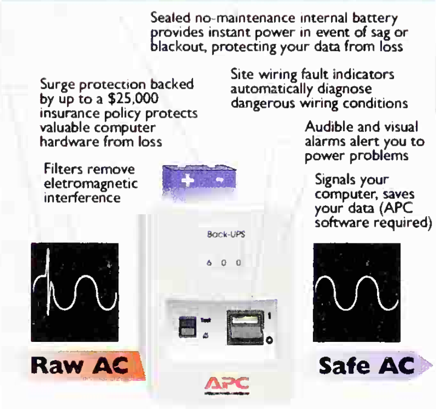
(Get Uninterruptible...starting at $119)

st don't have the time for power problems on your C? Don't worry. They'll always make the time for ou. It's not if a power problem will occur, but n. Due to household appliances, poor wiring, bad ther or even other office equipment, power prob- s are as inevitable as death and taxes.

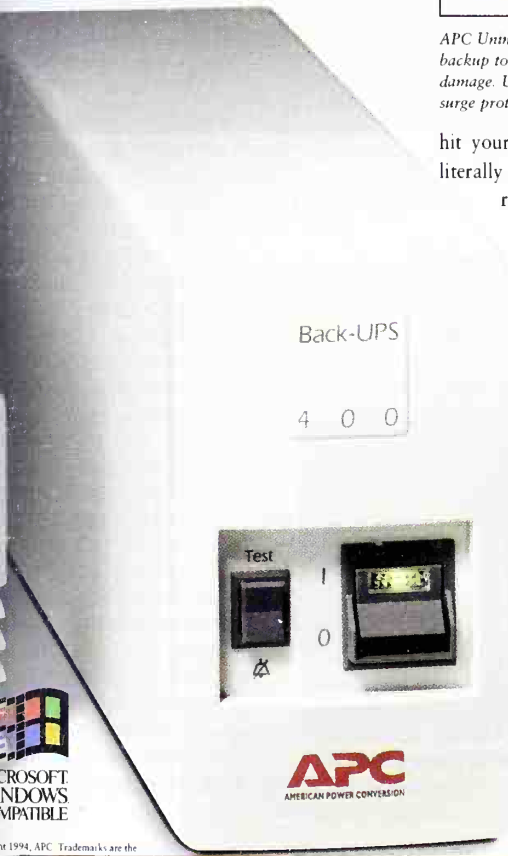
N THE NEXT THREE MONTHS, MORE AN 30,000,000 PCs WILL BE HIT BY POWER PROBLEMS...

In fact, you have better odds of winning the lottery n of escaping the sting of power problems on your One study discovered a typical PC is hit over 100 es a month, causing keyboard lockups, hard drive age, and worse. And since sags and blackouts esent more than 85% of power problems likely to hit your computer, standard surge suppressors are literally powerless to protect you. And a study in a recent *PCWeek* showed that the largest single cause of data loss is bad power, accounting for almost as much data loss as all other causes combined.

APC UNINTERRUPTIBLE POWER MEANS SAFE DATA, HAPPY COMPUTERS


Sealed no-maintenance internal battery provides instant power in event of sag or blackout, protecting your data from loss
Surge protection backed by up to a $25,000 insurance policy protects valuable computer hardware from loss
Site wiring fault indicators automatically diagnose dangerous wiring conditions
Audible and visual alarms alert you to power problems
Filters remove eletromagnetic interference
Signals your computer, saves your data (APC software required)
Back-UPS
Raw AC
Safe AC
APC

APC Uninterruptible Power Supplies provide instant battery backup to protect your data from loss and your hard drive from damage. Units are even backed by up to $25,000 in lifetime surge protection insurance.


Back-UPS
4 0 0
Test
I
0
APC
AMERICAN POWER CONVERSION
CROSOFT.
NDOWS.
MPATIBLE

PROTECT YOURSELF BEFORE YOU KICK YOURSELF...

Get instantaneous battery backup power from an APC Uninterruptible Power Supply and prevent keyboard lockups, data loss, and hard disk crashes. Surge protection performance is even backed by up to a $25,000 Lifetime Equipment Protection Guarantee.

Ask for APC at your computer reseller today or call for your FREE handbook.

PC MAGAZINE UK EDITORS' CHOICE

Starting at just $119, an APC UPS is serious protection no serious computer user should be without.

PC World Top 20 Upgrade

"Don't take chances...get the ultimate protection... from APC."--PCWorld

OVER 3,000,000 SATISFIED APC USERS...

Home office user Don Traux knows first hand about APC reliability: "It ought to be against the law to buy a computer without an APC Back-UPS 250. I recently had a direct lightning hit right outside the house...my computer never blinked."

"This is the best computer related purchase I have ever made! Has saved me hours of re-programming..."
Carol Irvine, Wizard Assoc.

"We reduced our maintenance costs the first year by 50% in repairs of equipment."
Valentin Gonzalez, Pfizer

"Our server was running a project when it lost power... messed up all the data files. It took four days to recover. But we don't worry anymore since we got APC..."
Tony Chen, DeAnza Systems

"We were working on a state bid when the power went off. APC saved the day and year and future...about 800 pages of data saved thanks to APC."
Ravi Iyer, Software Galleria

"A power surge did significant damage to all of our systems except those protected by APC. The APC units were undamaged..."
C. Jeffrey, C. Jeffrey Eng

"APC has virtually eliminated downtime in our corporate network..."
Kurt Roemer, Searle Corp.

"Power went out while processing payroll! If not for APC we would have had a walkout!"
Suzi Higgason, OSI Inc

"APC lets me sleep better at night. How much would you pay to get back that one file you worked all day to complete for the boss who gets on the plane at 8:00 a.m? You should assume that you'll buy a UPS, not that it's some luxury item."
R. Morella, Westinghouse

"A power surge wiped out the FAT tables on all PC's not protected by APC. Now have APC installed on all.."
Craig Post, Comm. Tech.

"Before I purchased the UPS I had to put in at least two hard drives at $1000. With APC products...no new hard drives in two years!"
S. Foreman, LSP

FREE 60-PAGE HANDBOOK

What are the causes and effects of power problems? The most common power protection mistakes? Call for your free handbook today! Please reference Dept xx.

APC™

AMERICAN POWER CONVERSION

800-800-4APC

401-788-2797 fax / 800-347-FAXX faxback
132 Fairgrounds Rd., W. Kingston RI 02892 USA

ht 1994, APC. Trademarks are the

MERCHANTS

ALLEN QUESTROM'S ULTIMATE QUEST

The Federated-Macy deal would make him a king among retailers. If it's successful

FEDERATED CEO QUESTROM: BUYING MACY'S WAS A MUST

Early this fall, on a warm September evening, the glitterati of the New York fashion world paid $1,000 each to toast themselves with champagne and caviar amid lush bouquets of dahlias and roses at the Armory ballroom on Manhattan's Lexington Avenue. The event—a black-tie dinner for retiring *New York Times* fashion reporter Bernadine Morris—overflowed with the likes of Donna Karan and Oscar de la Renta. Lining the runway of the night's glamorous fashion show were some of the brightest lights in the retail firmament, from Bergdorf Goodman Inc.'s Dawn Mello to Chanel Inc.'s Arie L. Kopelman.

The dance floor, though, belonged to Allen and Kelli Questrom. Tall and dashing in his black tuxedo, the 54-year-old chief executive of Federated Department Stores Inc. had whisked his wife onto the hardwood to glide her though a complicated *pas de deux*. Spinning and smiling like Fred and Ginger, the whirling Questroms gradually nudged the other couples aside. "The waters parted, the dance floor cleared," laughs Kalman Ruttenstein, Bloomingdale's fashion director. "All eyes were on Allen and Kelli."

Allen I. Questrom loves to dance. More than that, he adores stealing the show. The Questroms are a fixture on the social scene that stretches from New York to Greenwich, Conn. There, life becomes a theater framed by paparazzi shots in *Women's Wear Daily*. Taste runs to the expensively casual "polo" style of Ralph Lauren, one of Allen and Kelli's many friends. Several years ago, before he sold his Hollywood Hills mansion to Madonna, Questrom considered ditching retail for a career as a film producer. Then he thought twice. Department stores, he decided, offered his best chance to shin

For all his *soigné* style, however, th spotlight would quickly fade from Questrom were it not for one crownin achievement: Almost three years ag he rescued Federated from the bankrupt wreckage left by Canadian financie Robert Campeau and turned the spraw ing department store company into a efficient predator, not just a survivor.

JAMES ZIMMERMAN: *Federated's enforcer*

Now, he's putting his reputation on the line with much bigger gamble. Afte months of protracted negotiations, Federated is set t merge with R. H. Macy & Co., the storied departmen store chain that has been orphaned in bankruptcy cour since 1992. The $4.1 billio merger, which should b completed by the end of th year, will create the larges department store chain i the U. S. If it succeeds, Ques

TOP TO BOTTOM: PHOTOGRAPHS BY JEFFREY LOWE, CLAUDIO EDINGER/GAMMA LIAISON

URVIVOR After Federated went bankrupt in 1990, “Everyone was elling us that the department store was a dinosaur” — ALLEN QUESTROM

om will be one of the most powerful ecutives in retailing. If it doesn't, he'll in the long list of retail executives who ave embarrassed themselves by over-aching.

The new Federated-Macy's will be a 14.5 billion leviathan whose 11 depart-ent store chains (Macy's, Blooming-ale's, Rich's/Goldsmith's, Burdines, Laz-rus, A&S/Jordan Marsh, Bon Marche, tern's, Joseph Horne, Bullock's, and I. agnin) will boast 357 stores and a ma-r presence that runs up and down both asts and throughout the Mid-est (map). It will dwarf such vals as May Department tores, Dillard's, and Nord-rom. Questrom projects that y 1998, the company will oast consistent earnings and ales of $18 billion. That would heer Macy's long-tortured editors, many of whom will e repaid in Federated stock.

OOSTED MORALE.” For Ques-rom, there's the opportunity to ake a fortune. Federated's stock as been hovering at 20 lately, but he can boost it to 27 by Jan. 28, e will get a bonus payment of $27 illion. Even if he doesn't—and Vall Street skepticism might pre-ent it—he'll still get a rich $11.8 illion if the stock hits 21 and $6 illion if it drops below 18. Add at to the almost $10 million Fed-rated has paid him since 1990, and 's no surprise he's already eyeing e next opportunity. In an inter-iew with BUSINESS WEEK, Ques-rom said he's committed to seeing e merger through. But by 1998, e said, he hopes to retire and go to Republican politics.

Heady stuff. So heady it's easy forget that only four years ago, ere was good reason to believe at department stores were going the ay of the Nehru jacket. Korvettes, hrbach's, and Gimbels had vanished. onwit Teller, B. Altman, Garfinckels, nd Alexander's would soon shut their oors for good. During several years of obert Campeau's erratic leadership, ederated merged with Allied Stores orp. in 1988 and then in 1990 became e largest retailer ever to file for Chap-er 11. “At that time,” says Questrom, everyone was telling us that the de-artment store was a dinosaur.”

Questrom proved the skeptics wrong ith an operations team led by long-me colleague James M. Zimmerman. By cutting costs, adding technology to improve inventory discipline, and generally running stores like something other than a Turkish bazaar, the new team showed that glitzy department stores could thrive. In many ways, they took a page from the book written by David C. Farrell at May and William Dillard at Dillard's, who have profitably run less fancy department stores in small cities for years. “[Questrom] solidified the organization and boosted morale,” says Bob Morosky, who briefly ran Federated before being replaced by Campeau and ultimately Questrom. “I think he's superb—and for me to say that is a big deal since he got the job I wanted.”

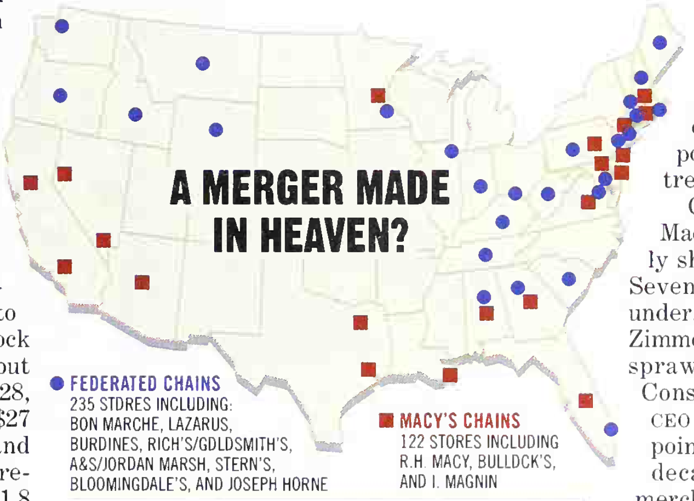
Most retail experts, however, think Questrom's dance with Macy's will be immeasurably more difficult. While the aura of crisis that fueled the Federated turnaround exists at bankrupt Macy's, the situation is vastly complicated by the hairy issues of merging two longtime competitors. If the Macy's merger goes through, Questrom will have almost twice the number of employees to contend with, a balance sheet weighed down with $5 billion in debt, and a board that includes such heavyweights as CBS Inc. CEO Laurence A. Tisch. Says former Macy's Chairman Edward S. Finkelstein, who left after the bankruptcy: “It's not going to be an easy two years.”

On the one hand, the two companies have plenty to learn from each other: Federated has become a more efficient operator; Macy's is the better merchant. But in the ego-driven world of merchandising—the business of choosing what goes on the shelves—there are questions whether Macy's renowned buyers will be willing to answer to a new boss. “If you're a buyer at Macy's, you think you're better than most people,” says one big Federated investor. “Now you're reporting to Federated. That's a tremendous morale issue.”

Cutting costs and teaching Macy's to operate more efficiently shouldn't be too difficult. But Seventh Avenue is having trouble understanding how Questrom and Zimmerman plan to merge the two sprawling buying organizations. Consultant George Rosenbaum, CEO of Leo Shapiro & Associates, points out that it took almost a decade to resolve problems in merchandising after May bought Associated Dry Goods Corp. in 1986—and that's considered one of the few successful mergers in retailing. “The argument of course is that you'll destroy the special personality and panache of the Macy's stores,” Rosenbaum says.

SASSY STYLES. In interviews, Questrom and Zimmerman are indeed pretty vague about their plans when it comes to the buying organizations. But for all the risk, they really had no choice but to go after Macy's and its superior buyers. The problem for Questrom was that the Federated turnaround had threatened to stall. Earnings were up—but sales were going nowhere (charts, page 118). Says Questrom: “We knew we either had to put together a major acquisition or else be acquired.”

Although Questrom has made great strides profit-wise at Federated, he freely admits that beefing up sales has been a problem. During the bankruptcy, Questrom and Zimmerman introduced a team-buying program in which a group of buyers selected the merchandise for all the divisions except Bloomingdale's. That saved money because it created


A MERGER MADE IN HEAVEN?
● FEDERATED CHAINS
235 STORES INCLUDING: BON MARCHE, LAZARUS, BURDINES, RICH'S/GOLDSMITH'S, A&S/JORDAN MARSH, STERN'S, BLOOMINGDALE'S, AND JOSEPH HORNE
■ MACY'S CHAINS
122 STORES INCLUDING R.H. MACY, BULLOCK'S, AND I. MAGNIN

FEDERATED AND MACY'S COMBINED

	1995 ESTIMATES
Sales	$14.5 billion
Cash flow	1.4 billion
Operating income	0.8 billion
Assets	12.2 billion
Debt	5.0 billion

DATA: COMPANY REPORTS, US BANKRUPTCY COURT, SOUTHERN DISTRICT OF NEW YORK

ALAN BASEDEN

huge orders that forced better deals from vendors. But, says Questrom, "the assortments were plain vanilla."

Macy's has huge problems with costs and operating efficiencies. But its variety of merchandise is vibrant by comparison with Federated's. Moreover, its private-label program, implemented by Ed Finkelstein, is a thriving business. Private labels at Federated make up just 4.8% of sales, vs. 16% at Macy's and 21% at Nordstrom Inc. Since private-label merchandise is far more profitable than branded goods, Federated felt it needed to improve its mix.

So two years ago, Questrom and Zimmerman approached Finkelstein's replacement, Macy's CEO Myron E. Ullman III, about merging the two chains. After several meetings, Macy's said no. Undaunted, Questrom and Zimmerman set about finding another way in. "When the voluntary approach didn't work, we said to [Chief Financial Officer] Ron [Tysoe], 'Retreat, and figure out if we're going to do something more aggressive, how would we do it,'" recalls Zimmerman. "And Ron came up with the brainchild of buying this debt."

"This debt" was the $1 billion claim that Prudential Securities held against Macy's in the bankruptcy, making the Pru Macy's largest creditor. Last December, Federated quietly negotiated to buy half of Prudential's claim, which was collateralized against 70 of Macy's 110 stores, with an option to buy the other half later. Overnight, Macy's biggest rival became its biggest creditor. The move sent shock waves from Seventh Ave. to Wall Street. Says consultant Alan G. Millstein: "Questrom pulled off the greatest stealth attack in the history of retailing."

LOVE STORY. The trouble, of course, is making it work. And though Questrom is probably as well qualified to take on the job as anybody, most observers think his success is no sure bet. The biggest danger, says Arnold H. Aaronson, former chairman of Bullock's and Saks Fifth Avenue, is that the huge company will favor cost-cutting over distinctive merchandising and become prey to more agile speciality retailers. "The challenge for Allen," Aaronson says, "is to keep hold of expenses and at the same time create vistas that will excite shoppers."

Aaronson, one of Questrom's first mentors, was instrumental in launching the younger man's career. They met in the 1960s at Federated's A&S chain in New York, where Questrom was a trainee and Aaronson was a top executive. "Allen had a keen eye for translating what looked good into what was going to sell well," says Aaronson, who later hired his protégé as a merchandise manager at Bullock's.

A native of Waltham, Mass., Questrom grew up far from the kind of glamour he has become accustomed to. His father owned a machine shop, and Questrom's early life was decidedly working class. As a finance major at Boston University, he had no strong interest in retailing. He joined the training program at A&S only at the urging of a favorite professor—and because he wanted to see what it would be like to live in Manhattan. At A&S, he met Kelli. Before long, he fell in love with both her and department stores.

Friends say his ambition was evident early on. "He was very directed in terms of knowing where wanted to be," says d signer Ralph Laure who met the mercha early in his career. " had a very strong poi of view about what w right for his store, a just because you made nice product, that wasn necessarily what he w going to buy."

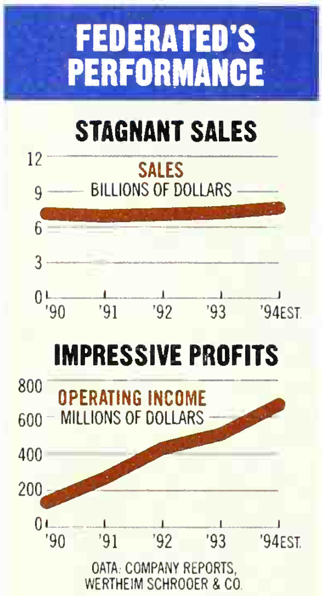
Questrom eventual became chairman of t Bullock's chain, but left in disgust in 19 when Campeau to over Federated, th Bullock's parent (Ca peau later sold it to M cy's). He went to Neim Marcus Co. as the Dall retailer's CEO and credited with returning the luster to upscale operation that had faded. Fede ated wooed him back in early 1990, aft Campeau drove the company into ban ruptcy and retreated to Austria.

LOTS OF CHARM. Questrom is known the industry as a first-class mercha When asked what he does for fun he plies: "Shop stores." Indeed, he receiv a $168,301 discount for merchandise pu chased at Federated in 1993. A len and Kelli have no childre and though their social calend is full, colleagues say work Questrom's life.

His signature as a manage however, is an ability to convin others to do things for him. Co fident, gregarious—always seem ing more interested in your opi ions than his own—Questrom is master charmer. Witness fo years of cajoling both the ban ruptcy court and the creditors Macy's and Federated.

Now, he's going to have to co vince Macy's employees—parti ularly its all-important mercha dising corps—that they have bright future in the new compan "We all know that Questrom an Zimmerman are certified genius es at going through bankruptcy, says one doubting investor. "Bu this is a culture thing. They' got the world charmed. But I' never seen a merger come off a smoothly as management hopes.

Questrom's ability to delegat should help. Managers through out the organization say he give direction and stays out of thei way—something Macy's buyer


FEDERATED'S PERFORMANCE

STAGNANT SALES

IMPRESSIVE PROFITS

DATA: COMPANY REPORTS, WERTHEIM SCHROEDER & CO.

CREATIVE FRICTION

"I don't run my business for Allen" — MICHAEL GOULD

GOULD: *He turned Bloomingdale's around*

PHOTOGRAPH BY CLAUDIO EDINGER/GAMMA LIAISON. CHART BY ALAN BASEDEN

likely appreciate. When Zimmer- n says Tysoe was let loose to find a to buy Macy's, he wasn't kidding: e Macy's acquisition was principally dled by Tysoe," says Wit Derby, a ior officer at Macy's creditor Asahi k Ltd. "Allen stepped in when he ded to, but he believed in the strat- Tysoe sold him and let Tysoe exe- e it."

immerman, too, is less a lieutenant Questrom than a partner. The two ker openly on many business points Questrom often defers. Still, they along well and have developed an mbiguous good-cop/bad-cop routine. estrom is outgoing, affable, and dip- atic. Zimmerman is Federated's en- er, responsible for the company's ad- istration and financial operations. "I ld not want to be a regional man- r who had not met my numbers the Zimmerman came into town," says Federated investor who knows him l.

uestrom's treatment of Blooming- e's is a good example of how he man- s farther down. Fashion director Kal ttenstein says Questrom often im- rses himself in the minutiae of Rut- stein's business. He'll ask to see the pt for the semiannual trends meeting Paris. He'll comment about Bloomie's dows or suggest specific designers. many CEOs are figure-oriented and 't remember the merchandise," Rut- stein says, adding that Questrom er orders him to do anything.

uestrom cares about the windows Bloomie's, of course. But he also ows that Ruttenstein enjoys time h the chairman. Bloomie's CEO, Mi- el Gould, is a different matter. Like estrom, Gould is a lean, energetic ston native who speaks quickly and is rried to a glamorous woman. Back in 1980s, the two flashy executives nt head-to-head as competitors in ifornia when Gould ran Robinson's Questrom ran Bullock's. "Allen and chael don't like each other," says one retailing executive. "That's part of en's genius: to hire somebody you've n an enemy with and say, 'Look, we 't have to love each other, but you're best guy for this job.'"

ERBLOWN FEARS? Gould says that he Questrom meet every two or three eks for breakfast meetings and that often uses Questrom as a sounding rd. But, he adds pointedly, "I don't my business for Allen." Whatever tion may exist, the relationship has en fruitful. Gould has transformed the 3 billion chain from being one of Fed- ted's poorest performers to one of best. This year, Bloomingdale's uld boost earnings 20%, to $93 mil- , estimates Wertheim Schroder ana-

DANIEL MINK
SWISS

COLLECTION
1900
GENTLEMAN'S SOLID STAINLESS STEEL
WITH WHITE DIAL AND RAISED ROMAN NUMERALS

RETAIL
$895

TOURNEAU
New York • Geneva • Palm Beach • Bal Harbor • Costa Mesa
NEW YORK ☐ MADISON AVE. - 52ND ST. ☐ MADISON AVE. - 59TH ST. ☐ 34TH ST. - 7TH AVE.
FLORIDA ☐ PALM BEACH - WORTH AVE. ☐ - BAL HARBOUR - BAL HARBOUR SHOPS
CALIFORNIA ☐ COSTA MESA - SOUTH COAST PLAZA
SHOP AT HOME: **(212) 758-6234 / 1-800-348-3332**

SHARE IN ASIA'S DYNAMIC GROWTH

100% NO LOAD

Average annual total returns as of 9/30/94*

22.1%	1 year
21.7%	Since inception (9/28/90)

T. Rowe Price New Asia Fund offers investors a proven way to benefit from the fast-growing economies of newly industrialized countries in Asia and the Pacific Rim outside Japan. The Fund has achieved its attractive performance by investing in a mix of companies diversified across industries and countries in this dynamic region. Of course, international investing involves special risks, including currency fluctuations, the volatility of emerging markets, and limited geographic focus. As with any stock fund, there will be price fluctuation. $2,500 minimum ($1,000 for IRAs). **No sales charges.**

Call 24 hours for a free report and prospectus
1-800-541-6157

The Basics of International Stock Investing
T. Rowe Price

Invest With Confidence
T.RowePrice

*Figures include changes in principal value, reinvested dividends, and capital gain distributions. Total return represents past performance, which cannot guarantee future performance. Investment return and principal value will vary and shares may be worth more or less at redemption than at original purchase. Request a prospectus with more complete information, including management fees and other charges and expenses. Read it carefully before you invest or send money. T. Rowe Price Investment Services, Inc., Distributor. NAS024124

lyst Linda T. Kristiansen.

Kristiansen thinks the fears surrounding Questrom's chances of merging Federated and Macy's buying organizations are overblown. Already, she says, Federated has begun to model its system so it looks more like Macy's. As for morale, she argues, well, "if I were the Macy's people I'd be very happy to have a job."

CITY LIFE: *Allen and Kelli in their Manhattan apartment*

It should help assuage egos at Macy's that its brand name and cachet will carry more clout within the combined organization than that of any other chain save Bloomingdale's. Acknowledging that Macy's has as strong a franchise as any chain in the retail business, Questrom plans to expand its national reach by converting stores that are now part of other Federated chains into Macy's stores. Lazarus is a candidate, and A&S is already being converted. He also wants to create a national Macy's catalog modeled after the successful Bloomingdale's-by-Mail.

As with any merger, however, Questrom's first order of business will be figuring out how many jobs are redundant and which stores to sell or shutter. Will there be layoffs? "Yep," says Zimmerman curtly, though he won't estimate how many. As for stores, Questrom plans to dismantle I. Magnin, Macy's stylish but struggling 12-store specialty chain in California and Arizona. Magnin generated sales of $254 million in 1993 but negligible profits. The chain used to be part of Federated's empire before Finkelstein bought it and
lock's for Macy's in 1988. Q
trom will sell eight of the M
nin stores and convert the
into other Federated na
plates. He plans to keep M
nin's $35 million-a-year cat
business. It will be mana
by Bloomingdale's-by-M

As Questrom contempl
loading up his stores
Christmas with dresses
careerwear from Anne Kl
Donna Karan, and Georgio
mani ("Our customer is 40,"
says, "and she can't w
skirts that are up to the
of her hip"), he's already h
ing at his eventual depart
"I think I've come to the
of my cycle," he says. "Maybe in a y
or two I ll start thinking about s
other things to do." Like run for g
ernor in Connecticut? "Not gover
but something local," he says. "I d
have to start at the top." A Republi
with Questrom's resumé could likely
far these days. But before dreaming
his first inaugural ball, he better ma
sure his big Macy's gamble pays

By Laura Zinn in New Y

CONQUER THE INTERNET

FINDING IT ON THE INTERNET
The Essential Guide to archie, veronica, gopher, WAIS, WWW (Including Mosaic), and Other Search and Browsing Tools
Paul Gilster
The Internet's sheer volume of data can be intimidating, but now Paul Gilster explains how to use a variety of search tools to locate information faster and more cost-effectively.

THE INTERNET BUSINESS BOOK
Jill Ellsworth
Professional insider "rules of the road" for conducting business on the Internet—including market research, advertising and promotion, publicity, sales, and customer support.

THE INTERNET NAVIGATOR
The Essential Guide to Network Exploration for the Individual Dial-Up User, Second Edition
Paul Gilster
Now updated and expanded with 40% new material to reflect the explosive growth of the Internet, this worldwide best-seller is "a 'must-have' for all online users."—*Online Newsletter*

THE MOSAIC NAVIGATOR
The Essential Guide to the Internet Interface
Paul Gilster
Here's how to use Mosaic—Internet's new graphical user interface that's available FREE for downloading—to browse the Internet quickly and easily with just the click of a mouse.

with books from John Wiley & Sons

Fax or mail this coupon to: The McGraw-Hill Bookstore, 1221 Avenue of the Americas, New York, NY 10020. Order by phone in NY at 212-512-4100 or fax this coupon to us at 212-512-4105.
Fax or phone orders delivered within 10 days!

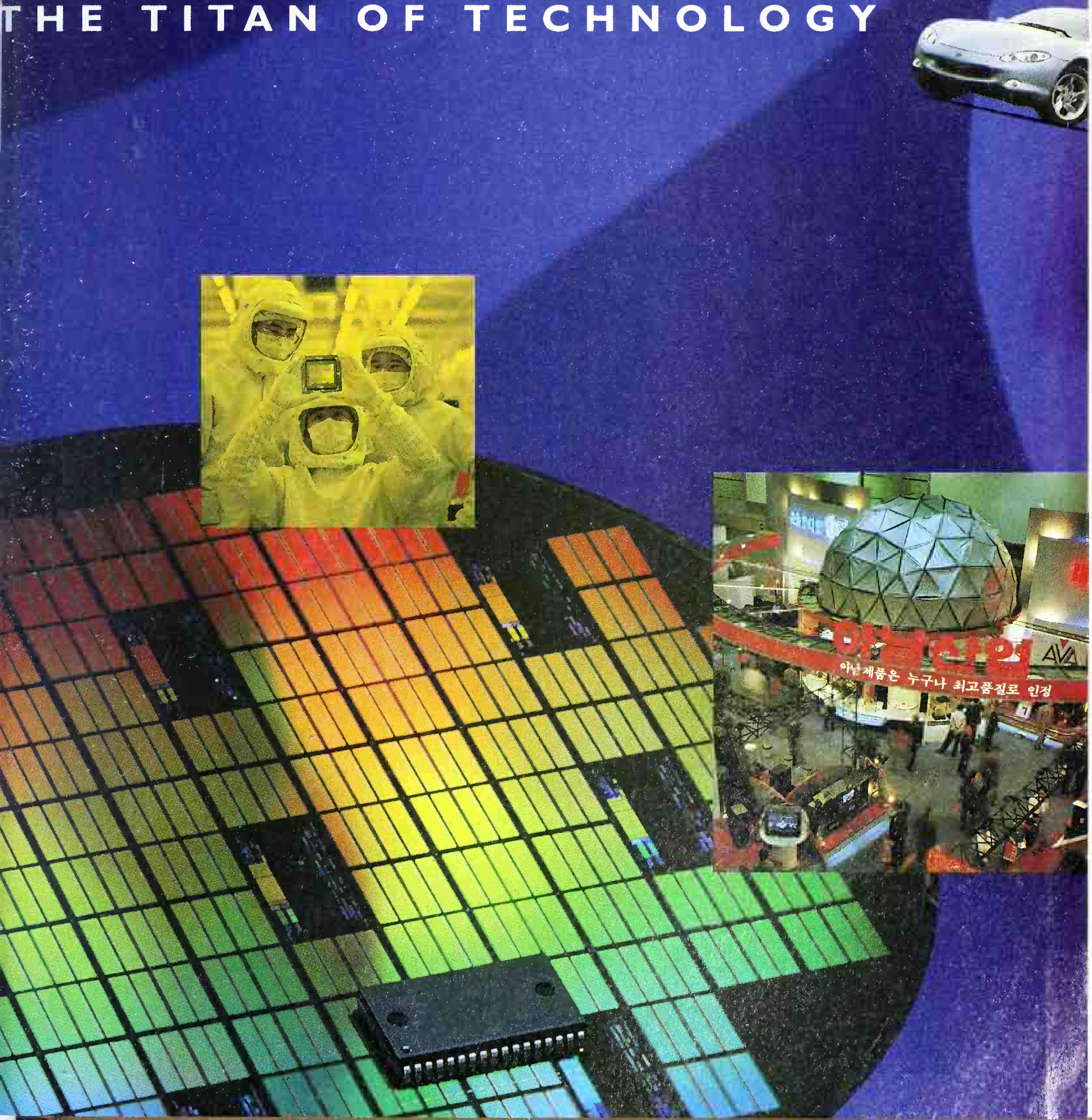
☐ **Yes!** Please rush me:
__ FINDING IT ON THE INTERNET, *352 pp., 250 illus., 0-471-03857-1, $19.95*
__ THE INTERNET BUSINESS BOOK, *352 pp., 0-471-05809-2, $22.95*
__ THE INTERNET NAVIGATOR, *560 pp., 400 illus., 0-471-05260-4, $24.95*
__ THE MOSAIC NAVIGATOR, *256 pp., 200 illus., 0-471-11336-0, $16.95*

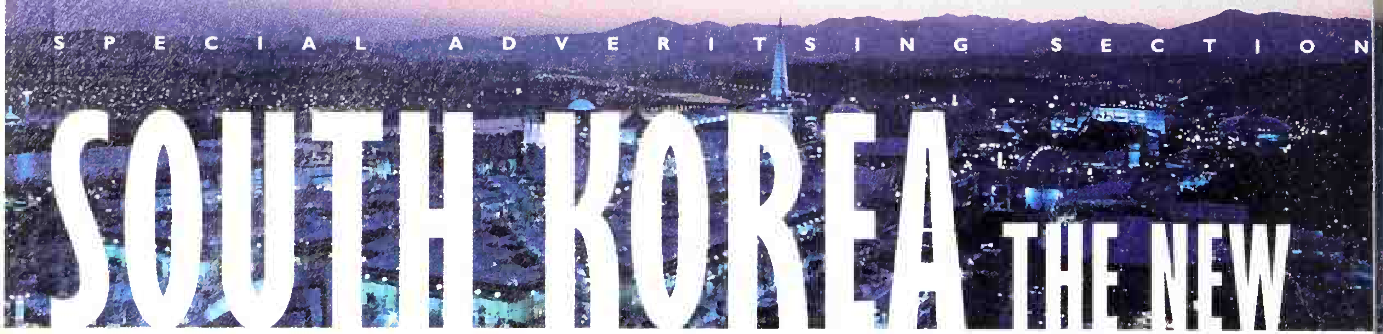
☐ Check or money order: please add applicable sales tax, plus $3.50 for U.S. postage and handling.
Credit cards accepted: ☐ Visa ☐ AMEX ☐ MasterCard ☐ Discover
Account No. ________ Exp. Date ______
Name ________
Address ________
City ______ State _____ Zip _____
BW119

THE McGRAW-HILL BOOKSTORE—SERVING TODAY'S PROFESSIONALS

SOUTH KOREA

THE TITAN OF TECHNOLOGY


AVA
아남제품은 누구나 최고품질로 인정



SOUTH KOREA THE NEW TITAN OF TECHNOLOGY

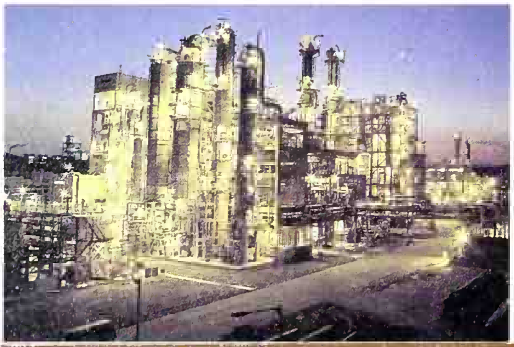
How its top companies are going after the global marketplace with high-quality, high-tech products

One of Asia's best-kept secrets is that Koreans are wizards in the technological sphere as well as workaholics on the factory floor. Educated, energetic, and efficient, they're making a major contribution to the new kind of high-tech business world that is fast approaching in the 21st century.

Back in the early seventies an ambassador to South Korea told a private audience of multinational executives, "Watch those Koreans. They'll outdistance everyone if they keep going the way they are now."

Twenty years later the Pac Rim country that was once sprinting is setting a new pace – with a technology revolution that is transforming its industries. Today's wages are sky-high compared to those in the eighties. But more and more of South Korea's products are sophisticated in design and execution with a quality that helps build a repeat customer base.

- Lucky-Goldstar, one of the leading *chaebol* or business conglomerates, is applying its high-tech talents on all fronts, ranging from multi-media consumer products to heavier industry.
- Hyundai, another powerhouse, is surprising Americans by proving its skills in many highly advanced product areas while retaining its market image as an automaker with its new, all-Korean Accent sedan.
- Yet another company, Samsung, can boast its premier position as No. 1 worldwide in the production of D-RAMs, the memory chips that store computer data. The company just broke the record with its 256 megabyte D-RAM the most powerful chip ever created.



NINETIES KNOWHOW: a Samsung chip (above) and a computer-controlled installation

Facing Free-market Competition

No longer the so-called Hermit Kingdom that treasured its privacy after countless invasions over the centuries, South Korea today is opening its windows to technology and trade as it has never done before. And nowhere is this happening more visibly than in the offices of the country's highly diversified conglomerates, now facing free-market competition at home and in foreign markets and, as a result, pouring $35 billion into new plants and products to improve their competitive advantage. Many companies possess an abundance of capital accumulated during the past thirty years of economic development.

Talk business with executives in the corridors of power in top Korean companies, all headquartered in Seoul, and the magic catchphrase is "strategic business alliances." In the fiercely competitive global marketplace, where nations know no borders and trade flows ceaselessly back and forth across frontiers, Korean corporate planners are forging links with foreign companies, large and small.

Goldstar

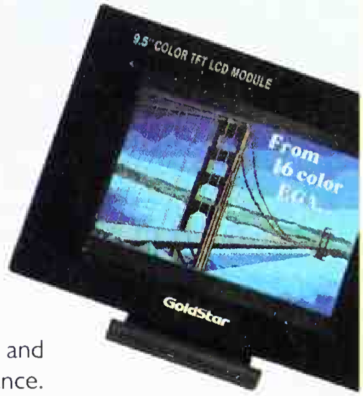
The Making of a World-Class Player

When the glitzy eighties were ending, Goldstar Company lacked the glitter that made most of its rivals around the world profitable. As the biggest South Korean producer of electrical appliances and consumer electronics, the company saw its product quality slipping and its market share declining in both the burgeoning Korean market and export markets.

All of that seems like a hundred years ago now that the ambitious offspring of the Lucky-Goldstar group, one of South Korea's largest trading, manufacturing, and financial conglomerates, is on a fast track to technological success.

At home, it has a big share of the market for color TVs, washing machines, and refrigerators. Abroad, in many ways more important for the company's future, Goldstar is forging alliances with GE Appliances, Zenith Electronics, and other powerhouses. And as if to prove its high-tech prowess, the company is going places in the hot semiconductor and TFT LCD (liquid crystal display) markets – around the globe.

"Motorola is one of our biggest customers," says Goldstar Electronics' Kim Hong-Sik. "We have partnerships with Texas Instruments, Hitachi, Siemens, and many smaller companies. We pay royalties to the companies for technical assistance. "Korea's strength," he emphasizes, "is our very good manufacturing-process technology."



Goldstar's TFT LCD

dstar's table CD-I yer

To restore and ensure the quality of Goldstar's impressive array of products, senior management – with 62-year-old Lee Hun Jo at the helm – has stripped away some of the rigid, old-fashioned Korean methods of doing business. The top-to-bottom hierarchy is looser, production less labor-intensive, and creativity greatly enhanced.

Multi-Media Moves "Most world-class companies have to prepare for the 21st century," says Duke M. Koo, managing director of Goldstar Co., Ltd.'s overseas operation. "So we here at Lucky-Goldstar are getting ready. To reinforce our brand images, we must have high-technology products. You have to concentrate on multi-media products, especially now. We want to be no less than No. 1."

Part of Lee's strategy is to let China, Vietnam, and other lower-wage countries turn out its appliances and electronics products. In North America the company has moved TV assembly from Huntsville, AL, to a lower-cost plant, a so-called maquiladora – across the border from San Diego in Mexico. (Its VCR manufactured there is a hot seller in the U. S. market.)

Next Generation Goldstar's linkup with Zenith Electronics has led to the development of high-definition TV and state-of-the-art picture tubes. The company has also formed a partnership with Oracle – this one designed to come up with the next generation of video game hardware. And Goldstar is working with IBM on new operating software.

In its most challenging push Lee's corporate leviathan is investing more than $620 million in a plant to produce the most up-to-date color LCDs for laptop computers. Goldstar, in fact, is out to penetrate in a big way the market for thin-film transistor (TFT) liquid-crystal displays dominated by Sony and other Japanese producers.

Meanwhile, Goldstar is basking in the sunlight of success as one of the world's leading players in the memory-chip market. Clearly, the Lee treatment works.

The global company with world-class stars.

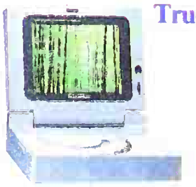
We have a great lineup of competitors ready for global competition. Everything from home appliances to computer and office automation equipment to cutting-edge products like the HDTV and CD-I. But these are no ordinary stars. Each one has been designed with your unique needs in mind. Goldstar creates products that make your life easier and more enjoyable. And we make them with quality and pride. Which is probably why Goldstar has received so many awards; for true quality rarely goes unnoticed.

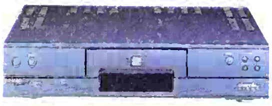
But as a global company working in over 140 countries, we want to do more to create a better world— a peaceful, prosperous world. So *Goldstar is sponsoring the United Nations on its 50th anniversary.* Goldstar is getting involved because we care. And by joining forces we know we can make a difference.

A global company creating a better world. That's Goldstar.

GoldStar
Technology with the human touch.

True quality rarely goes unnoticed


•Goldstar's portable CD-I.


•Astounding the electronics industry, Goldstar was the second in the world to develop the CD-I (compact disc-interactive).

•Goldstar received What Video's (Aug. '93) Technology Award for its double-deck VCR.

•Working with today's cutting-edge technology, Goldstar is realizing tomorrow's products like the HDTV.

Goldstar

A Global Sponsor of the UN's Golden Anniversary

Goldstar, one of Korea's largest companies, is taking particular pride in its recent selection as the international electronics industry's official sponsor of the 50th anniversary of the founding of the United Nations.

On October 14, Goldstar Executive Vice-President Yong-ak Ro met with UN Under Secretary-General Gillian M. Sorensen in a ceremony at the international body's New York headquarters to formalize the sponsorship. The agreement calls for Goldstar Co., Ltd. to provide US$5 million in financial support for the UN as well as assistance in a variety of events commemorating the anniversary throughout the world during 1995.

The Korean conglomerate is one of only a half dozen "global sponsors." Says Sorensen, who is overseeing the commemoration, "Goldstar has been extraordinary. They've put in a huge amount of effort – and money. We're fortunate to have such a company that helps provide a bridge between the private sector and the diplomatic world."

Quantum Leap. Goldstar's leading role as a UN sponsor gives the global conglomerate an unusual opportunity to make a quantum leap forward in projecting its international brand awareness and image as a world-class company among the citizens of the UN's 184 member countries.

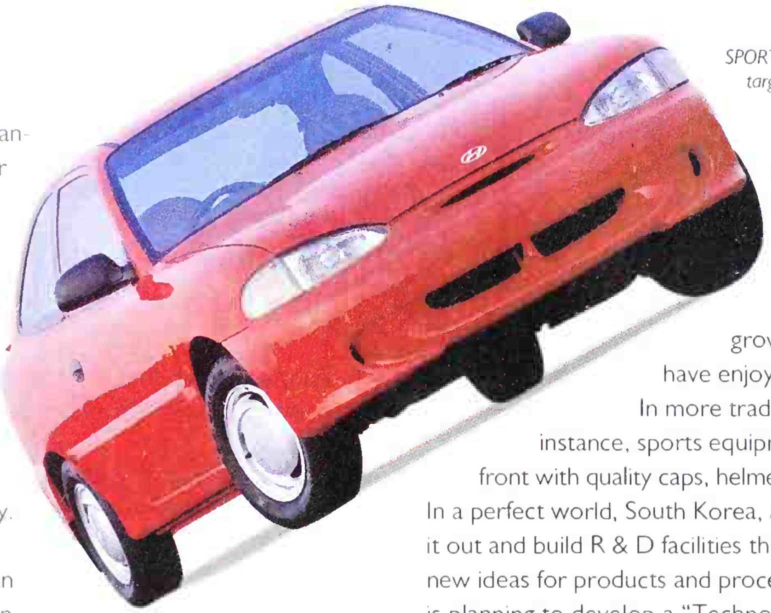
The company will use the commemorative anniversary emblem in all its public-relations activities during 1995, including foreign and domestic advertising, exhibitions, and sales promotions. In addition, the Goldstar logo will appear on banners at UN-organized anniversary events, from concerts and art exhibits to seminars.

The honor accorded to Goldstar by the United Nations is significant for several reasons. It is the first time a South Korean company has sponsored a worldwide event of this magnitude. It also coincides with the third anniversary of South Korea's membership in the United Nations, which the country values highly as a means of boosting its presence in the international community.

In fact, South Korea has long been grateful to the United Nations for its "police action" on the Korean peninsula in the early fifties. Besides enhancing Goldstar's corporate image, the sponsorship role caps South Korea's rapid growth over the past five decades and the expansion of ongoing friendly relations with the United Nations, an organization that has contributed greatly to the country's political stability and economic development.

Human Dignity. During the selection process, the UN screening committee indicated that a major factor in choosing Goldstar was the fact that the company's guiding principle closely matches the world body's founding philosophy. Just as the UN states that "human dignity is a basic right," so Goldstar believes in "management respect for human dignity." And to a degree the company's credo of creating value for the customer" is an extension of the UN's aim of "achieving human development in a more natural environment."

Another point that helped lead to Goldstar's sponsorship is the global breadth of its electronics activities. It operates 25 plants in 12 countries and markets its products in over 150 countries. Goldstar's range of products includes everything from home electronics and appliances, such as TV sets, VCRs, refrigerators, washing machines, and microwave ovens, to advanced multimedia products such as CD-I (compact disk interactive) players and 3DO video games systems.



SPORTY SEDAN: Hyundai's Accent, targeted at the U.S. market

Says Kim Hong Sik, managing director of Goldstar Electron Co., "We must form partnerships or we can't survive."

In these new partnerships, between Korean companies and both American and European companies, there's a two-way exchange built on flexibility. The partner may supply the knowhow; the Korean company, the production prowess. Or it may be the other way around -- with the Korean partner coming up with the ideas and the foreign company handling the production.

Blueprinting a Technopolis

South Korea's leadership position in many industries is already impressive. In a 1993 survey of worldwide manufacturing, it ranked second in shipbuilding, fourth in textiles, fifth in automobile and petrochemicals, and sixth in iron and steel production.

R&D: bigger research budgets at Samsung and other companies

For consumers worldwide, Korea's highest-profile products – second to none – are electronic: zoom cameras, camcorders, fax machines, car audio systems, video tapes, and both desktop and notebook computers. And the country has captured the largest share of the world market for microwave ovens, VCRs, and color monitors. Altogether, Korea's electronics industry is the fifth largest in the world – and second in memory chips. And it has developed this technology in only a few decades, without the luxury of a century of industrial growth that its competitors have enjoyed.

In more traditional product lines – for instance, sports equipment -- the country is out front with quality caps, helmets, tents, and fishing tackle. In a perfect world, South Korea, as it sees itself, might tough it out and build R & D facilities that would churn out all the new ideas for products and processes. The country, in fact, is planning to develop a "Technopolis," similar to Silicon Valley, with the help of foreign capital and knowhow.

But given the pace of change in the global competition, the *chaebol* and smaller Korean companies feel that speed in developing sophisticated products is really of the essence. And so with an impatience bordering on zeal, Korean companies are lightening up as they jettison some of their traditional ways of doing business.

The Workaholic Ethic

Only a century ago, what is now South Korea was largely an agricultural economy. While other countries benefited from the new industrialization of the 19th century, Korea remained somewhat isolated – and untouched by the major forces of economic development.

It took the impact of World War II and the United Nations "police action" in the early fifties to propel South Korea into the mainstream of world commerce. Family-owned businesses that in many cases had grown up "down on the farm" turned into highly diversified companies with a hand in almost every business imaginable, from insurance to integrated circuits.

In the seventies, South Korea's economic growth rate was enviable. Underpinning its success was a true talent for manufacturing. The country lacked natural resources. So in the give-and-take of world trade, Korean industry imported raw materials and parts and converted them into goods, specializing in selling them on an OEM basis to be marketed under the brand names of companies in other countries.

For years – from the seventies through most of the eighties – the backbone of industry's success was the Korean work ethic, which executives as well as assembly-line workers embraced. It was a long, long work day from early morning until evening. In late afternoon, workers in some

n Korea's quality drive, higher wages and fundamental management changes re making capital investments go further.

ctories even paused for a few minutes to honor the spirit f industrial productivity and unity.

The engine of South Korea's astonishing growth is by now miliar. Supported and directed by the government, industry oured its energies into low-priced exports, which found arkets for Korea's well-made products from the Hyundai xcel, initially a winner in North America, to Leading Edge esktop computers. At home, in the domestic economy that ras moving toward the 45-million mark in population, Korea ras seeing living standards improve and expectations rise.

Suddenly, in the late eighties, wages began escalating. idustry lost much of its price advantage because of rising bor costs. Foreign customers that had depended on Korean ctories started sourcing goods in less costly countries, mostly Southeast Asia. Out of the chaos of competing countries ound the world emerged a global marketplace where high-ass quality mattered as much as lower-wage quantity. Even iough Korean goods, by many measures, were top-notch, ianks to precision manufacturing, that was not the image that revailed in the global trading world. The *chaebol* couldn't asily shake the impression that many of their products were f merely standard rather than exceptional quality.

nformation Revolution

oday, Korean companies are going through their own kind f industrial revolution – reshaping their methods and outlook o fit a planet dominated by corporate giants and wedded to gh technology. The goal is simply to be the best. In product esign, in carefully monitored manufacturing, in swift distri-ution to markets – and in that all-important area called fter-sales service and support.

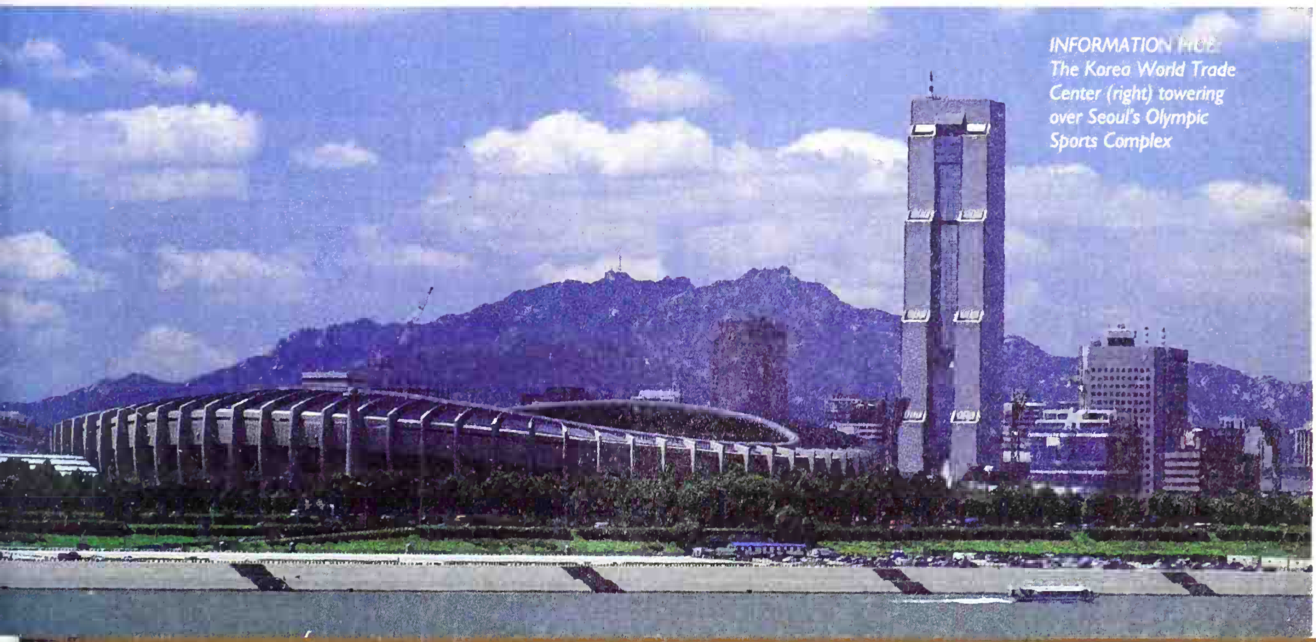
Under President Kim Young Sam, the first postwar government with a civilian rather than military leader in charge, South Korea is playing the game of catch-up as its companies seek a bigger market share around the globe.

- The government is downsizing its role in industrial development – thus creating an economic climate more conducive to corporate entrepreneurship.
- As part of a freer market economy, Korea is throwing its doors open wider for imports such as American and other foreign cars, largely through a reduction in excise taxes.
- There's a welcome mat out for foreign investment, with the government pledged to minimize the bureaucratic red tape that used to perturb outsiders.
- In both business and government circles the magic word is "technology" with "quality" a close runner-up.

In Korea's quality drive, higher wages and fundamental management changes are making capital investments go further. More important, the revolution in technology is boosting productivity to new heights.

In this restructuring, labor-intensive industries such as textiles are pursuing the development of value-added products through factory automation together with advances in design and use of high-end materials. In some cases, as companies upgrade their products, they're shifting part of their manufacturing base to foreign countries – to continue to utilize low-wage labor or even to build sophisticated products, if it makes economic sense.

Backed by human, financial and other business resources, Korea's conglomerates are going through wrenching changes to get up to speed to meet the tough market conditions of the 21st century. Medium-size and smaller companies are

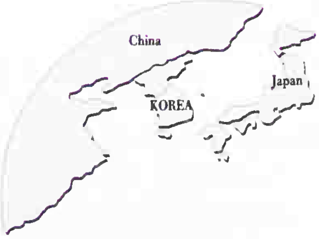


INFORMATION HUB: The Korea World Trade Center (right) towering over Seoul's Olympic Sports Complex

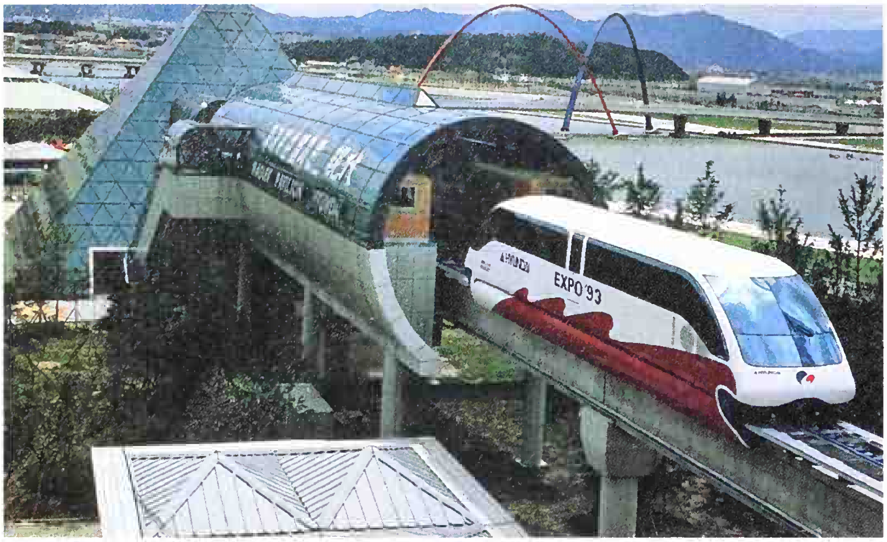
Crafted in Korea

This Performance is Brought to You by Korea.

Like what you hear? These are just a few notes to remind you that Korea makes sound products. Products that perform well because they are orchestrated with creativity, technology and craftsmanship. Take a look for yourself. You'll find scores of Korean products worth noting.



Korea Foreign Trade Association
159-1, Samsung-dong, Kangnam-gu, Seoul, Korea FAX (822)551-5249



HIGH-TECH TRAIN: *a maglev (magnetic levitation) car undergoing tests*

also gearing up to form alliances – with both domestic and foreign companies. Not even nervousness over what might happen, if North and South Korea were to reunify, is deterring companies from making tactical moves to sharpen their cutting edges in new technology.

"Korea wants to go the joint-venture route on many projects," says Doo-Yun Hwang, senior executive vice president of the 50,000-member Korea Foreign Trade Association. "It's a matter of networking with foreign companies and investors. For instance, we're already cooperating with the U. S. and EC countries in the field of telecommunications. We're working with the French TGV people on development of high-speed trains. We're talking about two hours to cover the 480 kilometers – about 290 miles – between Seoul and our second city, Pusan, which handles about 60% of our imports. In chemicals we are working closely with German companies. And we're working with GE and Westinghouse on power plants."

Helping industry change its outlook is the new breed of young Korean executives, almost all U. S. educated. Typically, Goldstar Electron's Kim has three children now going to college in Berkeley, San Diego, and Oregon.

"Korea was way behind because of lack of communications with the rest of the world," says Kim, recalling the seventies and eighties. "Nowadays, it's far different. We know instantly what a company in Austin or Silicon Valley is doing. It's stimulating. We used to be blocked off, but now there's a freer flow of information."

SKILLED WORKERS: *a plentiful supply of engineers and technicians*

Yet another asset for building future growth is Korea's engineering population. As the Korea Institute for Industri Economics & Trade (KIET) points out, there are almost 80 engineers per 100,000 Koreans, compared to 72 in Japan and 41 in the U. S.

With as much astuteness as blue-chip American companies, Korean industry has no illusions it can go it alone in winning any competitive battle. The goal is to provide products with the best value for the money. In short, world-class products that build customer loyalty.

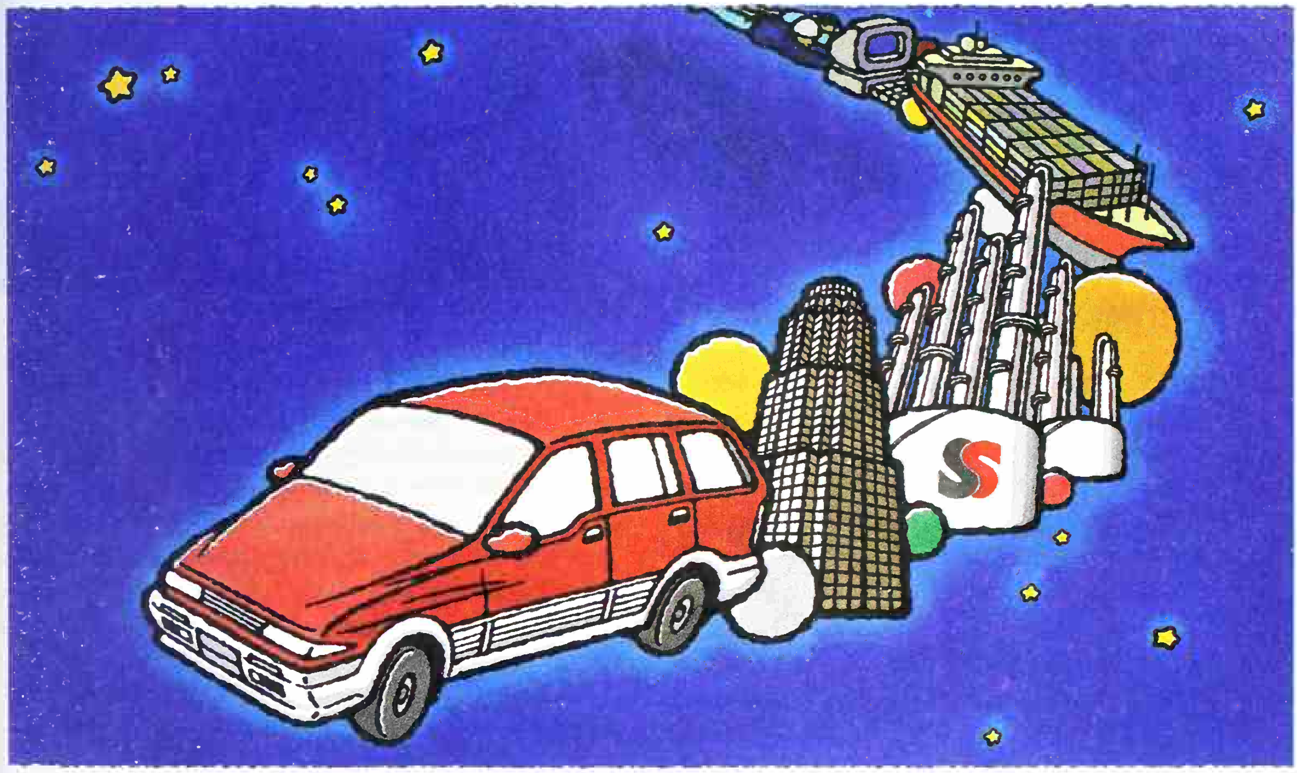
Even in its service industries, Korea is on a quality kick. For instance, at the just refurbished Westin Chosun, the most popular downtown business hotel in Seoul, total quality management has paid off with all sorts of national and international awards. In October the Westin won certificatio from Lloyd's Register Quality Assurance, an honor that came only after Managing Director Robert Fitzner and his staff had satisfied 18 tough criteria drawn up by the Geneva-based International Organization for Standardization. No wonder that American and European executives keep the hotel's occupancy rate high and its cozy restaurants and bars packed

The Vision Thing

While Korean companies are on their own in their quest to win markets, the government – in concert with business and universities – has set guidelines for attaining the economy's ambitious goals.

"The vision of Korea in the 21st century is to join the ranks of advanced countries," states the blueprint set fort by the Ministry of Science and Technolog "The growth of the Korean economy has been stagnating in recent years and the future seems uncertain. With the conclusion of the Uruguay Round accord, the globalization of economic activities is expected to accelerate through the opening of world markets...

Ssangyong: Reliability in a variety of business circles.



A corporation's survival depends on its reputation for reliability.

Ssangyong has a 55-year history of reliability. Partners in more than 120 countries depend on Ssangyong and we're doing our best to meet their needs.

Ssangyong's reputation in the fields of international trade, engineering and construction, automobiles, cement, oil refining, investment and securities, heavy industries and machinery, paper, insurance, shipping and information systems has resulted in total sales of US$14.5 billion in 1993.

Our capital and technical cooperation with Mercedes-Benz, the capital venture with Saudi Arabia's Aramco and the construction of over 7,000 deluxe hotel guest rooms in the Pacific Rim are just a few examples of our successful partnerships.

These days, when reliable business partners are hard to find, you need a corporation that builds reliability in a variety of business circles.

We're looking forward to talking business with you.

SSANGYONG

International Trade, Engineering & Construction, Automobiles, Cement, Oil Refining, Investment & Securities, Heavy Industries & Machinery, Paper, Insurance, Computers
•C.P.O. Box 409. Seoul, Korea • Phone: (822) 270-8155 ~ 8, 270-8130 • Fax: (822) 273-0981, 273-8297, 274-2896 • Telex: TWINDRA K24270, K28215, K28442

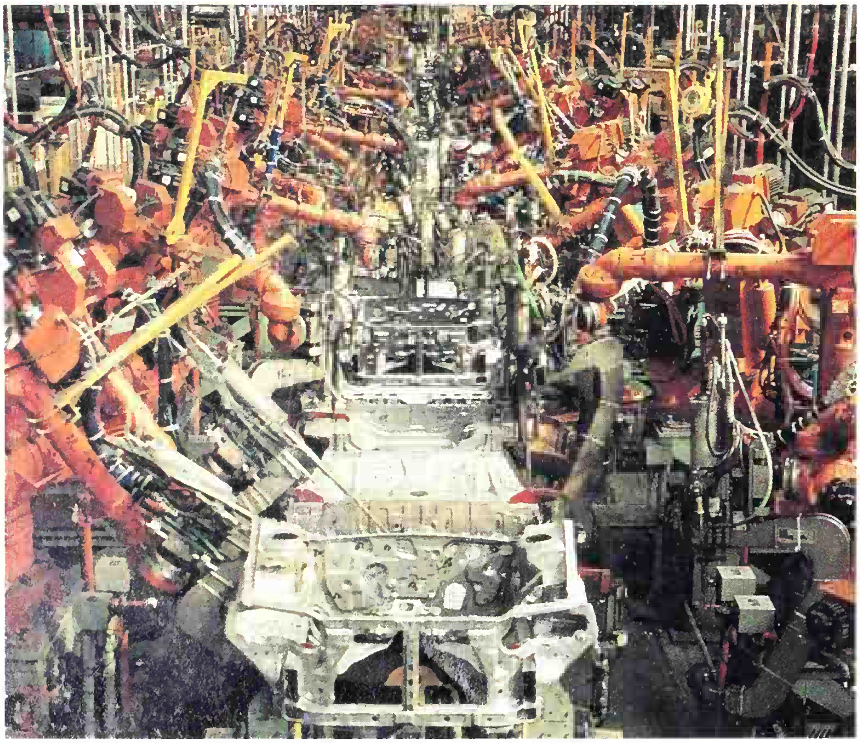
In light of this the government has recently launched the Highly Advanced National Project. Making its argument realistically, the HAN Project doesn't aim to upgrade industry and technology beyond Korea's means but to "sustain competitiveness and superiority in selected fields by concentrating limited R&D resources." For instance, it plans to actively pursue international cooperation in areas where there's not enough R&D capacity available.

In hot new areas, the HAN Project wants to develop:

- HDTV or high-definition television of movie quality.
- B-ISDN or broadband integrated services and data networks.
- New drugs and agrochemicals.
- A "next generation" of automobiles including electrical vehicles.

In more fundamental areas of technology the project is programmed to work on everything from ultra-large-scale integrated circuits and advanced manufacturing systems to exotic materials for the information, electronics, and energy industries and a "next generation" of nuclear reactors. But what, in fact, are some of Korea's most promising industries?

"We should do well in autos, machinery, and micro-electronics that include personal computers and semiconductors – at a minimum," says Choi Kang-Shik, research fellow in industrial policy at KIET. "They'll be major industries in ten years."



ROBOTRY: a Korean no hands- assembly line

HYUNDAI

Where Quality Takes the Driver's Seat

Koreans know Hyundai as a humongous conglomerate whos companies span the business spectrum, from computer chi to shipbuilding, and bring in $69 billion in revenues annually. But when Americans and Canadians think Hyundai, they see a subcompact Excel, a product of Hyundai Motor Co., which accounts for a mere $9 billion of the conglomerate's total sales.

Excel's New Excellence

The turnaround of the Excel, a terrific low-priced car that made a spectacular debut in the U. S. in 1986 but then suffered a decline because of defects, tells a lot about how Korean industry today is fanatically quality-conscious. Robotry and other automated devices have helped revolutionize Hyundai's production skills. So has the retraining of assembly-line workers. But Hyundai has gone far beyond quick fixes to get its cars in the fast lane in foreign markets. The company now inspects and test-drives its cars at least three times before delivery to customers. The repair could be something as minute as some touch-up paint to cover a nearly invisible scratch. It's no wonder that Hyundais have climbed from last place to the middle ranks in the highly respected J. D. Power Consumer Satisfaction Index.

Now the company is about to introduce a follow-up to the Excel, a sporty-looking subcompact called the Accent that comes in designer colors. It's scoring well with discriminating car aficionados like *Road & Trac* ("more power, longer wheelbase, standard dual airbags, attractive exterior styling, and reasonable pricing...").

What makes J. H. Kim, Hyundai's general manager of export marketing and planning, so pleased with Accent these days is something else – and it's under the hood. "In the eighties we bought the engine and transmission for the Excel from Mitsubishi," he recalls. "But since 1991 we've made our own power train for the Excel and now the Accent. It's a 100% Korean car."

"We don't want vertical relationships like the one with Mitsubishi," he adds. "We

G/LNG CARRIER: *what Hyundai builds besides autos*

nt a horizontal partnership. It's give-and-take. We have s, you have that. Before, it was only one-way."

Typical of the current Korean business scene, Hyundai – one of the Big Three that include Kia (which makes GM's nabout Festiva) and Daewoo – is racing on all technology onts because of domestic, as well as global, competition. nd with Korea's excise tax on auto imports reduced and doors opened wider to American and foreign cars in the ming year, Hyundai is braking only for animals.

igh Speed with High Tech

rning out cars for the masses is a far cry from, say, building pertankers and sophisticated LPG/LNG carriers, as the nglomerate does at Hyundai Heavy Industries Co., Ltd. sed at Ulsan.

During the eighties the umbrella Hyundai organization unched Hyundai Electronics and Hyundai Robot Industry o., Ltd. The electronics subsidiary is already a major inter- tional player in telecommunications, personal computers, d D-RAM (dynamic random access memory) chips.

"We're forecasting a faster growth rate for our high-tech bsidiaries than for other parts of Hyundai," says H. D. Key, neral manager of marketing at Hyundai Electronics' Infor- ation System Business. "Our company is experiencing a % growth rate this year, and next year should be around %. We're developing technology two ways – through iances and on our own. And we're using different strategies the domestic and foreign markets."

"We particularly want to develop alliances with American mpanies who are building the information superhighway," goes on to say. "Many key players from the U. S. have en visiting us – Oracle, Silicon Graphics, others."

"In any case, we're looking at markets globally with an eye comparative advantages," says Key. "For instance, it's not ofitable for us to develop software alone, except for the local Korean market – Silicon Valley can do better than Hyundai in creating software applications for world markets. The capital investment for us is too big. But we now have alliances with small, high-tech American companies – for example, in the Boston area – where we share information and help distribute their products."

How much is Hyundai spending on R&D these days? "About 9.9% of sales," says Key. "We're going places in space telecommunications, LCDs (liquid crystal displays), and multi-media products."

SAMSUNG

A Revolution with Rewards

"Quality first, no matter what." That's the slogan at the Samsung Group, the largest conglomerate in Asia outside of Japan.

Three-star Shock Therapy

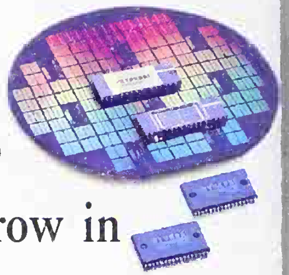
In one swoop, tradition – read self-contentment – has been put on hold. In its place is a management revolution that has helped Samsung (meaning "three stars") live up to its reputation as one of Korea's most successful *chaebol*.

Cracking down on all that ails a mature conglomerate, Samsung's Chairman Lee Kun Hee goes well beyond instructions to his executives. He uses "shock therapy" to help show his managerial team how to build quality. In what way? By sending them to the U. S. to visit retailers and hear what they have to say about Samsung's products, from design to after-sales service.

HELICOPTERS: *one of Samsung's expanding niches in aerospace*

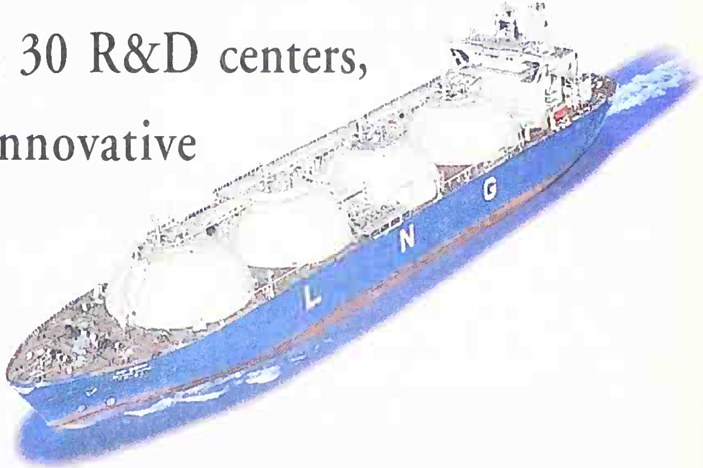
Chairman Lee's main goal: to make his 180,000 employees believe that quality counts more than quantity in the products they help make. To that end, he has expanded his personal tours to retailers and other customers, making audiotapes and videotapes of the street-level view of Samsung's products. And to upgrade the thinking of managers to fit the competitive conditions of the nineties – and the next century – Lee has gone so far as to recruit women, a break in Korean tradition. And he's running complacent middle managers through a mind-rattling six-month course called the "21st Century CEO Program."

From Chips To Ships



Hyundai Business Group, with over US$58 billion in sales, continues to grow in a wide spectrum of business areas. From next generation 256M DRAM chips to satellite communications, creating tomorrow's global information superhighway. From a full line of passenger cars to

AUTOMOBILES, ELECTRONICS, SHIPBUILDING, ENGINEERING AND CONSTRUCTION, MACHINERY AND EQUIPMENT,PETROCH all types of commercial vehicles. From machine tools to the magnetic levitation train, the ideal mass transit system of the future. From turn-key engineering and construction projects to petrochemicals with advanced new material. From super tankers to some of the most sophisticated LNG carriers. Hyundai, with more than 30 R&D centers, working together, creating innovative synergies, innovative products.



HYUNDAI
Building A Better World Through Innovative Technology

AND TRANSPORTATION. Find out how Hyundai can help you : Hyundai Corporation K.P.O. Box 92, Seoul, Korea. Tel +82-2-746-1873, Fax +82-2-741-2341.

Samsung isn't overhauling its operations solo. It's getting plenty of feedback through close working relationships with a host of American companies – among them, Amoco (petrochemicals for textiles), Corning (ceramics for integrated circuits, parts for VCRs), General Electric (high-tech-medical equipment for sale or production in Korea), General Instrument (joint development of high-definition television), Hewlett-Packard (computer products, some made and sold in Korea), and Pratt & Whitney (Samsung components for jet engines).

Limitless Expansion

Ambitious yet meticulous, Samsung is going wherever major business opportunities take it.

- In memory chips it has become the pacesetter worldwide – and, as you might expect, had to endure an occasional "anti-dumping" suit because of its leadership position in this price-sensitive commodity.
- In multi-media products Samsung has come up with a digital video recorder that packs an entire movie on a 5.25-inch disk, a potential follow up to the VCR.
- Beating Japanese competition, the company built the world's first double-hulled tankers, which supposedly prevent oil spills.
- Currently, Samsung is seriously toying with the idea of expanding beyond trucks into autos – in a field where its fellow Koreans are already well-entrenched. Samsung's angle is to develop electric-powered cars – and U. S. automakers are interested in a linkup.
- Aerospace? Samsung is the prime contractor for a $5 billion Korean fighter program, with a supervisory role in building Lockheed F-16s. Not content with that, Samsung Aerospace has several ideas for developing a Korean aircraft industry, despite the order problems facing aerospace companies worldwide. A civilian commuter plane? A communications satellite?

If it's Samsung, never bet on it not happening.

PARTNERS: Ssangyong's 4WD Musso equipped with a Mercedes engine.

SSANGYONG

A Multinational Dragon on the Move

Like most leading conglomerates, the Ssangyong Group is a smorgasbord of businesses and products with – count the – 21 affiliated companies in Korea and some 73 subsidiaries abroad. "Since its foundation in 1939 as small-scale maker o daily living necessities, Ssangyong has opportunely entered those industries most needed and demanded by the times," says Chairman Suk Won Kim.

Already thickly involved in trilateral trade, plant exports, and investment in joint ventures abroad since the mid-eighties, Ssangyong is now zeroing in on new regional markets such as Eastern Europe, the former Soviet states, China, and Southeast Asia. Among its multinational projects: a leather garment plant in China, an electronic power precipitator in Singapore, oil exploration off the coast of Vietnam, and coal development in Australia.

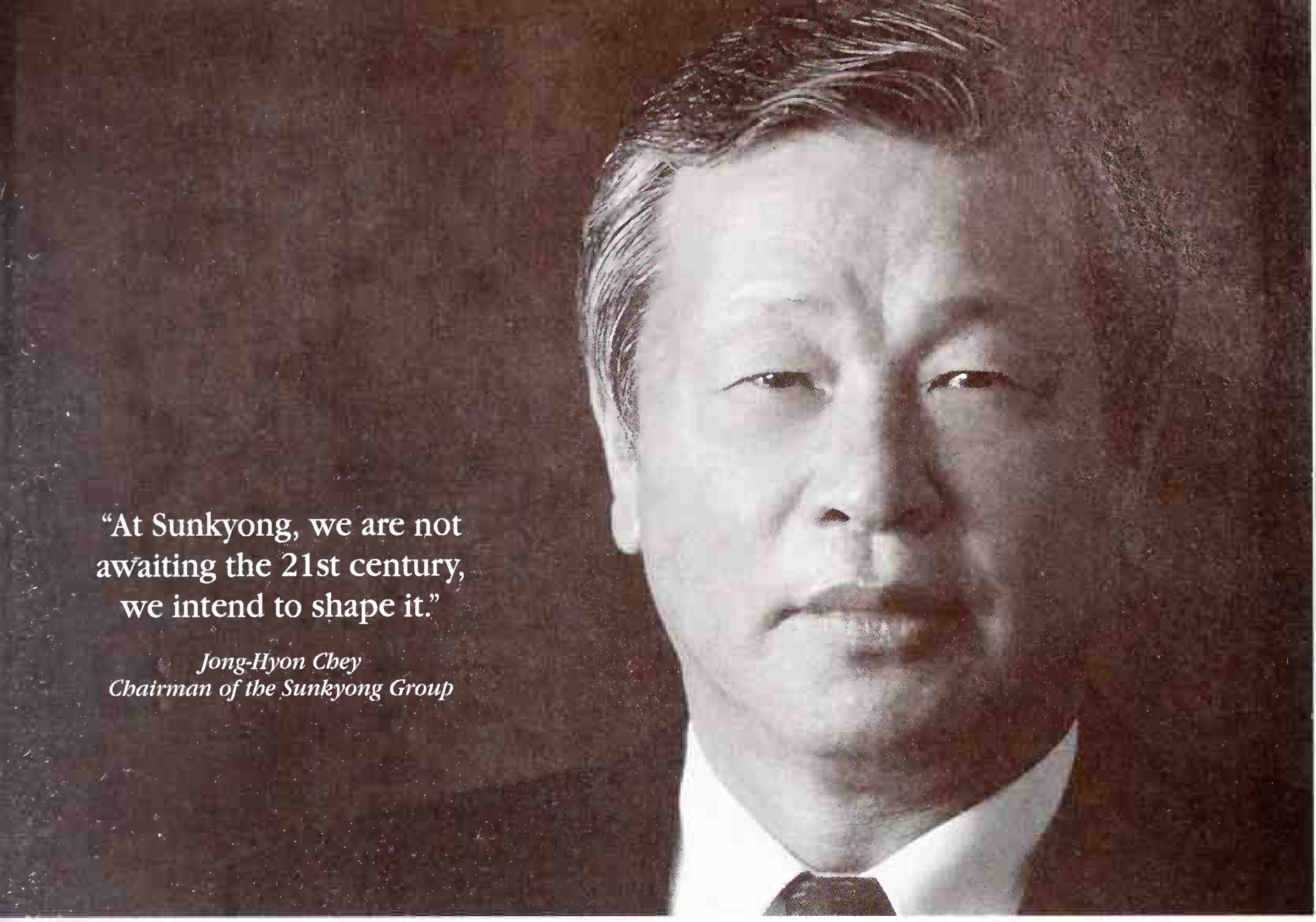
As a builder Ssangyong has made its mark all over the map. In the late seventies it rode the construction boom in the oil-rich Middle East. In the eighties, shifting its sights to Southeast Asia, Ssangyong changed Singapore's skyline by building the world's tallest hotel, the 73-story Westin Stamford. Recently, the company put up the Inter-Continenta Hotel in Bali and the Grand Hyatt Jakarta.

Sharper Focus

In 1994, as Chairman Kim is the first to acknowledge, the times demand more product innovation and reliability than ever before. And that's virtually impossible if you spread yourself too thin in too many businesses. So, with the double-sized power its name suggests – Ssangyong means "two dragons"– the $17-billion giant is targeting three areas for growth.

Autos. Ssangyong Motors is partnering with Mercedes Benz to put sports-utility vehicles on the global road. Its four wheel-drive (4WD) Musso, equipped with a powerful, durable Mercedes engine, is a hit in the home market, and now it's competing for a place in the sun in export markets. Waiting in the wings is a Ssangyong passenger sedan.

Oil. In an area where the big players think globally, Ssangyong Oil Refining is building a large-scale Bunker C cracking facility through a joint venture with Saudi Aramco, the world's largest crude-oil company.


"At Sunkyong, we are not awaiting the 21st century, we intend to shape it."
Jong-Hyon Chey
Chairman of the Sunkyong Group

When the Sunkyong Group was founded in 1953, we were a small company producing woven textiles. Today, Sunkyong is one of the five largest conglomerates in Korea, with offices in all of the world's major business centers. As the first Korean company to produce synthetic fibers, Sunkyong has grown into a vertically integrated manufacturer of a broad spectrum of products ranging from petroleum to textiles.

The Sunkyong Group of Korea, with annual revenues of more than $22 billion and over 22,000 employees on five continents, is a worldwide leader in the fields of energy, international trade, petrochemical products, telecommunications, and engineering & construction.

At present, Sunkyong is a major producer of petroleum-based products, a global trading company, and a leading manufacturer of polyester films and magnetic and optical media. We also have a major presence in telecommunications, distribution, financial services, and engineering & construction.

The result in the United States – Sunkyong generates over $1.5 billion in annual revenues working with hundreds of American companies, and we have strategic alliances with such giants as Polaroid and the Fleming Companies.

These alliances reflect the focused application of time, energy, and resources required for a shared understanding of objectives – a shared vision of economic globalization. A vision we at Sunkyong are dedicated to making a reality.

For more information, contact John Rich, Sunkyong U.S.A., Inc.,
110 East 55th Street, New York, N.Y. 10022, Fax: (212) 906-8137

FOR SUCCESS WORLDWIDE, SAY SUNKYONG

Sunkyong Limited · Yukong Limited · Sunkyong Industries · SKC · Sunkyong Engineering and Construction

© 1994 The Samsung Group

TO RICHELIEU RIVER
SAMSUNG
SAMSUNG
AF
Hi8

TECHNOLOGY THAT
WORKS FOR LIFE

SAMSUNG

SOMETHING WE DON'T HAVE THE TECHNOLOGY TO MAKE.

Through commitment, innovation and an emphasis on total quality, Samsung has become one of the world's fastest growing technology resources. Samsung is not only on the forefront of electronics, but has received worldwide recognition for advances in engineering as well. Below are just a few examples of how Samsung quality and technology are working for everyone.

For more, write P.O. Box 260, Ridgefield Park, NJ 07660. Fax 201-229-6058.

ELECTRONICS

199-gram cellular phone
High-definition TV
64M DRAM semiconductors
Notebook PC
Home service robot

ENGINEERING

Offshore oil and gas platform
Aerospace
Dozers, excavators and loaders
Chemicals
Double-hull oil tankers

Innovation boils down to attitude – the willingness to accept change – and the development of tools to cope positively with the forces of change.

Cement. King of the castle in production of the basic material worldwide, Ssangyong Cement is exchanging technology with Japan's Onoda Cement. to enhance the quality of its output and diversify its product lineup, partly through the development of ceramics.

Creative Corporate Culture

But success, as Ssangyong well knows, begins with what a company itself can create. That's basic to Ssangyong's corporate culture.

"Innovation boils down to attitude – the willingness to accept change – and the development of tools to cope positively with the forces of change," as the company puts it. "At Ssangyong, hard innovation includes inventions and technologies, while soft innovation covers improvements in organizational and managerial efficiency."

Pragmatic as well as purposeful and high-principled, Ssangyong is investing a stunning $2 billion this year in research and development – or 11.2% of the group's total turnover – to help ensure a steady stream of new ideas and products. As Chairman Kim says,"Ssangyong must improve its capabilities by fostering new advanced technologies in order to attain world-class status."

SUNKYONG

From Textiles to Telecom

In 1991 the Sunkyong Group got a head start on building more quality into its products by launching a new management campaign called Supex – for Super Excellence. The goal: turning Sunkyong into a world-renowned corporation by the year 2000, as much by changing the traditional mind-set of its employees as by relying on new technology.

Cashing in on Cellulars

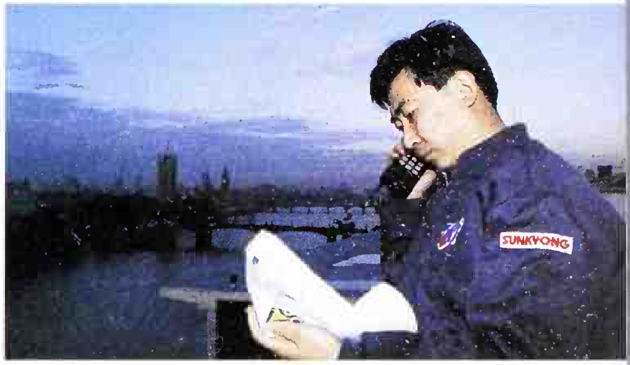
Has there been anything unaggressive at Sunkyong since its launch in 1953 as a textile company?

Not really. The company was the first in South Korea to make synthetic fibers.That was in 1969. By the mid-seventies the company was so deeply involved in several core businesses – energy, chemicals, construction, and fibers – that it dropped "Textile" from its name and became simply Sunkyong Ltd., a trading company with a host of subsidiaries.

As the eighties approached, Sunkyong was practically breathless from its rapid expansion and had to divest itself of several affiliates to regain financial health. Aiding its recovery was Sunkyong's plunge into the oil-refining business through its takeover of Gulf Oil's Korean subsidiary. With nearly $7 billion in sales, what is now called Yukong Ltd. accounts for more than 40% of the group's sales.

In the nineties, while continuing to operate as a trading company (with 1,500 specialists buying and selling some 2,000 products in more than 40 cities), Sunkyong has been setting up companies to exploit the exotic technologies ass ciated with information and telecommunications systems.

In a series of strategic technology alliances abroad, Sunkyong has worked – for example – with the U. S.'s GTE and Britain's Vodafone Group PLC to design a cellular phon network. That kind of cooperation paid off recently when the conglomerate outbid competitors to gain a 23% equity interest and management control of the government's Kore Mobile Telecom (KMT). Even after KMT's monopoly runs out in 1996, the cellular company should continue to throw off a lot of cash.



TELECOMMUNICATIONS: a productive linkup with U.S. Cellular

Power to the Professionals

Currently headed by American-educated Chey Jong-Hyon, a brother of the founder and president of the powerful Federation of Korean Industries, Sunkyong is far less centralized than it used to be. To keep the group nimble, Chey has delegated considerable power to the presidents of operating affiliates and other professional managers.

With the typical we-can-do-anything attitude of Korea's conglomerates, the group is preparing for the century ahead by expanding its foothold in finance through a securities subsidiary and even building a business in retailing. But petroleum and telecommunications are the two prongs of Sunkyong's drive to win. With customer service a paramount consideration, the $16-billion conglomerate is eagerly working with U. S Cellular, in which it holds a 20% stake, to get higher on the learning curve and develop cutting-edge phone networks.▲

Paul Burnham Finney, a New York-based writer who specializes in business developments, visited Seoul to write on Korea's technology revolution.

RANSPORTATION

MART HIGHWAYS, OOLISH CHOICES?

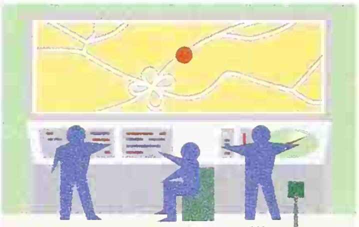
ashington's plan to automate driving may be too ambitious

The Mercury Sable was loaded with smarts. With an onboard navigation computer and a CD-ROM filled with ps, it should have gone the 16 blocks m the Capitol to the White House sily. But just two blocks into the monstration, the computer froze. Af- driver James Costantino rebooted hree times, it barked an order to turn o the Capitol's east plaza—off-limits cars. Then it signaled that the car s on an unnamed road when it was tually on Constitution Avenue. "I've ver had these problems before," said stantino, executive director of the In- ligent Transportation Society, a trade oup. "It's just not working."

Expect to hear a lot of that in the xt few years. The buggy nav- tor, a prototype from Motoro- Inc., is simplicity itself next what the Federal Highway lministration has in mind. ashington is funding an auda- us plan that—eventually— uld have passengers let go of eering wheels and leave the iving to a computer network sting billions of dollars.

Which raises the question: es this make sense? As the S. pursues the ultimate in art highways, governments d companies in Europe and pan are focusing on more adily achievable technologies. ey're ahead of Motorola and ner U. S. companies, for in- ance, in navigation systems at assist rather than replace e driver. Critics fear this uld be another field in which e U. S. pioneers but others ab the profits. "Taking con- l away from drivers is a pie- the-sky scheme," says Mi- ael Replogle, co-director of e Environmental Defense nd's Transportation Project. et's develop technology with ar-term applications."

Advocates of smart highways vision computerized roads d cars that automatically convey passengers, avoid crashes, ease traffic jams, and save gas. With the 43,000-mile interstate system all but complete and with little money to build more highways, they say computers could better use existing rights-of-way by letting vehicles travel faster with less space between them.



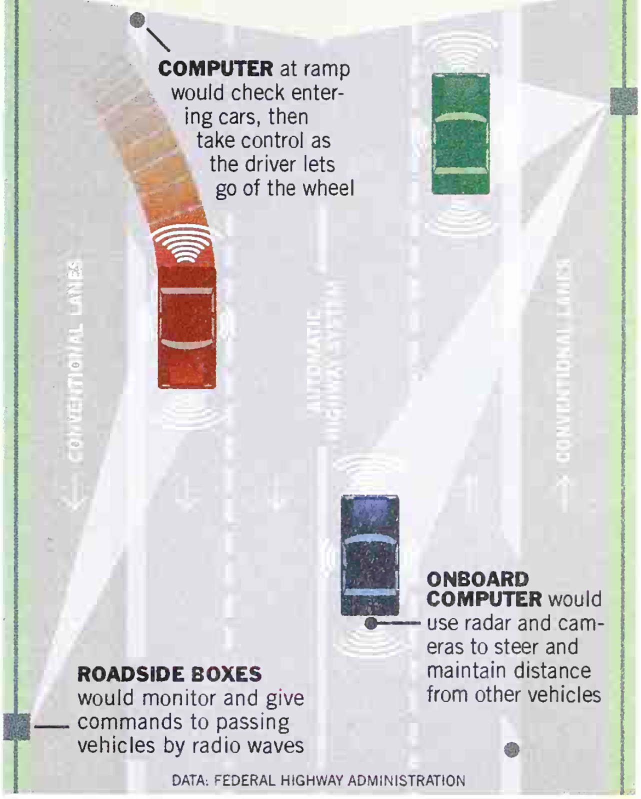
REGIONAL CENTERS, like air-traffic control centers, would control traffic via roadside boxes

KIDDIE RADAR. Real money is behind the concept. In October, the Transportation Dept. announced a $200 million, seven-year project with a group led by General Motors Corp. called the National Automated Highway System Consortium. Some 80% of the funding will come from Washington, the rest from consortium members. Actual construction would be far more costly: One researcher estimates that it would cost $75 billion for just 5,000 miles of roadway. FHWA Program Manager J. Richard Bishop Jr. says the agency has not yet estimated how much a nationwide system would cost.

Either way, the FHWA envisions separate highway lanes in which specially equipped cars would travel at high speeds, closely bunched, under the control of computers that are on board, along the roadside, and at a regional control center (diagram). These would be true information highways: Cars would communicate with one another and with roadside computers via radio waves, while fixed stations would exchange rivers of data over fiber optics. The consortium's goal is to show the feasibility of this by 1997 and build a test loop by 2000 that could handle 10 to 20 cars.

HOW COMPUTERS WOULD TAKE OVER YOUR WHEEL

In theory, an Automated Highway System would lessen the need for new roads because cars could move faster and be spaced more closely



COMPUTER at ramp would check entering cars, then take control as the driver lets go of the wheel

ONBOARD COMPUTER would use radar and cameras to steer and maintain distance from other vehicles

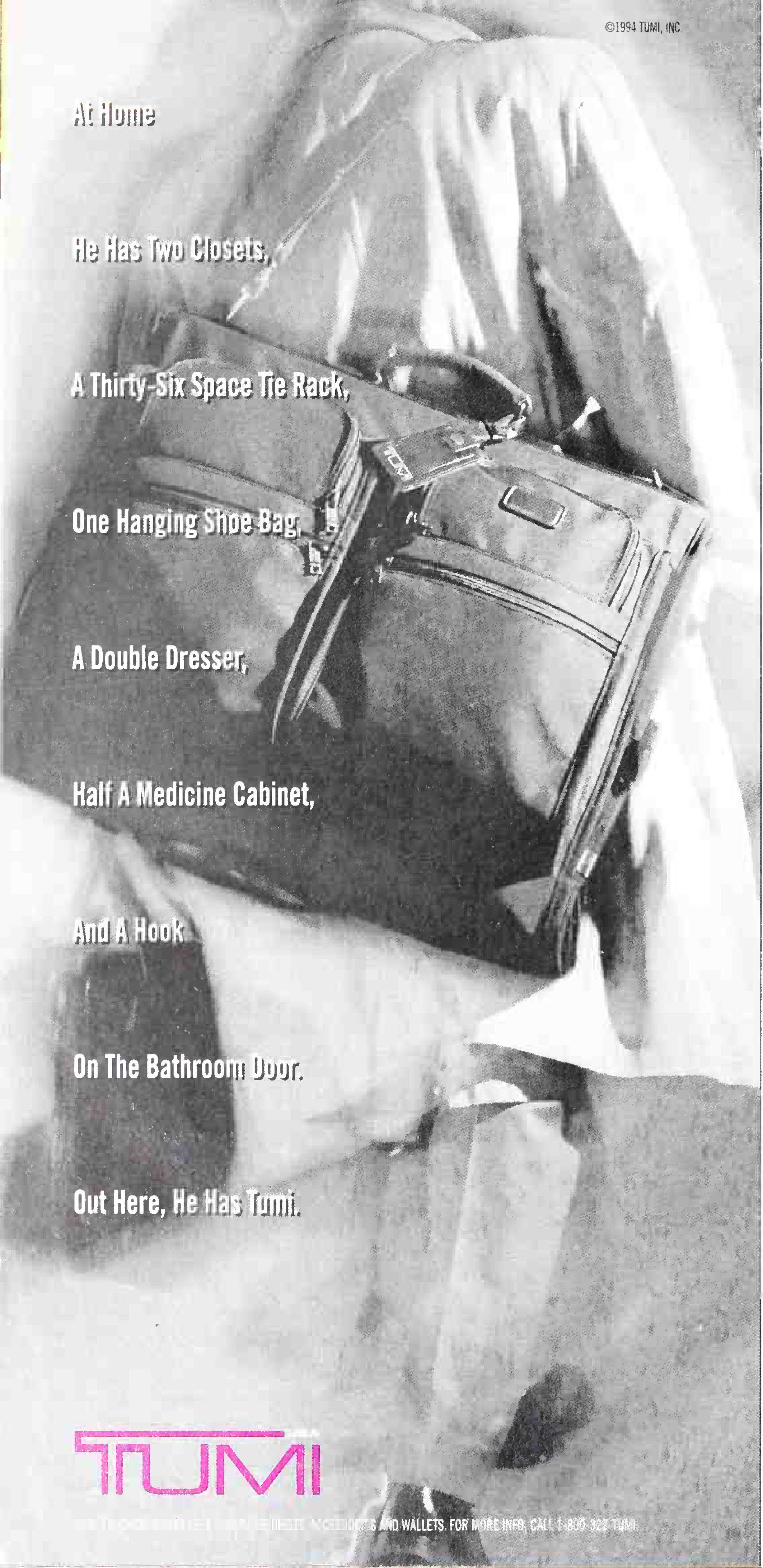
ROADSIDE BOXES would monitor and give commands to passing vehicles by radio waves

DATA: FEDERAL HIGHWAY ADMINISTRATION

On paper, it looks workable. Most components, from radar to infrared cameras, already exist. Under a $5 million defense contract, for instance, Carnegie Mellon University has developed two driverless vehicles controlled by neural-network computers. Martin Marietta Corp. designed software that lets the vehicles travel in convoys. GM's Delco Electronics Corp. has developed radar that detects children standing near a school bus but out of its driver's sight. California's Transportation Dept. has moved a tight four-car platoon at 70 mph on I-15 in San Diego. All of these groups are members of the new consortium.

AIRPORT FIASCO. Making automated highways a part of daily life is another matter, however. The idea of surrendering the wheel to a computer is bound to inflame many drivers, considering how many people regard even seat-belt laws as intrusive. In 1992, civil liberties advocates got Virginia's Transportation Dept. to back away from setting up a radar box on highways that could snag speeders by noting the time, location, speed, and tag

RAY VELLA/BW



©1994 TUMI, INC.

number of cars. "People will know whe you are. Who will have access to this formation?" asks Clifford M. Winst senior fellow in economic studies at t Brookings Institution.

The biggest problem is likely to software, as even supporters ackno edge. "We have no doubt we can do t in a lab environment, but the questior whether this can be done on real road says James H. Rillings, a GM resear engineer who heads the consortiu

For a disheartening case study, lo at Denver International Airport, wh is a year late in opening because of so ware glitches in its baggage-handli system. It is designed to send 4,000 lu gage carts for 20 airlines along 21 mi of track, using 64 computers linked 5,800 electric eyes and 315 radio rece ers, 182 switches, and at least 60 b code scanners. But it regularly m routes and damages test parcels. A an automated highway system would infinitely more complex. "If one joi goes down, the whole system is blow says Melvin M. Webber, director of t University of California at Berkele Transportation Center.

SPIN-OFFS. Researchers hope to avo chain-reaction failures by building un that operate somewhat autonomous But that still leaves questions. What a driver without proper equipment blu ders onto an automated highway? what if a deer does? "We don't have fo proof methods for checking every po sible circumstance," concedes Pravin Varaiya, a computer-science profess at Berkeley who advises the consortiu

Meanwhile, European and Japane companies are forging ahead with co ponents for smart roads and vehicle Zexel USA Corp. supplies the compu er-mapping and guidance systems many Avis Inc. rental cars. Sony Cor sells similar products in the U.S., a Matsushita Electric Industrial Co.'s Pa asonic unit plans to soon. Siemens a other European companies are sellin guidance systems there.

Transportation Dept. planners, watc ing the foreign efforts, say they're d voting 75% of their funding to neare term projects such as collision-avoidan systems. But they defend the big effo on automated highways by saying should spin off other technologie Development of automated highwa "will spawn innumerable commercial o portunities" for U.S. industry, say FHWA Administrator Rodney E. Slate Maybe—but don't get ready to tak your hands off the wheel just yet.

By Christina Del Val
in Washingto

Here it is.

Absolutely everything you need for your next big meeting.

‘ **teleconferencing**] Pick up any telephone in The Westin and you can simulta-
converse with people in up to 15 different locations around the world. Which means you
en have to leave your room to conduct your next big meeting, much less turn off the TV.
oud to offer AT&T In-room Long Distance Service for your AT&T Calling Card, AT&T
l Card and operator-assisted calls: for reservations call your travel consultant or (800) 228-3000.

AT&T
In-Room
Long
Distance
Service

AT&T

Helping you
along the way.℠

The Westin
Hotel,
Copley Place

Boston

The Westin
Hotel

Chicago

The Westin
Canal Place

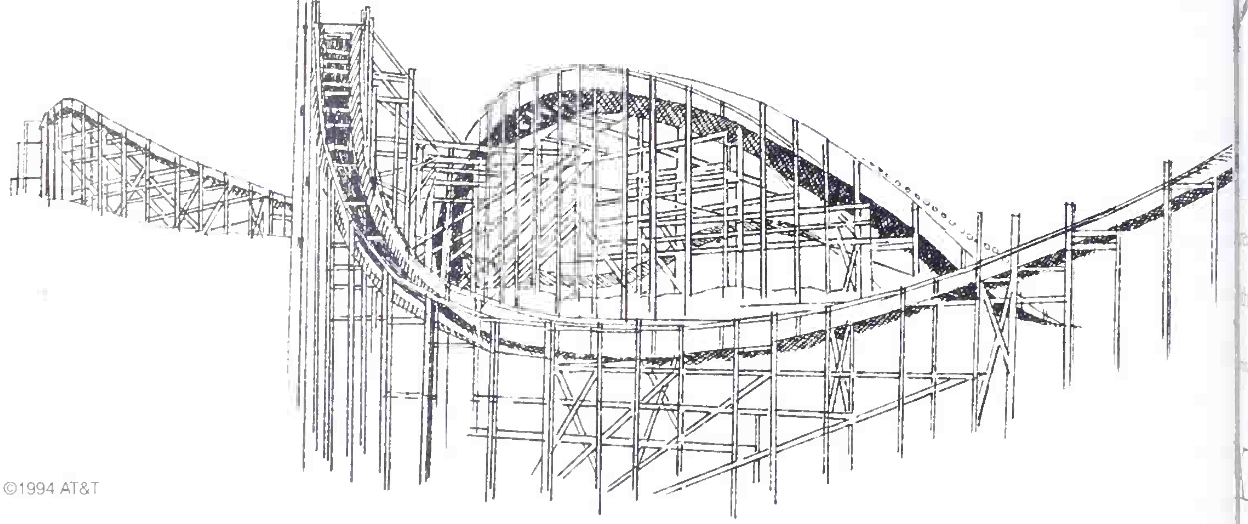
New Orleans

The Westin
St. Francis

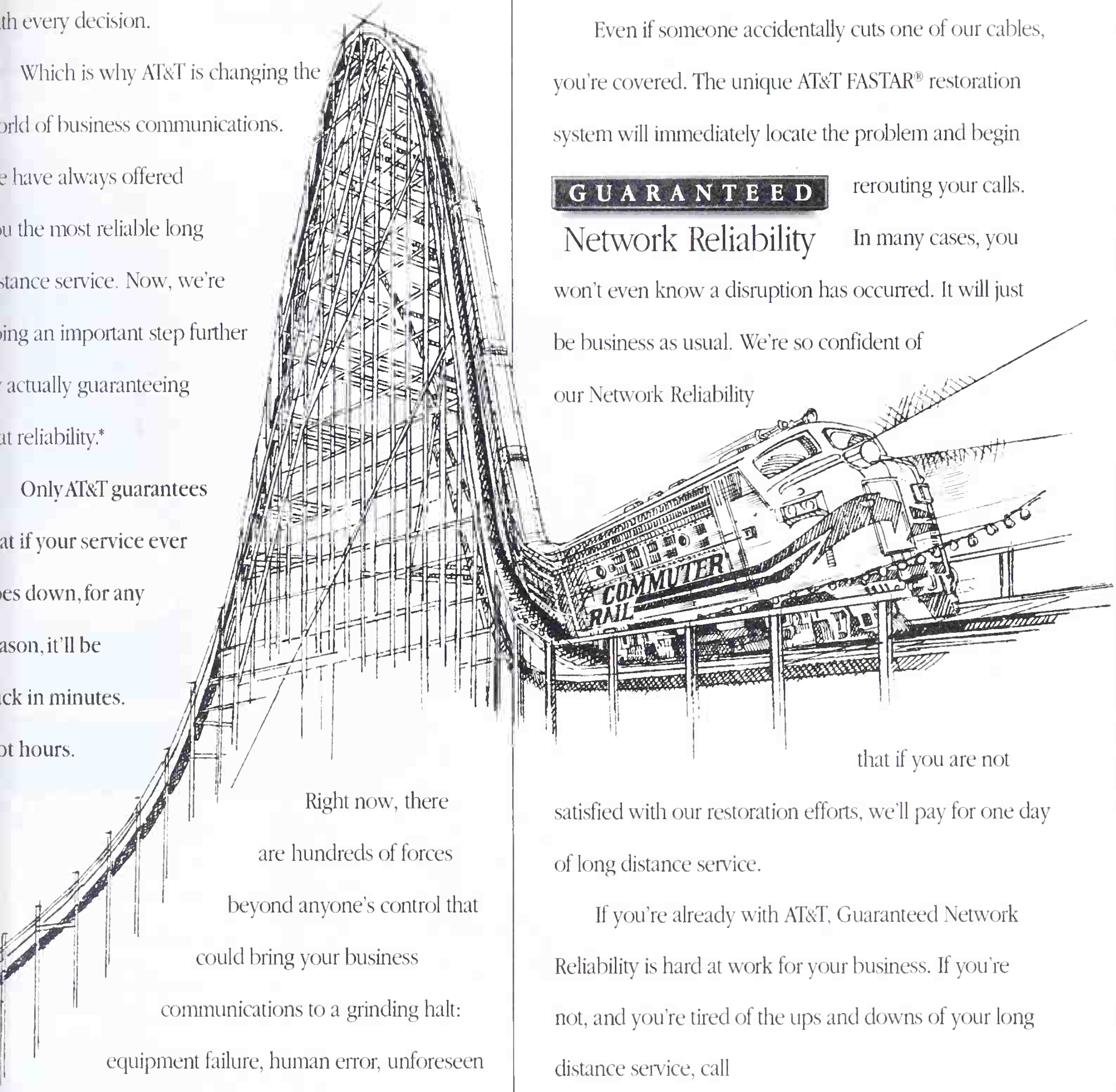
San Francisco

WESTIN
HOTELS & RESORTS®

Business life may have its ups and downs. But your long distance service shouldn't be one of them.



©1994 AT&T



There are days in business when it
els like you're riding a roller coaster.

Up one minute. Down the next. Facing uncertainty th every decision.

Which is why AT&T is changing the orld of business communications. e have always offered u the most reliable long stance service. Now, we're oing an important step further actually guaranteeing at reliability.*

Only AT&T guarantees at if your service ever es down, for any ason, it'll be ck in minutes. ot hours.

Right now, there are hundreds of forces beyond anyone's control that could bring your business communications to a grinding halt: equipment failure, human error, unforeseen acts of nature. For every problem that could reaten your business communications, AT&T is prepared th a solution. Our highly sophisticated network offers your business numerous alternatives to get your calls through. In fact, we give every call you make up to 134 routes to reach its destination.

Even if someone accidentally cuts one of our cables, you're covered. The unique AT&T FASTAR® restoration system will immediately locate the problem and begin rerouting your calls.

GUARANTEED
Network Reliability

In many cases, you won't even know a disruption has occurred. It will just be business as usual. We're so confident of our Network Reliability that if you are not satisfied with our restoration efforts, we'll pay for one day of long distance service.

If you're already with AT&T, Guaranteed Network Reliability is hard at work for your business. If you're not, and you're tired of the ups and downs of your long distance service, call

1 800 233-0800.

And get that rare feeling in the uncertain world of business: certainty.

mitations on coverage and remedies apply. Call for details

T&T. For the life of your business.℠

AT&T

BREITLING

1884

BREITLING
1884

CHRONOMAT

At a time when instruments routinely monitor flight data at Mach 1 miles above the earth, why continue improving mechanical chronographs? Precisely because there's more to time than technology! Just ask Breitling, the world's leading maker of time instruments for aviation professionals. Its intricately beautiful movements and lovingly hand-polished watchcases put technological progress in a broader, more rewarding perspective.

Like the *Concorde*, the world's first supersonic airliner but surely not the last, Breitling's Chronomat draws time and space ever closer – with both aesthetic excellence and outstanding technical performance.

Selfwinding mechanical chronograph calibrated to $\frac{1}{5}$th of a second.

30-minute and 12-hour totalizers.

Power reserve in excess of 42 hours.
Easy-to-read calendar.

Ratcheted, unidirectional rotating bezel with marker tabs.

Case water-resistant to 100 m (300 ft) with glareproofed cambered sapphire crystal; screwlocked crown and case back.

Steel, two-tone finish with 18 K gold tabs, steel and 18 K gold; choice of yellow or white 18 K gold.

Available with three types of leather strap and choice of tang-type buckle or folding clasp, or else with a "Pilot" or "Rouleaux" bracelet.

AUTHORIZED BREITLING AGENT:

WESTIME

EXTRAORDINARY WATCHES

Westside Pavilion - Third Floor
10800 Pico Boulevard
Los Angeles, CA 90064
(310) 470-1388

INSTRUMENTS FOR PROFESSIONALS

evelopments to Watch

TED BY NEIL GROSS

N THE KILLER ED PRODUCE ANCER CURE?

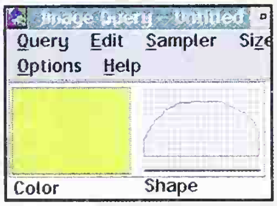
HE WAR AGAINST CANCER,
versity of Florida scien-
s have bucked stereo-
es and cast tobacco as a
. By tinkering with the
acco genome, professor
ert J. Ferl and research
ciate Paul C. Sehnke at
Institute of Food & Ag-
ltural Sciences forced the
nt to produce ricin, a
dly toxin that is found in
or beans. More poisonous
n cyanide or rattlesnake
om, the substance can kill
cer cells. The
blem is safeguard-
cells that remain
lthy.

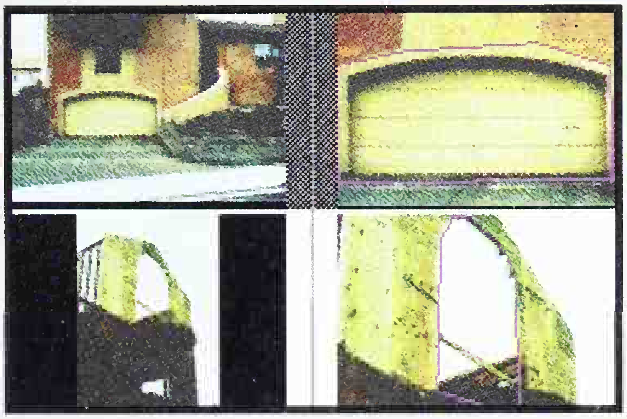
rior efforts to
luce the poison by
gging the gene
t codes for ricin
alternative animal and
terial hosts have failed.
toxin either killed the
t organism or was pro-
ed in a form that was un-
e to bind to cancer cells.
acco plants proved stur-
and easier to manipulate.
v, Ferl's team is trying to
ch tobacco-grown ricin to
bodies that will recognize
bind only to cancer cells.
l thinks that will take
ee to five years. Several
. pharmaceutical compa-
have expressed interest
elping tobacco turn over a
leaf.

IBM WANTS TO SOUP UP IMAGE FINDING

IMAGES ARE EXPLODING ON PERSONAL COMPUTERS, thanks to on-line shopping, MTV clips, and educational CD-ROMs. Unlike numbers and words, however, pictures are devilishly difficult to locate in databases. Consumers can browse through electronic catalogs that include product photos. But they can search only by using database queries and keywords, such as "apparel" or "appliance." Try calling up suits in a particular shade or pattern, and the system will draw a blank.

IBM wants to change all that. Its new software will let the PC user hand-tailor a search by sketching a pattern or shape with a mouse or selecting colors from a menu. Developed at IBM's Almaden Research Center in San Jose, Calif., the system—called QBIC, for Query By Image Content—creates precise mathematical "signatures" for myriad colors, textures, and shapes. You can still begin a search with standard database queries. Then, the system will go one step further, matching specific shapes and colors that you select—say, the yellow arches and doorways in the photo below. In addition to catalog companies, IBM is targeting ad agencies and hospitals. Next month, it will unveil an improved version running on Windows software as well as OS/2.

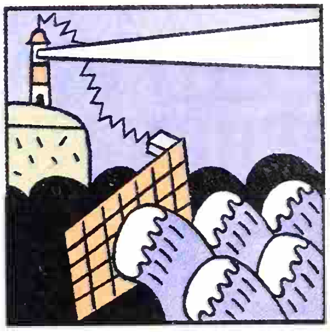



MIX AND MATCH: *QBIC searches by shape and color*

LECTRONIC DECODING OF HUMAN SCRAWLS

ERSONAL DIGITAL ASSISTANTS
ere supposed to become
dispensable. But the first
DAS, such as Apple's famed
ewton, had trouble mak-
g sense of less-than-per-
ect handwriting. The solu-
on, says Israeli inventor
hud Baron: Move the in-
elligence from the pad to
e pen. The 48-year-old en-
ineer has created an instrument—slightly larger than a fountain pen—with built-in sensors that are able to analyze the 12 to 14 movements that the hand makes during writing. A chip in the pen translates the sensors' signals into letters and displays them on the computer screen as printed text.

You break in the pen by writing the alphabet three times. The chip then creates a database of hand movements and corresponding letters. The pen can thus interpret writing motions on any surface—or even in thin air. Baron has licensed Electronic Associates Inc. in West Long Branch, N. J., to handle worldwide manufacturing and is aiming for a mid-1995 product launch.



A JOLT OF ELECTRIC JUICE FROM CHOPPY SEAS

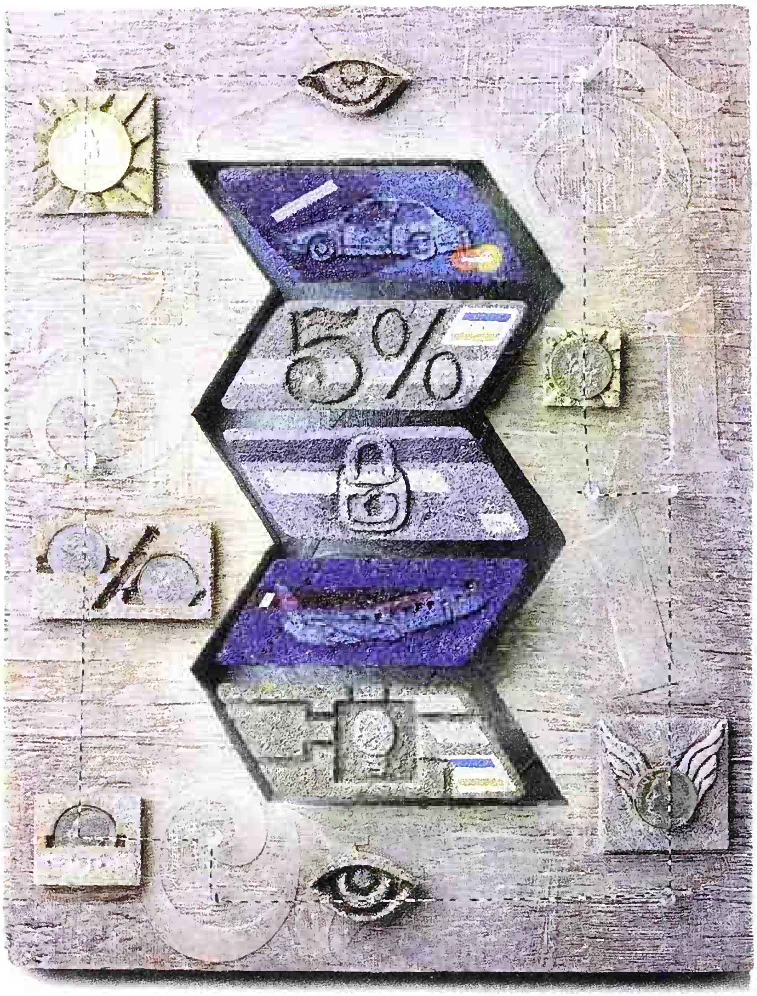
WAVE POWER ISN'T JUST FOR surfers anymore. Ocean Power Technologies Inc., a Princeton (N. J.) startup, is developing a system to convert the power of ocean waves into electricity through a so-called piezoelectric plastic. Such materials, already used in microsensors, generate electricity when physically strained. Ocean Power plans to laminate many sheets together and then hang them from rafts in the ocean. The sheets, which also will be anchored to the ocean floor, will stretch when a wave lifts the rafts. The strain will send electricity to attached electrodes. Customized gear will then convert the electricity into direct current.

Ocean Power's pollution-free energy plan differs from other wave-power schemes, which involve turbine generators or other moving parts that are easily fouled or corroded. AMP Inc. in Harrisburg, Pa., bought a stake in the company in October and will supply its piezoelectric film. AMP already sells the same film for use in motion, heat, and pressure sensors. Ocean Power hopes to make 1- to 100-kilowatt systems for small coastal communities, offshore oil rigs, and desalination plants by the end of 1996. The company is seeking licensees to manufacture multimegawatt systems to be used by utilities.

ILLUSTRATION BY MARIS BISHOFS

EDITED BY AMY DUNKIN

PLAYING YOUR CARDS RIGHT WHEN YOU USE PLASTIC



MARIA RENDON

CREDIT CARDS The 25,000 card offerings out there range from good deals to gouging

If, like many consumers, you plan to charge up a storm on gifts this holiday season, now is the time to make sure you're using the right credit card. Choosing among the thousands of offers for rebates or low-rate cards has gotten more complicated in the past two years. "You can save hundreds of dollars by making the right decision," says Ross Levin, president of Accredited Investors, a Minneapolis financial-planning firm.

Some of the rebate offers are so generous that you can make thousands back on your purchases over several years. Others offer more by way of gimmicks than rewards. At worst, the cards may entice you to rack up hefty balances and pay sky-high finance charges.

RAM Research in Frederick, Md., which tracks credit cards, estimates there are 25,000 different offers, with many banks promoting four or five deals to different consumers at the same time. This year alone, MasterCard has approved nearly 390 affinity programs (usually linked to a nonprofit organization) and co-branding deals (in which banks team up with car, oil, retail, or travel companies). This year's more-creative offerings include the Rolling Stones Visa, which gives discounts on the group's merchandise, and the South Orange (N.J.) MasterCard, which pays 1% of what you spend to the town coffers to keep taxes down.

Choosing a credit card purely on the basis of the rebate offered can be seductive, but it is a lot smarter to consider first how much the card will cost you. This is more difficult than merely checking the rate and the annual fee: You have to read the fine print.

It has become standard for cards to offer an introductory rate for the first year. Avoid cards that jump more than 7.9%, says Robert McKinley, president of RAM Research. Rebate programs typically charge higher rates than cards you can get elsewhere, so if you carry a balance, lo instead for the lowest-r card you can find. "Pe should be secondary," s Anne Morgan Moo president of Synergist Research, a market- search firm in Atlanta.

KEY WORDS. Check how nance charges are cal lated. Most cards use t "average daily balan method, so you effectiv lose the grace period new purchases as soon you carry a balance i the next month. Americ Express has brought t issue to the fore with Optima True Grace ca which has no fee and a day grace period on charges. But the card h been criticized, since ma consumers who carry balance would do better a lower rate card than tima, which jumps 16.5% after six mont Even people who do carry a balance need check provisions for nance charges. Some lo rate, no-fee cards, such Bank of New York's C sumers Edge, have grace period.

Another trick: Promis of huge credit lines m turn into a minuscule li it when the card arriv in the mail. "There are t little words to watch f 'up to,'" says Ruth Su wein, executive director Bankcard Holders America (BHA), a nonpr it consumer advocacy grou A promise that you qualify a credit line up to $10,0 might actually result in $1,000 spending cap. Als promises of no annual fee m be for only the first year or quire you to use the card a s nber of times each year.)nce you've figured out how ch the card will cost, you consider the gains from rebate program, which can substantial if you pay the lance each month and rge as much as possible to card. You can now pay h plastic for things you nev- could a few years ago: doc- 's bills, college tuition, mo- s, and groceries. Three rs ago, 500 supermarkets re accepting MasterCard. w, 12,000 take the card.

Cards that offer rebates to- rd cars and frequent-flier es can be the most lucra- . With the General Motors d, you can earn as much as 500 in rebates over five rs. Cards that offer cash k, such as the Discover rd, are the least generous. e less choice you have, the re dollars you're going to ," says Michael Auriemma, sident of Auriemma Con- ting Group in Westbury, Y. He uses NationsBank rt card, in which 1% of the t $5,000 spent is contribut- to an annuity. "I know I'm ng to retire," he says. "I don't know if I'll want to buy a GM car."

You have to factor in your spending habits, card costs, and the value of the rebates. BHA has done cost-benefit analysis for the major programs and various spending patterns. A typical spender has an annual charge volume of $2,200 and carries a balance of $1,100. With Citibank's AAdvantage card, this person would pay $233.15 in annual fee and interest charges and earn one-tenth of an American Airlines ticket in a year. But with the Federal Savings Bank card, a low-rate program with no rebates, the total cost would be only $125.62. Someone who charges $20,000 a year and pays off the balance in full would earn a free ticket, spend only $50 on the annual fee, and pay no interest charges, for a net benefit of $450, assuming a ticket costs $500.

To order BHA's analysis of frequent-flier programs as well as other major car, oil, and cash-back rebate programs, call 703 389-5445. The six-page brochure costs $5. Also for $5, you can order an issue of *CardTrack* (800 344-7714), a monthly consumer newsletter published by RAM Research.

CHURNING. For the most reward, you might combine several programs. One simple idea: Watch the maximum you can earn in each program and, when you max out on one, switch to another. But consumers devoted to finding loopholes, dubbed "gamers" by the card industry, have come up with more complex techniques. One of their favorites is to churn balances. Issuers make this easy by mailing balance-transfer checks with card offers. You can often earn double rebate points by charging purchases on one card and transferring the balance to another. Or, if you carry a balance, take advantage of a low introductory rate on one card and, when it expires, switch to a new low-rate offer. Even trickier: If you carry a balance but want to earn rebates, charge purchases on a rebate card, then transfer balances to a low-rate card. Wachovia Bank (800 842-3262), which charges the prime rate (currently 7.75%) for the first year, allows unlimited transfers.

To discourage card-hopping, some banks offer rebates to folks who carry balances. AT&T Universal Card, which has a rate of 17.65% for new members, awards one point for every dollar of monthly balance and 10 points for every dollar spent on phone calls in its discount program. Rewards based on balances are "problematic," says Susswein, since most people are better off with a low-interest card. But Mellon Bank's CornerStone card, which charges a 19.65% rate and promises to refund after 20 years all the interest paid, may make more sense than a low-rate card for customers who stick around.

One final point: When you're ready to cash in your rebates for a new car, be sure to negotiate a price before you mention the rebate. You would hate to have all those points faithfully accrued over the years get lost in negotiations. Credit cards can be convenient and rewarding, but you need to choose the right one and know how to play the game. *Amey Stone*

Some Credit-Card Deals

RD	FEATURES (SIMILAR CARDS)	INTEREST RATE*	ANNUAL FEE**
OLKSWAGEN VISA BNA AMERICA	5% rebate toward the purchase of a new Volkswagen. Yearly cap of $700 and five-year cap of $3,500. (Ford, General Motors)	16.65%	$20
HELL MASTERCARD HEMICAL BANK	Earn 2% toward gasoline purchase up to $70. After that, earn 1% on purchases. (Exxon, Quaker State, Sunoco, Citgo)	17.4	$20
ADVANTAGE VISA/ ASTERCARD CITIBANK	Earn frequent-flier miles toward a free ticket on American Airlines. (British Air, Alaska Airlines, Continental, Northwest, TWA, USAir, United)	17.15	$50
ROGER MASTERCARD FTH THIRD BANK	Spend $500 to $2,499 at Kroger's supermarkets and receive 1% back in Kroger shopping rebates. Spend more than $2,500 and earn 2% back.	16.15	none
ORNERSTONE MASTERCARD ELLON BANK	Interest charges are refunded fully when account is 20 years old or partially between 2 and 19 years.	19.65	none
E REWARDS MASTERCARD ARD GE CAPITAL	Offers coupons redeemable at 32 companies. Has a tiered rebate structure: Earn 0.5% when purchase up to $2,000, 1.5% up to $6,000.	18.65	none
PPLE COMPUTERS SA/MASTERCARD	Earn 2.5% on purchases up to $3,000 and 5% over that amount. Rebate capped at $500 a year; $1,500 over three years. Can donate rebate to schools.	16.65	$20
ISCOVER CARD EAN WITTER	Receive up to 1% cash back on purchases. Calculates interest based on average daily balance over two cycles, which may increase costs.	19.8	none

s of 11/14/94

**Many cards waive the annual fee for the first year or over certain balances.

DATA: RAM RESEARCH CORP., COMPANIES

A GLIMMER OF GOLD IN STEEL

SMART MONEY

It's awfully late in the recovery to be buying cyclical stocks—especially when the Fed is ratcheting up interest rates. Such thinking is pushing down steel stocks, even as Big Steel enjoys its biggest boom in 20 years. Industry leader U. S. Steel, for example, has seen its stock price tumble $9, or 20%, since reaching $44 in September.

So, is that it for the ferrous stocks until the next economic recovery? Maybe not. Growing demand for steel around the world is soaking up excess capacity and creating a tight market. The upshot could be spiraling prices in 1995. For Big Steel, which for much of the past decade has wallowed in rust-colored ink, this could mean soaring profits. And for investors, it could spell hot stocks. "Throughout 1995, it's going to be a very strong environment for these companies," says Peter Anker, metals analyst at NatWest Securities.

FINGERS CROSSED. Already, steel companies have announced price hikes averaging 4% that kick in on Jan. 1. With markets tightening and prices rising in Asia and Europe, they're widely expected to stick. Meanwhile, the industry is hammering out contract price hikes of 7% to 10% with auto makers. Those numbers may sound modest. But their impact on earnings is immense. For each 1% rise in steel prices, the average Big Steel company adds 30¢ to 50¢ per share in earnings. That could result, say analysts, in a 1995 earnings boost of 100% to 500%.

You can forget about the party if interest rates soar and growth stalls. But in an expanding economy, steel's prospects look stellar. After a decade of downsizing and modernizing, the industry is strong. It wiped out nearly a third of its aging capacity in the 1980s, and the cheap dollar is helping to make it competitive worldwide. Chrysler, for example, now ships coils of American steel to make Jeeps in Europe.

Which stocks should do best? Consider No. 3 steelmaker LTV. During seven years of bankruptcy that ended last year, LTV invested $2.5 billion in plants while discharging much of its debt. Now, LTV rolls sheet steel off its revamped mill in Cleveland at the industry's lowest cost. Thomas Van Leeuwen, steel analyst at CS First Boston, predicts earnings will grow from $1.15 per share this year to $2.85 next year, and the stock will rise.

The industry bellwether is the U.S. Steel group of USX. As the only steel stock that pays a dividend, now yielding 2.9%, it attracts the largest group of general investors. But they jump off in a hurry, as when USX stock fell $3 after announcing glum third-quarter results. Still, it should fare well in 1995. A cheaper stock is No. 2 maker Bethlehem Steel. Outages for maintenance have punished earnings this year. But Bessie should be rolling flat out next ye

For those thinking abc
dipping into smaller-c
stocks, National Steel and
Steel offer sizzling prospec
Price hikes boost Natior
more than any other compa
in the industry, with each d
lar rise in steel prices drivi
up earnings per share by 6
J. P. Morgan projects 19
earnings per share at $

which translates into a heac
multiple for a stock tradi
at $16. AK Steel, where Chi
Executive Thomas Graham
known as the Smiling Barr
cuda—has hacked costs to t
bone, boasts the highest o
erating profits per ton in t
industry. Issued just la
spring, its stock trades
NASDAQ.

MINI INVASION. Contraria
might want to take a look
the minimills—compani
such as Nucor and Birmin
ham Steel, which make ste
by melting scrap. Many inve
tors steer clear of them du
ing booms, since higher pri
es drive up the cost of scra
But the leading minis a
reaching into fresh market
Nucor is building new mir
mills and venturing into t
iron business, while Birmin
ham, with its purchase a
expansion of American Ste
& Wire, is busting into t
high-end market for aut
components.

Unlike the large integrate
companies, the minimills pe
form at their best in dow
markets. For those investo
who think the economy w
keep growing, however, B
Steel could provide tons of e
citement. *Stephen Bak*

JACQUES [illegible]

A Ton Of Possibilities

COMPANY	1994 EPS*	1995 EPS	COMMENTS
BETHLEHEM STEEL	$0.58	$3.38	Repairs have bitten into earnings, keeping stock cheap
BIRMINGHAM STEEL**	1.99	2.63	Pushing hard into higher-margin automotive steel
LTV	1.13	2.70	Emerged from seven-year bankruptcy with low debt, modern plants
NATIONAL STEEL	-0.18	3.92	When prices rise, its earnings per share soar higher than others
NUCOR	2.30	3.52	Stock is high, but Nucor hasn't had a losing quarter since 1965
U.S. STEEL GROUP	1.72	4.81	Only integrated steel company with a dividend

*Earnings per share estimates **Fiscal year ends in June

DATA: NELSON PUBLICATIONS

WORTH NOTING

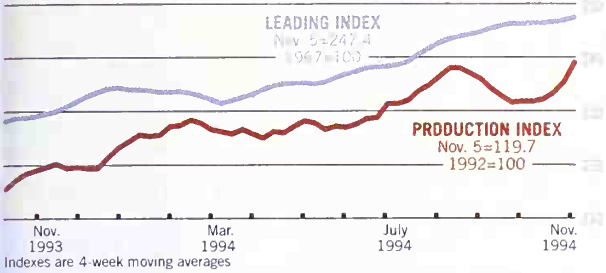
■ **PRU DEADLINE.** The deadline for submitting claims to Prudential Securities' settlement fund, set up to compensate clients for losses from limited partnerships sold during the 1980s, is Jan. 10, 1995. "Tens of thousands of investors" still haven't applied, says Wayne Klein, a director of the North American Securities Administrators Assn. Call 800 774-0700 for more information. The process is "fair, efficient, and investor-friendly," and you don't need a lawyer, Klein says.

■ **PHONE FRAUD.** Contact your local Better Business Bureau for two new booklets: *Tips On . . . Avoiding Telemarketing Fraud* and *Telemarketing Schemes and Scams.*

usiness Week Index

ODUCTION AND LEADING INDEXES

Change from last week: 1.5%
Change from last year: 9.1%



Indexes are 4-week moving averages

e **production index** rose for the week ended Nov. 5. Before calculation of the -week moving average, the index increased to 122.5, from 121.1. The advance ected higher output of lumber, trucks, and coal plus increased rail-freight traffic. e **leading index** also rose for the week ended Nov. 5. Before calculation of moving average, the index stood at 248.7, up from a revised 246.8. Faster wth in materials prices and real estate loans led the gain.

production index copyright 1994 by McGraw-Hill Inc. BW leading index copyright 1994 by CIBCR

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (11/12) thous. of net tons	1,892	1,880#	0.4
AUTOS (11/12) units	143,584	134,384r#	2.0
TRUCKS (11/12) units	124,580	124,609r#	10.6
ELECTRIC POWER (11/12) millions of kilowatt-hrs.	56,204	55,850#	0.2
CRUDE-OIL REFINING (11/12) thous. of bbl./day	14,891	13,462#	8.9
COAL (11/5) thous. of net tons	20,282#	20,502	6.7
PAPERBOARD (11/5) thous. of tons	900.9#	916.3	7.4
PAPER (11/5) thous. of tons	808.0#	828.0r	-4.9
LUMBER (11/5) millions of ft.	491.5#	480.9	3.2
RAIL FREIGHT (11/5) billions of ton-miles	25.2#	25.7	7.2

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

ADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
OCK PRICES (11/11) S&P 500	464.17	467.49	0.4
RPORATE BOND YIELD, Aaa (11/11)	8.74%	8.68%	26.3
DUSTRIAL MATERIALS PRICES (11/11)	109.3	108.9	16.3
SINESS FAILURES (11/4)	316	298	-7.3
AL ESTATE LOANS (11/2) billions	$448.6	$445.0r	7.7
NEY SUPPLY, M2 (10/31) billions	$3,549.6	$3,559.4r	0.9
ITIAL CLAIMS, UNEMPLOYMENT (10/29) thous.	322	324	-5.3

urces: Center for International Business Cycle Research (CIBCR), Standard & r's, Moody's, *Journal of Commerce* (index: 1980=100), Dun & Bradstreet (failures large companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on siness failures and real estate loans.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (11/16) $/troy oz.	386.250	383.600	3.9
STEEL SCRAP (11/15) #1 heavy, $/ton	138.50	133.50	0.7
COPPER (11/12) ¢/lb.	128.7	130.2	60.8
ALUMINUM (11/12) ¢/lb.	90.0	91.0	81.8
COTTON (11/12) strict low middling 1-1/16 in., ¢/lb.	70.84	69.79	25.4
OIL (11/15) $/bbl.	17.57	18.45	4.6

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

NTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
DERAL FUNDS (11/15)	5.59%	4.51%	3.03%
MMERCIAL PAPER (11/15) 3-month	5.78	5.73	3.40
RTIFICATES OF DEPOSIT (11/16) 3-month	5.82	5.72	3.33
XED MORTGAGE (11/11) 30-year	9.31	9.18	7.19
JUSTABLE MORTGAGE (11/11) one-year	6.24	6.07	4.25
IME (11/16)	8.50	7.75	6.00

urces: Federal Reserve, HSH Associates, Reuters Holdings

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (11/16)	98.41	97.77	108.10
GERMAN MARK (11/16)	1.55	1.53	1.71
BRITISH POUND (11/16)	1.57	1.60	1.48
FRENCH FRANC (11/16)	5.33	5.26	5.94
ITALIAN LIRA (11/16)	1589.4	1571.0	1675.0
CANADIAN DOLLAR (11/16)	1.36	1.35	1.32
MEXICAN PESO (11/16)[3]	3.451	3.424	3.120

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

---

aw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense ipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

ERAL BUDGET

sday, Nov. 22 ▶ The Treasury Dept. is ected to report a deficit of $37 billion October, the first month of fiscal 1995. t's the median forecast of economists veyed by MMS International, a division of Graw-Hill Inc. The expected deficit is an rovement from the $45.4 billion posted October. For fiscal 1994, the U. S. govment's deficit totaled $203.4 billion, the llest red-ink sum since 1989.

RABLE GOODS ORDERS

dnesday, Nov. 23, 8:30 a.m. ▶ New ors taken by durable-goods manufacturers bably increased by just 0.5% in October, cast the MMS economists. Bookings only rose 0.4% in September, but that followed a 6.5% jump in August. The increase is suggested by the solid gain in durable-goods output last month. The backlog of unfilled orders, however, likely slipped in October. They eked out a 0.1% gain in September, but in general, unfilled orders have been trending lower for most of the year.

UNEMPLOYMENT CLAIMS

Wednesday, Nov. 23, 8:30 a.m. ▶ New filings for state unemployment insurance benefits probably stood at a 325,000 pace for the week ended Nov. 19, little changed from the 330,000 level in the week of Nov. 5. Claims have come down appreciably since the second quarter. They were averaging about 350,000 in the spring but have fallen steadily since then. Better hiring and fewer layoffs at large corporations have kept claims down.

EXISTING HOME SALES

Friday, Nov. 25, 8:45 a.m. ▶ Sales of existing homes probably fell to an annual rate of 3.75 million in October. Resales have remained rather sturdy this year, despite a rise of almost two percentage points in fixed-mortgage rates. Still, some slowing is evident. Resales slipped to a 3.97 million pace in the third quarter from an average of 4.06 million in the second. Now, the increased cost of borrowing should take a bigger toll on home buying.

Whaddya Say To A Guy Who's Had The Same Job For 50 Years, Has Never Called In Sick Or Showed Up Late, Never Taken A Vacation Or A Holiday, Never Asked For A Raise Or Griped About His Bonus And, Believe It Or Not, Has No Plans For Retirement?

Thanks.

Remember - only you can prevent forest fires.

Ad Council A Public Service of the USDA Forest Service and Your State Forester

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A
ABB 62, 68
Accredited Investors 150
Acer 88, 156
Actava 108
AEG 68
Affiliated Managers 152
Agip 6, 70
AK Steel 152
Alaska Airlines 88
Alcatel Alsthom 62
Alfa Insurance 83
Alitalia 72
Allied Stores 116
Allstate Insurance 59
American Airlines 150
American Express 150
American International Group 62, 68
American Steel & Wire 152
America Online 92
Amoco 70
AMP 149
Anheuser-Busch 59
Anthony Forest Products 104
Aoki 71
Apple Computer 88, 92, 96, 149
Arizona Public Service 59
Asahi Bank 116
AST Research 88
AT&T 62, 150
Autogrill 6
Avis 143

B
Bankers Trust 59
Bank of New York 150
Bank of Tokyo 68, 71
Barclays de Zoete Wedd 72
Bausch & Lomb 59
Bechtel 62
Bergdorf Goodman 116
Bethlehem Steel 112, 152
B.J. Greenwald 152
Black & Veatch 62
Bloomingdale's 116
BMW 83
Boeing 101, 112
Bosch-Siemens Hausgerate 98
Boston Co. 152
British Airways 72
British Gas 70
British Petroleum 70
Brother Industries 96
Bucyrus-Erie 6

C
Canon 96
Carrefour 88
CBS 116
Chanel 116
Charles Schwab 48
Charoen Pokphand 62
Chase Manhattan Bank 92
Chicago Corp. 152
Chiron 54
Chrysler 32, 54, 112, 152
Ciba-Geigy 54
CIT Group 12
CMS Energy 62
Columbia Pictures 58
Compaq Computer 88, 96
CompuServe 92
Conoco 70
Consolidated Engineering 104
Consumers Power 62
Continental Cablevision 16
Corange 54
CS First Boston 152
Cyrk International 108

D
D'Arcy Masius Benton & Bowles 59
Daimler Benz 62
Dataquest 88
DDB Needham Worldwide 59
Dean Witter Reynolds 32, 104
Delco Electronics 143
Dell Computer 88
Deloitte & Touche 43
Discovery Communications 56
Discovery Zone 59
Dowa Mining 71

E
Ekran 62
Electricity Generating 62
Electrolux 98
Electronic Associates 149
ENI 70
Entertainment Data 58
Equitable Bag 6
Ericsson (L.M.) 68
Exhibitor Relations 58
Express One International 101
Exxon 59, 70

F
Federal Savings Bank 150
Federated Department Stores 116
Fluor 62
Ford 48, 83, 112
Fox 56, 58
Fuji Bank 71

G
Gap 52
Gazprom 70
GE 32, 59, 62, 68, 98, 112
GEC-Alsthom 62
Genentech 54
General Mills 59
Gibson Greetings 59
Gibson, Dunn & Crutcher 83
Glaxo 54
GM 59, 112, 143, 150
Goldman Sachs 62
Greiner Engineering 62
Greyhound Lines 6
GTE 62

H
Hewlett-Packard 25, 96
Hilton Hotels 83
Hitachi 62
Hoechst 54
Honda 71
Hopewell Holdings 62

I
Iberia 72
IBM 62, 96, 149
Independent Life & Accident Insurance 83
Industrial Bank of Japan 62
Industrias Peñoles 71
Inteco 88
Intel 25, 88, 96
Intuit 88, 92
Itochu 71

J
J.P. Morgan 54, 152

K
Kelvinator 98
Kemper Securities 98
Kinetica 70
Kleinwort Benson 70

L
Leaps & Bounds 59
Liberty Financial 152
Life Insurance Co. of Georgia 83
Link Resources 88
Lockheed 51
LTV 152
Lufthansa 72
Lukoil 70

M
Macy (R.H.) 6, 116
Mars 108
Martin Marietta 143
MATRA 62
Matsushita 71, 143
May Department Stores 116
Maytag 98
MCA 58
McDonald's 6, 59, 83
McGraw-Hill 1, 96, 153
Mellon Bank 150
Merchant Capital 104
Mercury Finance 83
Merrill Lynch 62
Metropolitan Life Insurance 32
Microsoft 88, 92, 96
Mission Energy 62
Mitsubishi 62, 71
Mitsui 71
MMS International 153
Mobil 70
Morgan Stanley 62
Morrison Knudsen 62
Motorola 62, 96, 143

N
National Semiconductor 25
National Steel 152
NationsBank 104
NatWest Securities 152
NEC 25, 62
Neiman Marcus 116
New Line Cinema 58
Newport Asset Management 152
Niagara Mohawk Power 59
Nissan 71
Northern Telecom 62
Northwestern Mutual Life Insurance 83
Nucor 152
Nynex 62

O
Ocean Power Technologies 149

P
Packard Bell 88
PaineWebber 59
Paramount Pictures 58
Peregrine 62
Petroleum Finance 7
Petróleos Mexicanos
Pfizer 54
Pharma Vision 2000
Philip Morris 108
Philips Electronics 9
Pizza Hut 58
PowerGen 70
Powersoft 59
Price 88
Procter & Gamble 16 59, 92
Provident Investment Counsel 152
Prudential Insurance
Prudential Securities 116, 152
Purvin & Gertz 70

R
RAM Research 150
Rhône-Poulenc Rorer
RJR Nabisco 58
Roadmaster Industries 108
Roche Holding 54
Royal Dutch/Shell 70
Ruhrgas 70
Ryan's Family Steak Houses 108
Ryanair 72

S
Saab 68
Sabena 72
Saks Fifth Avenue 11
Salomon Brothers 6
Sandoz 54
Sanwa Bank 62
Sanyo 71
Sears 59, 83, 88
Siemens 62, 143
Smith Barney 54
SmithKline Beecham
Sony 58, 71, 143
Southwest Airlines 72
Sybase 59
Synergistics Research 150

T
TA Associates 152
Tandy 88
TAP 72
Tayoun Associates 6
Texaco 70
Time Warner 56
Toshiba 62, 68, 71
Tracinda 54
Tri-Star Pictures 58
T. Rowe Price 88
Trust Company of the West 54
Tyson Foods 16

U
United Asset Management 152
Universal Pictures 58
USA Networks 56
USX 112, 152

V
Virgin Atlantic 72

W
Wachovia Bank 150
Walt Disney 58
Warner Bros. 58
Wertheim Schroder 11
Westinghouse 62
Whirlpool 98
Wyatt 112

Z
Zexel 143

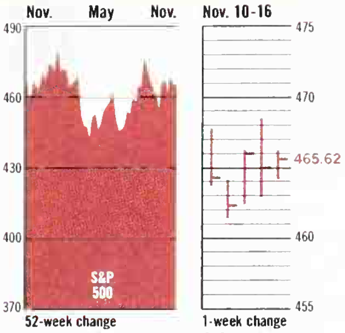
Business Week (ISSN 0007-7135) published weekly, except for one issue in January, by McGraw-Hill Inc. Executive, Editorial, Circulation, Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate $46.95/year, Canada: CDN $69/year. Secc class postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Product Sales Agreement No. 246484 Postmaster Send address changes to BUSINESS WEEK. P.O. Box 430, Hightstown, N.J. 085

nvestment Figures of the Week

MENTARY

ıs continue to confound the ex-
. Despite the severe tightening
terest rates by the Federal Re-
on Nov. 15, shares closed up
ie week. European markets were
strong, especially in London.
n, however, seems to be stuck in
oldrums, as investors, both do-
ic and foreign, are shunning
market. If long rates in the U.S.
move much above 8%, we
l see a major stock market rally.
that the four technical indica-
on this page all point to go.

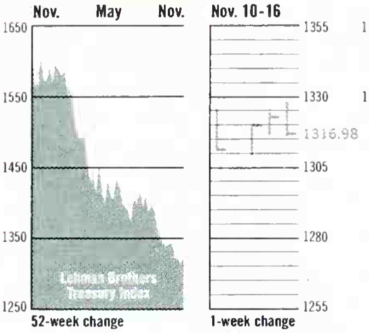
STOCKS



52-week change +0.2%

1-week change 0.0%

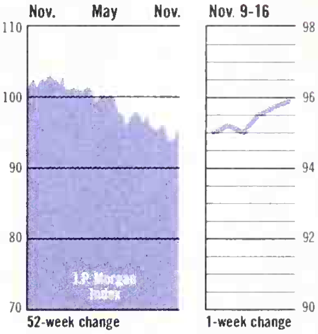
BONDS



52-week change −17.5%

1-week change +0.1%

THE DOLLAR



52-week change −5.2%

1-week change +0.9%

ARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
JONES INDUSTRIALS	3845.2	0.4	3.8
IZE COMPANIES (S&P MidCap Index)	173.1	–0.4	0.0
L COMPANIES (Russell 2000)	250.5	–0.5	–1.3
COMPANIES (Russell 3000)	267.0	–0.1	–0.1

EIGN STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
ON (FINANCIAL TIMES 100)	3146.5	1.5	0.8
O (NIKKEI INDEX)	19,306.7	–0.6	6.6
NTO (TSE COMPOSITE)	4171.7	–0.5	–1.5

FUNDAMENTALS	Latest	Week Ago	Year ago
90-DAY TREASURY BILL YIELD	5.51%	5.34%	3.16%
30-YEAR TREASURY BOND YIELD	8.09%	8.11%	6.18%
S&P 500 DIVIDEND YIELD	2.74%	2.77%	2.71%
S&P 500 PRICE/EARNINGS RATIO	17.3	17.3	22.7

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	459.8	460.1	Positive
Stocks above 200-day moving average	32.0%	33.0%	Positive
Speculative sentiment: Put/call ratio	0.71	0.76	Positive
Insider sentiment: Vickers sell/buy ratio	1.42	1.45	Positive

BLOOMBERG FINANCIAL MARKETS

NDUSTRY GROUPS

R-WEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
EMICONDUCTORS	9.9	13.0	NATIONAL SEMICONDUCTOR	24.6	4.3	$18\frac{3}{8}$
OMPUTER SOFTWARE	7.6	16.1	NOVELL	15.6	–19.6	$18\frac{1}{2}$
ESTAURANTS	7.5	3.4	RYAN'S FAMILY STEAK HOUSES	12.5	–15.6	$6\frac{3}{4}$
OMMUNICATIONS EQUIPMENT	7.5	20.0	CISCO SYSTEMS	20.1	19.1	$33\frac{3}{16}$
PECIALTY APPAREL RETAILERS	7.2	–17.9	THE LIMITED	13.7	–7.8	$20\frac{3}{4}$

R-WEEK LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
ANUFACTURED HOUSING	–13.9	–9.0	FLEETWOOD ENTERPRISES	–14.3	–14.3	$19\frac{1}{2}$
APER CONTAINERS	–13.2	9.6	STONE CONTAINER	–21.7	55.6	$15\frac{3}{4}$
OMEBUILDING	–12.1	–46.1	PULTE	–16.7	–47.0	$18\frac{3}{4}$
EISURE TIME	–10.2	2.5	OUTBOARD MARINE	–25.8	–3.4	18
AVINGS AND LOANS	–9.7	–5.3	H.F. AHMANSON	–13.0	–6.7	$17\frac{1}{2}$

UTUAL FUNDS

MORNINGSTAR INC

DERS

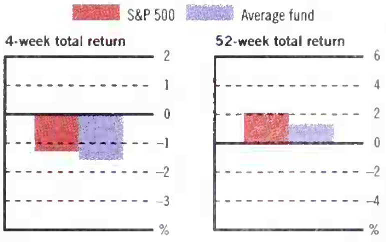
-week total return	%
ELIGMAN COMMUNICATIONS & INFORM. A	6.3
LLIANCE TECHNOLOGY A	5.2
BHG EMERGING GROWTH	5.1

eek total return	%
ELIGMAN COMMUNICATIONS & INFORM. A	40.0
T INVESTMENT LATIN AMERICAN EQUITY	36.8
T. LATIN AMERICA GROWTH A	33.4

LAGGARDS

Four-week total return	%
CGM CAPITAL DEVELOPMENT	–9.4
FIDELITY SELECT PAPER & FOREST PRODUCTS	–9.1
CAPPIELLO-RUSHMORE GOLD	–8.4

52-week total return	%
MONITREND GOLD	–51.4
AMERICAN HERITAGE	–34.8
STEADMAN OCEANOGRAPHIC TECHNOLOGY	–33.1



ELATIVE PORTFOLIOS

DRI/McGRAW-HILL

ar amounts represent the
ent value of $10,000
sted one year ago
ach portfolio

entages indicate
day total returns

Foreign stocks	Money market fund	Gold	U.S. stocks	Treasury bonds
$12,103	$10,349	$10,264	$10,176	$9,010
–0.98%	+0.10%	+0.53%	–0.14%	+1.39%

ata on this page are as of market close Wednesday, Nov. 16, 1994, unless otherwise in-
ed. Industry groups include S&P 500 companies only; performance and share prices are as of market close Nov. 15. Mutual fund returns are as of Nov. 11. Relative portfolios are valued as of Nov. 15. A more detailed explanation of this page is available on request. r=revised

THE CHOICE: MIDDLE GROUND OR QUICKSAND

Who lost the political middle, where the vast majority of Americans prefer to be governed? Two years ago, the Democrats won elections by capturing this center with their New Democrat platform of middle-class tax cuts, reinventing government, reforming Congress, and cutting the budget deficit. They then lost it by lurching left on gays in the military, a big-government solution to health care, and raising taxes on the rich. The Republicans have just won with very similar promises packaged in much more conservative body language. Yet they, too, are already in danger of losing the middle ground as fringe voices demand criminalizing abortion, "voodoo-izing" economics, returning to isolationism, bashing immigrants, and blaming poverty on low IQs (page 46).

The sad truth is that many politicians, Democrat and Republican, still don't get it. Economic conservatism and social libertarianism are the new center of American politics. Poll after poll shows Americans wanting smaller government, lower taxes, and more money husbanded for their families. People, especially white-male heads of families taking the brunt of corporate downsizings, say they need greater resources to deal with the transition to the global, competitive Information Age. Until government shows it can deliver on services, they need to buy their own.

Nowhere is there a call for more government in people's personal lives. Just the opposite. Republican governors, who now run the largest states of the union, know this as they cut spending, reform welfare, and lower taxes. If the Republican Party gets hijacked at the national level and substitutes a message of morality for opportunity and inequality for upward mobility, it will loose the center and surely fail.

Unfortunately, there isn't much middle left in Washington. Political discourse is increasingly the language of tremism. In the past election, many moderate Democr were defeated. Minority liberals, gerrymandered into s districts, were reelected, tilting the Democrats to the l Ideologically conservative politicians replaced both De crats and moderate Republicans, thus tilting the GOP furt to the right.

What is to be done? If they are to govern effectively, deed, if at all, both the Republican Congress and the De cratic President must restrain their extremists. The policy quirements are clear: End the programs that promot society of entitlements, rights, and redistribution and place them with legislation that builds opportunity, resp sibility, and incentives.

Then apply an even hand in curtailing spending progra Calls to disband the Education Dept. but not the Agric ture Dept. won't do. Nor will voodoo economics redux. T cuts should be paid for dollar for dollar by spending cuts return to supply-side fantasy is already spooking the bo markets, which fear higher deficits all over again. The tellt signs of Republican seriousness in the months ahead will cuts in subsidies to farming and ranching, campaign and l by reform, caps on future Medicare and Social Security spen ing, passing the General Agreement on Tariffs & Trade, a funding a middle-class tax cut.

The amazing shrinking political center threatens to gridl Washington yet again. Unless politicians seek the mid ground, fragmentation of the political system will soon refl the growing fragmentation of American society. This may the last chance for Republicans and Democrats to lead t country into the future. If they blow it, others will step for

A DEMOCRATIC MODEL MADE IN TAIWAN

Much has been made of the "Asian way" of development—authoritarian, hierarchical, and controlled. Singapore cites itself as illustrating how such a political system fosters economic growth while other societies, emphasizing individual rights, founder. To many in Asia, the caning of an American teenager in Singapore for allegedly vandalizing cars spotlighted the dichotomy between culture and democracy.

At the Asia-Pacific Economic Cooperation group, President Clinton might well have pointed to a second model of Asian development, one based on democracy. In Taiwan, a vigorous three-party campaign for December elections proves that even in cultures with strong families and conservative values, democracy goes hand in hand with economic growth. Taiwan shows that as Asia moves into the digital era, the free flow of information also plays a critical role for growth.

Just seven years ago, Taiwan was a one-party state under martial law. It had all the earmarks of a command economy, with the government dominating economic decisio and the party insinuating itself into everyone's personal liv Today, this island of 21 million people is poised to elect the pr vincial governor and mayors of its two biggest cities, setti the stage for the first direct presidential election, in 199

The campaign shows how the path to democracy and the I formation Highway are merging. Candidates are using un censed cable and radio to reach voters. Over a hundred cab companies have formed a consortium to air campaign news counter the biased coverage of the state-controlled TV statio

In its drive toward a more democratic society, Taiwan h also succeeded in making itself an Asian hub for the new di ital age. It is already a software center for the Chinese-spea ing world. Its family-run companies such as Acer Inc. a significant players in global computer and electronics market Plus—its citizens are free. Not a bad model for Asia. Not bad model for the world.

MCI AND BRITISH TELECOMMUNICATIONS INVITE YOU TO PLUG INTO THE FIRST GLOBAL NETWORK.

agine a communications network where ery branch office of your company is in ice, data, and video contact with every her branch office. And a network that ovides access to all of your clients, as well.

Now imagine having this global network stalled, configured, customized, and mpletely functional without having to orry about a thing.

And imagine this entire net- ork managed at a single point contact so any questions can answered at any time of the day or night by speaking with someone who knows your system intimately. What you're imagining is a reality. It's called Concert Virtual Network Service. And it's available today.

MCI® and British Telecommunications have joined forces to create the first truly global, seamless virtual network service that connects your offices throughout the globe.

So call us at 1-800-333-3939 and find out more about Concert VNS.

It's a communications breakthrough of global proportions.

CONCERT™

Global Communications from BT and MCI

1-800-333-3939

ncert is a mark of Concert Communications Company. BT is a registered trademark of British Telecommunications, plc. MCI is a registered service mark of MCI Communications Corporation.

PRIME SEATS ARE STILL AVAILABL FOR THE SPORTING EVENT OF THE YEAR.

*Based on MSRP comparison of base Taurus vs. the leading sellers in its class.
**3 years/36,000 miles. See dealer for details.

IDE ►THE GATT FIGHT

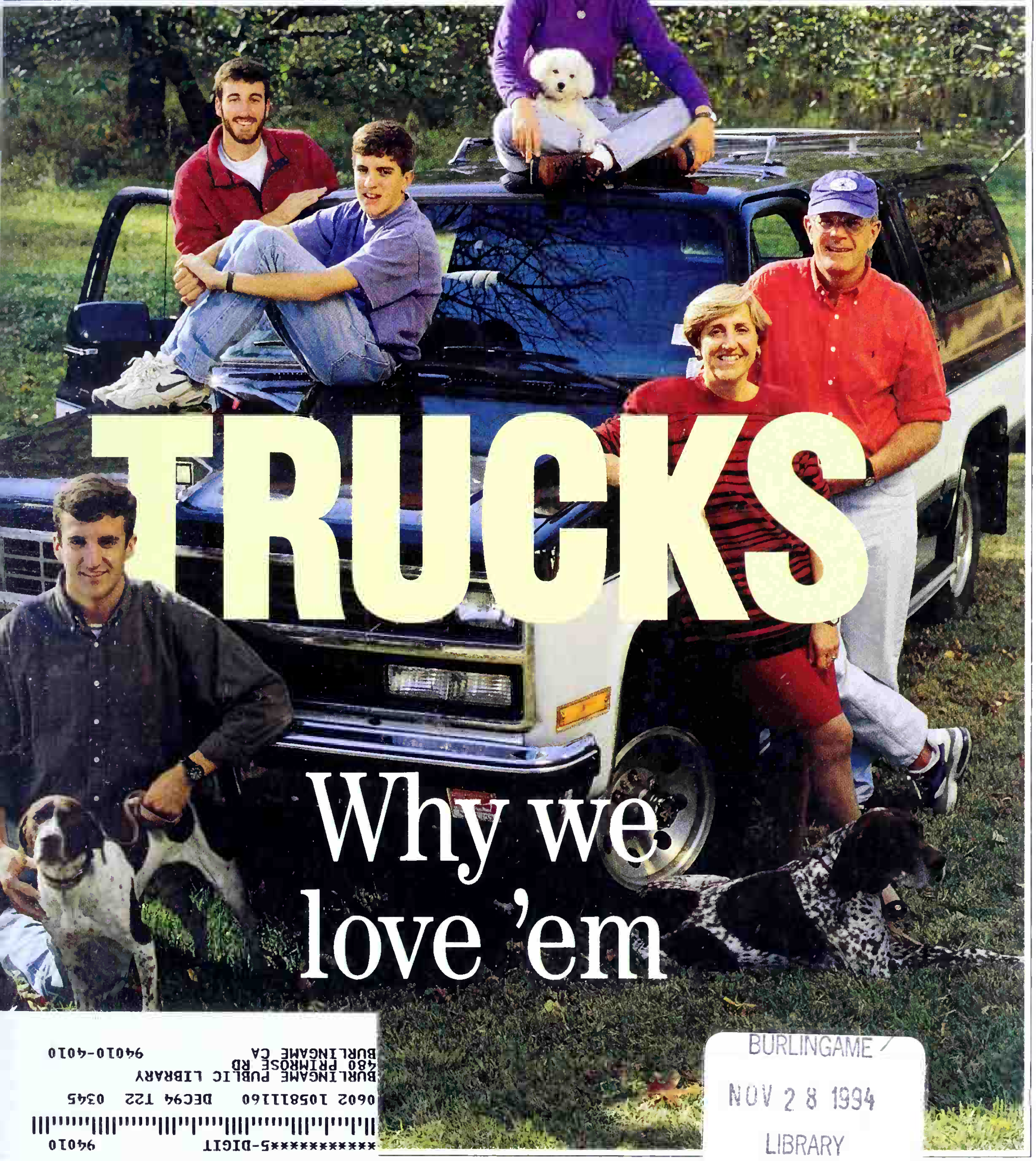
HIGH TECH ►CELLULAR'S NEW RIVAL

SS WEEK
ecember 5

BURLINGAME PUBLIC LIBRARY
3 9042 03747935 6

BusinessWeek

MBER 5, 1994
A McGRAW-HILL PUBLICATION / $2.95



TRUCKS

Why we love 'em

***********5-DIGIT 94010
0602 10581160 DEC94 122 0345
BURLINGAME PUBLIC LIBRARY
480 PRIMROSE RD
BURLINGAME CA 94010-4010

BURLINGAME
NOV 28 1994
LIBRARY

The sleek shape of the new LS 400 has a thorough disregard for the elements. (As demonstrated respect for its passengers. (As evidenced in an additional 5 cubic feet of cabin space.) An entir

DAT

IT'S THE MOST

AERODYNAMIC CAR

SOLD IN AMERICA.

(Where did our engineers get their second wind?)

oefficient of drag of 0.28.) Not to mention the utmost
w LS 400. A new journey. Inquiries, 800·872·5398.

LEXUS
The Relentless Pursuit Of Perfection.

MERCURY MARINE • US MARINE BAYLINER • SEA RAY • BRUNSWICK MARINE • THE M

We’ve been building for t

1995 marks a milestone in the history of Brunswick our 150th anniversary And, while only a handful of companies have ever reached such a landmark, to us it is more than a great achievement. It's a great beginning

150 years and stronger than ever.

BRUNSWICK
Values
LEADING THE WAY
BC
BRUNSWICK
CORPORATION
150
SINCE 1845

The history of the small billiards manufacturing company that John Brunswick began in 1845 is inextricably mixed with that of America Since our founding in 1845 we have survived and prospered during seven wars, The Great Depression, numerous recessions, a bitter takeover battle, and 32 presidential administrations.

Certainly it takes a rare set of circumstances for a company to see a 150th anniversary And it's a testament to a corporation's courage, character and commitment. Today, these same qualities are why Brunswick is a vital, global corporation. With 200 facilities in 34 states and over 15 countries, and a network of more than 34,000 dealers worldwide.

A leader in recreation and leisure.

Throughout its 150-year history, Brunswick has weathered many changes. It has seen good times and bad Explored new areas of business and technology. Experienced growth and cut backs. And through it all, we have become a world leader in recreation and leisure – number one in marine power, recreational boating, bowling, fishing, billiards and a growing force in the manufacture of golf shafts.

A heritage of values.

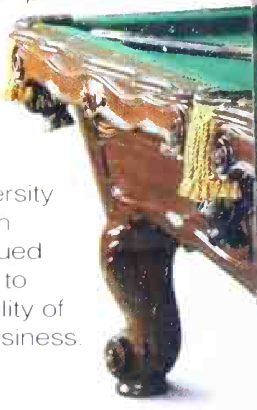
We have maintained a vigilant adherence to our corporate values ***Quality*** – V will be the highest quality producer in ev market we serve or we won't be in that business; ***Serving Customers*** – Custom satisfaction is an absolute for long-term success; ***Our People*** – We provide an e ronment where our people can realize a sense of personal dignity and trust in management. To that end, we instituted the Brunswick Employee Stock Ownership Pla in 1983. And we've distributed shares to o employees every year since then.

A global perspective.

We're proud to be an American comp ny and the leader in industries which provide millions of American jobs. Many of those jobs have been created as a result the significant inroads we've established international markets. Our marine product alone are sold in over 100 countries. And our bowling business has enjoyed unprec dented growth internationally, particularly Asia and Latin America.

150 years of experience.

We have an advantage few companies can match: a 150 year experience base. It's the kind of know-how that equips us to effectively and strategically plan for our future. One such strategy is our focus on a well-balanced diversity of marine and recreation businesses, with continued growth in consumables to offset any future cyclicality of our boat and engine business.

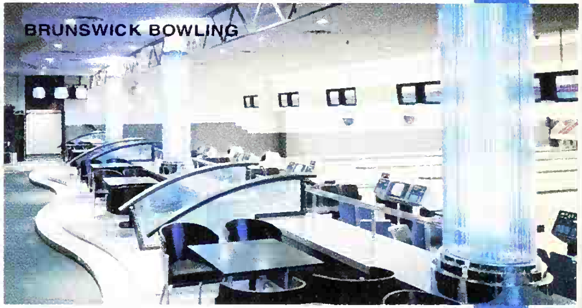


• ZEBCO • BRUNSWICK BOWLING/BILLIARDS/GOLF • BRUNSWICK RECREATION CENTERS

ture for 150 years.

MERCURY MARINE

SEA RAY


BRUNSWICK BOWLING

US MARINE/BAYLINER

It's just the beginning.

The future of Brunswick looks bright. We have a diverse e of superior products, the equity of outstanding brand ımes, excellent distribution, a seasoned management team, ıd a strong balance sheet and balanced portfolio. All of ıich will continue to position Brunswick as a global leader.

Add to this, the intangibles of quality, pride and commitent that have been infused in our company since its very ception and you'll know why we look upon our 150th nniversary as not so much a milestone than as a marker for e beginning of our ***next*** 150 years.

Leading The Way Since 1845

THE COMPANIES OF
BRUNSWICK
ARING THE HERITAGE OF BEING NUMBER ONE.

ith our compliments!
specially prepared chronicle of
ır 150-year history including
profile of today's Brunswick.
end for your free copy, write to:
runswick Corporation
0th Brochure
ne N. Field Court
ake Forest, IL 60045-4811

Jack F. Reichert
Chairman, President and
Chief Executive Officer

ZEBCO

© 1994 Brunswick Corporation

BusinessWeek
DECEMBER 5, 1994

COVER STORY

The O'Donnells are typica
in one obvious way: They
own a 4x4. America's new
love affair is the truck
page 70

Cover Story

70 WHY WE LOVE TRUCKS
They're tough, they tow, they're hip. Hip? That's right. Even those who could be behind the wheel of a Rolls are choosing to drive a sport-utility, a pickup, or a minivan. From Sunset Boulevard to the canyons of Manhattan, the country just keeps on truckin'

81 LEAVING JAPAN IN THE TRUCK DUST
There is a reason that it is still playing catch-up in the hottest segment of the American auto industry

News: Analysis & Commentary

34 IT'S SHOWDOWN TIME
A new crop of Republicans would love to embarrass the President on GATT, but the deal may squeak through Congress

36 SIR JIMMY JOUSTS AT GATT
Goldsmith's new book argues that free trade will unleash worldwide social upheaval

ON THE COVER The Farrell Family of Katonah, N.Y.; (Clockwise from bottom left) "Lady," Vinny, Joseph, Christopher, "Daisy," Nina, Vince, Clotilde, and "Charlie" with their 1990 Chevy Suburban

37 COMMENTARY
How free-trade advocates can sell the General Agreement on Tariffs & Trade to a worried middle class

38 WELCOME TO THE INTERNEWT
Newt Gingrich has big plans for the Information Superhighway that go far beyond electronic town meetings

40 PROFITS ARE SURGING. NOW WHAT?
Corporate America's latest problem: Figuring out the best way to spend all its newfound cash

42 UNITED: MANY CUTS, LITTLE RELIEF
Spiraling nonlabor costs at United Airlines are keeping the employee-owned carrier from its destination

44 SONY'S HOLLYWOOD HEARTACHES
Four traps that the Japanese giant stumbled into—and that other players have managed to avoid

46 IN BUSINESS THIS WEEK
Kemper, mayhem in the market, Chapter 11 for Hayes Microcomputing, a new safety chief for USAir, Mighty Morphin Power Rangers, Beijing's Big Macs, Haagen-Dazs disinformation

International Business

52 LATIN AMERICA
The region's countries and comp
banding together to promote fre

54 COMMENTARY
How the Americas can make the
the summit in Miami

56 MEDIA
Gutsy Hong Kong media mogul J
Lai even takes on the Chinese

61 INTERNATIONAL OUTLOOK
Anger over his Bosnia stand has
rolling up the red carpet for Clint

Economic Analysis

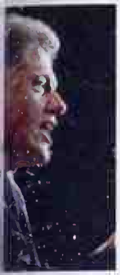
24 ECONOMIC VIEWPOINT
Becker: Congress, set the phone
companies free

26 ECONOMIC TRENDS
Corner shops thrive, Europe's lab
costs dip, bond rates, office rents

31 BUSINESS OUTLOOK
You can't blame trade for the econ
troubles

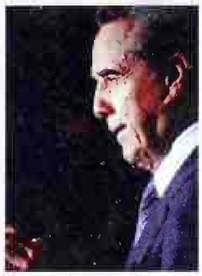
COVER PHOTOGRAPH BY JOHN S. ABBOTT. PHOTOGRAPH ABOVE BY ROBERT HOLMGREN

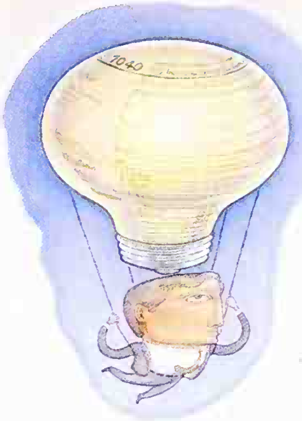
‘DELAY WOULD MEAN DEATH’



The GATT accord is hanging by a thread in Congress, but fear of failure might just get it passed

page 34





TAXES

As the year winds down, it's time to make sure your tax plans are in order. Here are some tips that may help ease the pain in April

page 112

WAIT FOR NAFTA?

n American nations are teaming up to push free trade—with or out cooperation from Washington page 52

TOUGH GRANDMA

Can Gertrude Boyle duplicate the U.S. success of Columbia Sportswear abroad?

page 111

overnment

SHINGTON OUTLOOK
n Kasich, “root canal” Republican
K REFORM'S SPLIT PERSONALITY
pitol Hill's new tax czars, Archer and
kwood, are on different wavelengths

e Workplace

EBRAND FOR THE UAW
ugh-talking Stephen Yokich may
e over the union soon

e Corporation

IO'S AFRAID OF J&J AND 3M?
t tiny surgical-mask maker Tecnol.
re's a lesson in how a small company
compete—and win
W U.S. SURGICAL SLIPPED
et Johnson & Johnson catch up

nance

FFERING MORTGAGE BANKERS
at a difference a year—and rising
erest rates—can make
UNTRYWIDE'S NARROWING ROAD
ady growth dies with the refi boom
84 WHY SPIN-OFFS ARE SO SUCCESSFUL
Often they're better than mergers
86 BANC ONE FACES A ROCKY ACT TWO
It's closing branches and laying off workers, but Wall Street is skeptical
92 INSIDE WALL STREET
Could these cats pounce on Mickey?
“Buyout bait” in biotech
Hopping aboard the RV revival
121 INVESTMENT FIGURES OF THE WEEK

Sports Business

94 THE NBA'S FAST BREAK OVERSEAS
David Stern is racking up points

Information Processing

15 TECHNOLOGY & YOU
100 IBM BUILDS A LANE ON THE I-WAY
It wants its new on-line network to become the “businessperson's Internet”
104 WIRELESS LOOKS PRICEY
A frenzy for licenses may hike bids—and cut into the industry's profits
105 CONNECTING THE DOTS
A plan to link small PCs bidders

Science & Technology

107 DEVELOPMENTS TO WATCH
108 DRUGS FROM SMOG?
Nitric oxide may be key to myriad cures

Marketing

111 OUTERWEAR TO WARM THE WORLD
Gertrude Boyle's Columbia Sportswear is making a bundle using zany ads

Personal Business

112 TAX TIPS: Plan now for a sunny April
SMART MONEY: Trust-fund rules
TRAVEL: The joys of Jordan

Features

8 UP FRONT
12 READERS REPORT
12 CORRECTIONS AND CLARIFICATIONS
18 BOOKS
119 BUSINESS WEEK INDEX
120 INDEX TO COMPANIES
122 EDITORIALS
How to conquer feat of GATT
Let the Latin market flourish

Up Front

EDITED BY PETER COY & JULIE TILSNER

PAPER PLAYS

WASSERELLA'S NEW GENEROSITY

WASSERSTEIN: *Lower fees*

WASSERSTEIN, PERELLA & Co., faced with a near-revolt by angry investors in its poorly performing, $1 billion leveraged-buyout fund (BW—Oct. 10), has decided to alter the fund's terms. The highly unusual concessions, announced to investors in a Nov. 10 letter, could eventually save the investors tens of millions of dollars.

Wasserstein executives say they were simply trying to earn goodwill from investors and update terms of the 1988 fund to prevailing LBO-industry practice. But sources close to the situation contend that Wasserstein made the changes to stave off a lawsuit by one of the fund's leading investors, Fisher Brothers, a New York real estate firm. A spokesman for Fisher Brothers declined to comment for this article.

Wasserstein took two main steps. It lowered its management fee to 1% from 1.5%. And it agreed to modify the way that it calculates its share of the fund's profits. Wasserstein will escrow half of its take from each deal until the fund ends, then recalculate its split based on the fund's lifetime performance. That protects investors from losses on deals toward the fund's end, which could be as late as the year 2001. The shift has raised eyebrows in the leveraged-buyout world. "There are general partners who would go to their graves" before they would make such a change, comments one competing LBO sponsor. *Mark Maremont*

TALK SHOW "Mr. Clinton better watch out if he comes down here. He'd better have a bodyguard."

—Senator Jesse Helms, saying the President is unpopular on North Carolina military bases. He later voiced regret over the commen

BLACKBOARD JUNGLE

TEACH! TRIES FOR MORE REACH

HELP
WANTED

KOPP: *Irking teachers' unions*

EDUCATIONAL BARNSTORMER Wendy S. Kopp is about to unveil a project that's bound to rile teachers' unions. Five years ago, fresh out of Princeton University, she founded the Peace Corps-like Teach For America, which recruits new BAs to teach in public schools for a few years without conventional teacher training. The new project, Teach!, aims to recruit and train teachers on a larger scale. The nonprofit program will seek recruits aged 2[illegible] and up who intend to teach as a career. For each teacher trained and placed, Teach! will charge about $8,000–half from the teacher and half from the school district. Teach For America is funded by grants.

The American Federation of Teachers worries Kopp's legions will be underprepared with just five weeks of pre-job training. "People think teaching is an easy job. It's not," a spokeswoman says. Kopp says Teach! will also give its recruits on-the-job training—and will reach bright people who otherwise wouldn't consider a teaching career. *Christina Del Va*

BELTWAY BLUES

THIS BRAIN TRUST IS REALLY SMARTING

FOR HOMEOWNERS ANXIOUSLY watching their adjustable-rate mortgages shoot up, take comfort: Many members of the Clinton Administration's economic brain trust share your pain. A BUSINESS WEEK survey reveals that a goodly number of them have adjustable-rate mortgages, including Treasury Secretary Lloyd Bentsen. He chose an ARM late last year just as fixed-rate loans hit their lowest point in 20 years.

Other advisers bearing ARMs: Laura D'Andrea Tyson, head of the Council of Economic Advisers, and CEA member Joseph Stiglitz. Adding insult to injury, Stiglitz's 91-year-old father refinanced his Munster (Ind.) home to a fixed mortgage just when rates bottomed—and needs his son for missing the chance. CEA nominee Martin Neil Baily, who was overwhelmed with work at McKinsey & Co., never got around to refinancing the 9% fixed mortgage on his home in Maryland.

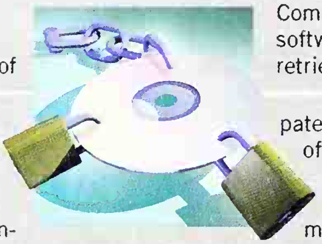
Then there's multimillionaire Robert E. Rubin, the former co-chairman of Goldman, Sachs & Co. who heads the National Economic Council. During New York City's mid-1970s real estate crash, Rubin bought a Manhattan co-op that has since soared in value. He paid cash. *Dean Fou*

MORTGAGES OF THE CLINTON ADMINISTRATIO

ALICIA MUNNELL Ass't Treasury Sec'y	15-yr fixe 6.625%
LAURA TYSON Chairman, CEA	ARM
MARTIN NEIL BAILY CEA nominee	30-yr fixe 9%

REALITY CHECK

SOFTWARE PATENTS have taken a beating lately from critics who say they put a legal lock on basic ideas—such as mathematical formulas—that should be free. As an example of what's wrong, they say the Patent & Trademark Office should not have awarded a patent to Compton's NewMedia last year for a software technique for searching and retrieving data.



IN REALITY, software should be just as patentable as machinery or chemicals. Someone who discovers a clever new mathematical trick for, say, compressing data more efficiently should be rewarded for it. True, the Patent & Trademark Office has issued some unjustified software patents in recent times. But several of those, including the Compton's patent, have been overturned on appeal. The Patent & Trademark Office has been quietly issuing software patents since about 1970—during which time software-industry revenues have zoomed.

(L TO R) PHOTOGRAPHS BY CLAUDIO EDINGER/GAMMA-LIAISON, LOUIE PSIHOYOS/MATRIX. ILLUSTRATION BY GIACOMO MARCHESI

AT&T guarantees your business will get competitive prices.

And you can call us on it.

1800-COMPARE

GUARANTEED
Competitive Prices

If another long distance company promises your business big savings over AT&T, call us. We'll give you a true comparison of AT&T's rates versus theirs. Right then and there. Right over the phone. We'll prove to you that AT&T *guarantees* competitive prices. And if you think *that's* reassuring, we also guarantee the reliability of your long distance service, 800 service, international faxes, even on-time installation.

1 800-COMPARE.

Go ahead. Call us on it.

AT&T. For the life of your business.℠

AT&T

© AT&T 1994

Limitations on coverage and remedies apply. Call for details.

Up Front

ENDANGERED SPECIES

BARNEY RUBBLE

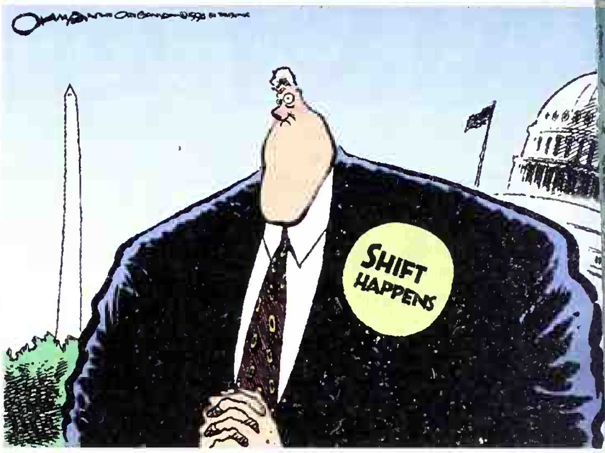
WHAT'S BIG AND PURPLE AND flat on its back? Barney, the insipid dinosaur. And that's bad news for J. C. Penney. Last year, when Barney was hotter than a Jurassic-era volcano, the Plano (Tex.) retailer was one of Barney's biggest promoters. Most Penney stores devoted an entire section to everything from Barney sleeping bags to Barney stuffed toys.

Although Barney's television show is still faring well, toy industry sources say that Penney was caught flat-footed when the Barney toy fad cooled earlier this year. At one point, inventories totaled more than a year's supply for many items. Penney has slashed prices and dumped some items on liquidators.

Penney managers won't comment. But Debbie Ries, a sales director at the Lyons Group, Barney's creator, concedes that Penney hasn't placed an order since November, 1993. Now, she says, the retailer is "down to less than 20 weeks' supply," and hopes to sell most of that this Christmas. So much for just-in-time retailing. *Mark Maremont*

FALLEN IDOL: *The Ice Age cometh?*

DRAWN & QUARTERED



AFTERLIVES

A SECOND CHANCE FOR CHARLIE HUSTLE

PETE ROSE GOT THROWN OUT in his first at bat as a sports-radio talk-show host. But he didn't set the record for most hits in a career by skulking in the dugout. Now, he has moved to a startup all-sports radio syndicator, SportsFan Radio.

Since March, 1992, Rose
has done a two-hour
from a table at his Pete
Ballpark Cafe in Boca R
Fla., taking listeners'
and jawing with all the
naries of liniment, from h
man D. Wayne Lukas to
of-Fame hoopster Kar
Abdul-Jabbar. But rat
were mediocre. The prog
was dropped in Rose's
stomping ground of Ci
nati when the station t
changed formats on Fe
WJNO in West Palm Beach
first station to carry R
dropped him earlier this

Rose says his new ve
SportsFan, has 140 stat
on board and hopes to

ROSE: *So far, a thorny pa*

205 by March. SportsFan
Kyle Heinrich said Ros
previous syndicator, Katz
dio, made no real effort
market the show.

Oh, yeah? Bonnie Pre
senior vice-president of K
Radio Group Sales, says
syndicator tried hard but
show was a tough sell.
problem: Some peo
haven't forgiven Rose
gambling, the activity t
got him banned from ba
ball for life. *Carl Des*

CYBER BANKING

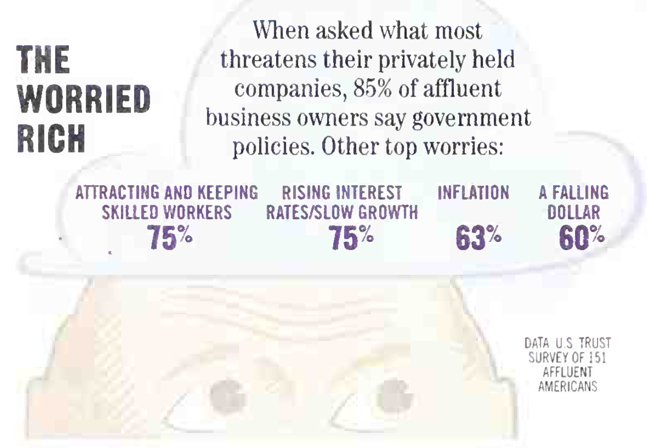
WHAT? NO ESPERANTO?

MISS THE OLD COUNTRY? Hanker for a little friendlier treatment from the bank where you stash your cash? More and more, customers are finding that their neighborhood automated teller lets them *gavarit pa' russki* or *parlare italiano.*

Major banks on both coasts have long given customers a Spanish-language option on ATMs. But multiculturalism is now making bigger inroads. Chemical Bank recently started offering Polish at ATMs in Brooklyn, N. Y., while Midtown Manhattan customers can press the screen for guidance in Russian—an option introduced for some customers in the diamond trade on 47th Street. Nine languages are available, but the Chemical machines offer only three at a time, with English and Spanish on all screens and the third varying in accordance with the neighborhood.

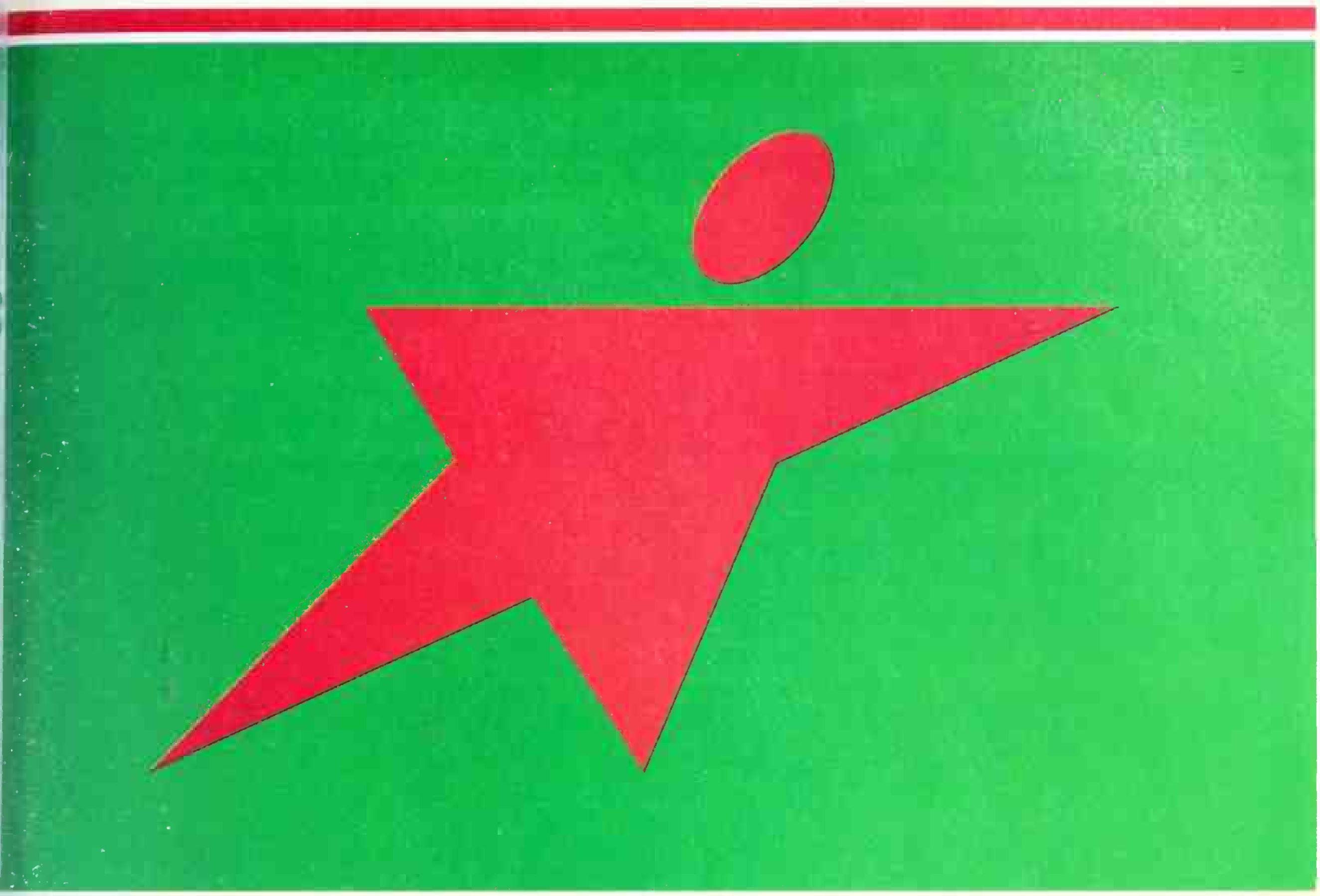
Citibank has offered five languages to U. S. customers on all domestic ATMs for a number of years, but non-U. S. customers see 12 languages pop up whenever and wherever they dip their cards—even in the U. S. And American customers stopping at a Citibank outlet abroad can also choose from the 12—among them Hungarian, Greek, and a blend of Mandarin and Cantonese. In California, Bank of America and Wells Fargo report that they offer only English and Spanish, but they are looking at ways to offer other languages. *Karen Pennar*

THE BIG PICTURE



FOOTNOTES Of 600 white-collars polled, those who say they're "early adopters" of new technology: 12%. "Cyberphobes": 49%

(CLOCKWISE FROM TOP LEFT) PHOTOGRAPH BY STEVEN RUBIN/JB PICTURES, CARTOON BY JACK OHMAN/*THE OREGONIAN*/TRIBUNE MEDIA SERVICES, PHOTO BY SUSAN GREENWOOD/GAMMA-LIAISON, GRAPHIC BY RAY VELLA/BW



WHERE DO I WORK?

I work at businesses, large and small, near and far.

I work for Sears and Citibank.

I work in nine time zones.

I work in Germany for IBM. And in London for the BBC .

I work in hospital emergency rooms.

I work in Shenandoah National Park.

I work in schools and colleges.

I work at child care centers.

I work at Oriole Park at Camden Yards – and it's as spectacular as you've heard.

I work where America works. I work where America plays.

I work for 10 million people every day.

I work hard. I work for you.

I'm ARAMARK.

And I'm proud to be of service.

ARAMARK™

Managed Services, Managed Better.

intel inside
energy
EPA POLLUTION PREVENTER

ALONE, AMID THIS INCREDIBLE BEAUTY AN

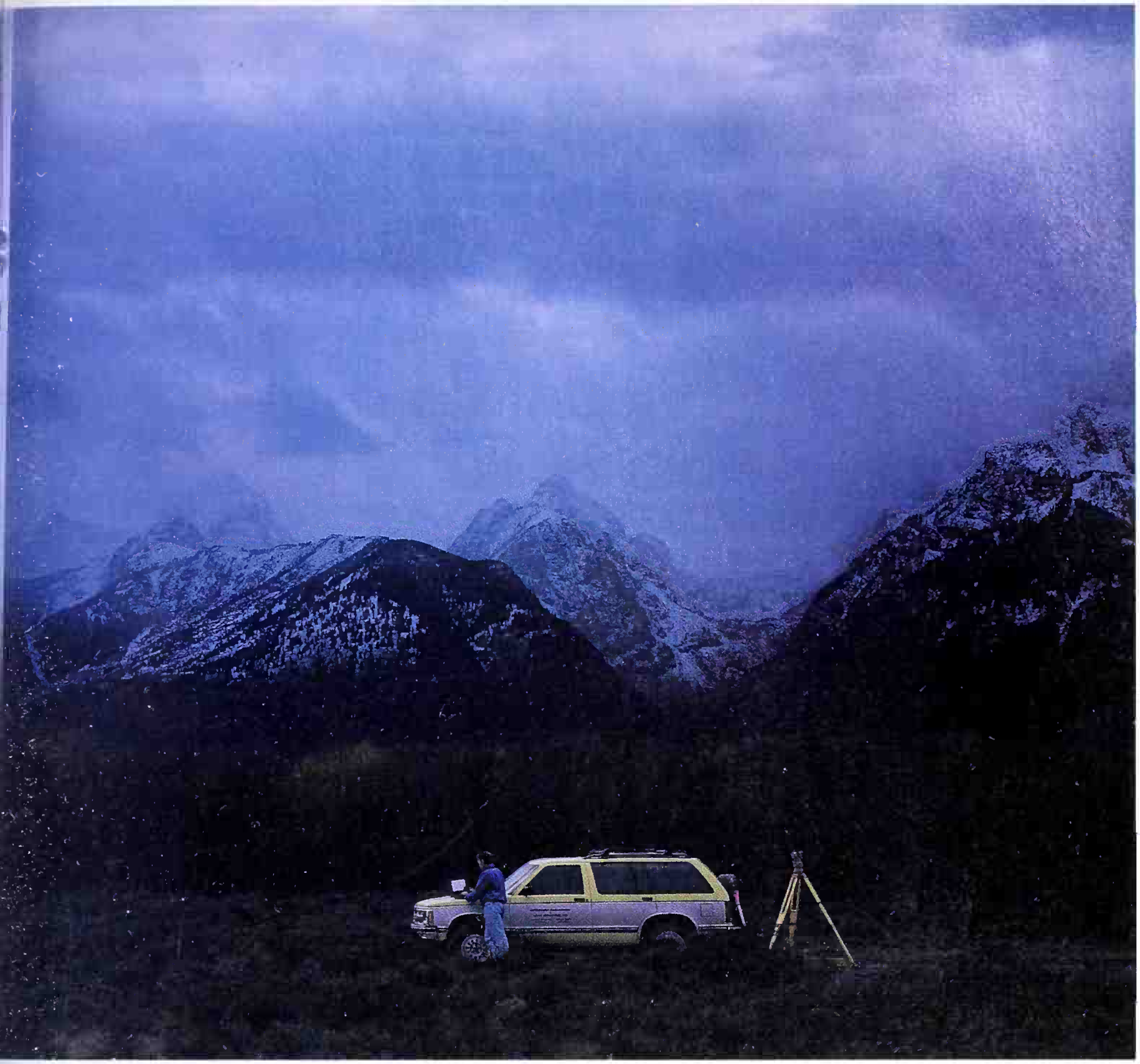
(IT'S LOU, WITH TH

No matter how far away your job takes you, you can always stay in touch with an NEC Versa.™

NEC's line of notebooks offer the highest level of modularity imaginable, including wireless, satellite-based messaging, with our VersaPage™ PCMCIA option.

Or snap in additional RAM, hard disk storage, even an extra battery for those times when you are really far away from it all. Of cou when you happen to be at t office, just slide your Versa int Versa Docking Stati so you can take adv tage of a full range desktop capabilities.

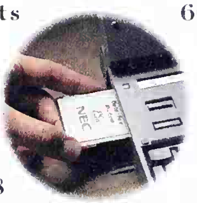
VERSA S
VERSA V
VERSA M



DOR, SOMEONE IS SENDING YOU A MESSAGE.

BERS YOU NEED.)

We also make sure everything
work on will look its
olute brightest and
rest. Choose a new,
to-quality 24-bit True
lor display with 16.8
lion colors. Or you can select the first-ever high-resolution 800 x 600 color display, or choose one of our enhanced TFT or DSTN displays.



Consider a Versa for its modularity, its power, or its brilliant screen options, all backed by a three-year limited warranty. Or just do it for Lou, who needs to make sure you got those numbers. Call 1-800-NEC-VERSA.

SEE, HEAR AND FEEL THE DIFFERENCE.™

NEC

ersa, VersaBay, VersaPage, Versa Docking Station, and See, Hear and Feel the Difference are trademarks of NEC Technologies, Inc. The Intel Inside logo is a registered trademark of Intel Corp. All other trademarks are the property of their respective owners. The Energy Star emblem does not represent EPA endorsement of any product or service. NEC GSA#GS00K91AGS5241

BusinessWeek

EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
CHIEF ECONOMIST: William Wolman
ASSISTANT MANAGING EDITORS: Sarah Bartlett, Robert J. Dowling, G. David Wallace
ART DIRECTOR: Malcolm Frouman
SENIOR EDITORS: Bob Arnold, Frank J. Comes, Deidre A. Depke, Judith H Dobrzynski, Marc Frons, Geoff Lewis, Ciro Scotti, Mark N Vamos, Lee Walczak (Washington), Chris Welles, Seymour Zucker
EDITORIAL PAGE EDITOR: Bruce Nussbaum
CHIEF OF CORRESPONDENTS: Keith G. Felcyn
INTERNATIONAL EDITION: William J. Holstein (Editor); John E. Pluenneke, Elizabeth Weiner (Sr. Editors)
SENIOR WRITERS: John A. Byrne, James E. Ellis, William Glasgall, Jeffrey M Laderman, Gene G. Marcial, John Pearson, Karen Pennar, Otis Port
ASSOCIATE EDITORS: Duane E. Anderson, Catherine Arnst, Amy Dunkin, William D. Marbach, John Meehan, Michael Oneal, Thane Peterson, Gary Weiss.
DIRECTOR, EDITORIAL OPERATIONS: Thomas J. Reed
PICTURE EDITOR: Lawrence Lippmann
SENIOR ART DIRECTOR: Laura Baer
ECONOMICS: James C Cooper (Sr Economist/Business Outlook editor), Kathleen Madigan (Assoc.) Christopher Farrell, Michael J. Mandel (Economics editors) Gene Koretz (Economic Trends editor).
DEPARTMENT EDITORS: Books: Denise Demong. **Computers:** Ira Sager. **Corporate Finance:** Phillip L. Zweig. **Corporate Strategies:** Jane A. Sasseen **Information Management:** John W Verity **International Finance:** Joan Warner **International News:** Christopher Power. **International Outlook:** Stanley Reed. **Investment Banking:** Leah Nathans Spiro **Legal Affairs:** Linda Himelstein **Media:** Mark Landler. **Money & Banking:** Kelley Holland **News:** Keith H. Hammonds. **Personal Business:** Edward C. Baig **Science:** Emily T Smith. **Scoreboards:** Frederick F Jespersen **Social Issues:** Michele Galen **Software:** Amy Cortese **Technology:** Peter Coy, Neil Gross. **Up Front:** Larry Light. **The Workplace:** Aaron Bernstein
STAFF EDITORS: Pam Black, Veronica Byrd, Bruce Einhorn, Paul M Eng, Elizabeth Lesly, Ron Stodghill II, Amey Stone, Suzanne Woolley, Laura Zinn
ASSISTANT EDITORS: Lori Bongiorno, Julie Tilsner
COPY EDITORS: Harry Maurer, Michael Mercurio (Deputy chiefs); Prudence Crowther, Marc Miller (Asst chiefs), Tim Belknap, Aleta Kaufman, Jack Robbins, Jim Taibi (Sr copy editors); Carl Desens, Hardy Green, Cynthia McClean, Joseph Mandel, David Pengilly, Malka Percal, Doug Royalty, Maria Chapin, Gail Fowler, Jeneen Hobby, Aida Rosario (Researchers)
PRODUCTION COPY EDITORS: Donald Halsband (Chief), Lawrence Dark (Deputy), Hallberg Hallmundsson, Celine Keating, Robert S. Norman, Robert J Rosenberg, Eva Stettner
ART: Steven Taylor (Deputy director), Cynthia Friedman, Francesca Messina, Jay Petrow, Christine Silver (Assoc. directors), Alice Cheung (Asst director). **Graphics:** Arthur Eves (Director), Joan Danaher (Deputy director), Rob Doyle (Sr Illustrator), Lisa Knouse Braiman, Alberto Mena, Ray Vella (Illustrators), Jaime Beauchamp (Computer artist) **Production:** Stephen J Romeo (Mgr.), Annette Kennedy (Asst manager), Alan Bomzer (Coordinator)
PHOTOS: Scott Mlyn (Deputy Picture editor); Todd James (Senior Picture editor), Anne Murray, Ronnie Weil (Assoc. Picture editors), Bettina Baudoin (Paris), Kathleen Moore (Asst Picture editors), M Margarita Eiroa (Traffic manager) Lawrence Crowe (Librarian), Michael Hirsch (Researcher)
EDITORIAL OPERATIONS: Yvonne Rodriguez (Production chief) Richard Balestrino, A. Peter Clem, Nicholas M. White (Production managers). Karen Butcher, Thomas R Dowd, Fidel Lee, Jose L. Martin, Jane M Perkinson, Craig Sturgis, Edgardo Torres, Karen Turok, Ilse V. Walton (Makeup editors) Bruce M Arnold, Stephen R Lebron (Asst Makeup editors) Donald C Pearson (Traffic manager)
CORRESPONDENTS: Atlanta: David Greising (Mgr), Maria Mallory **Boston:** Mark Maremont (Mgr), Gary McWilliams, Geoffrey Smith. **Chicago:** Richard A Melcher (Mgr), Greg Burns, Susan Chandler, Kevin Kelly **Cleveland:** Zachary Schiller (Mgr.) **Connecticut:** Tim Smart (Mgr), Chris Roush **Dallas:** Wendy Zellner (Mgr), Peter Burrows Stephanie Anderson Forest **Detroit:** Kathleen Kerwin (Mgr.), James B Treece (Sr Correspondent), David Woodruff **Los Angeles:** Ronald Grover (Mgr), Larry Armstrong (Sr Correspondent), Eric Schine **Miami:** Gail DeGeorge (Mgr) **Philadelphia:** Joseph Weber (Mgr) **Pittsburgh:** Stephen Baker (Mgr), Keith L Alexander **San Francisco:** Russell Mitchell (Mgr), Richard Brandt, Joan O'C Hamilton, Robert Hof, Kathy Rebello **Seattle:** Dori Jones Yang (Mgr) **Washington:** Stan Crock, Owen Ullmann (News Editors), Amy Barrett, Amy Borrus, John Carey (Sr correspondent), Christina Del Valle, Richard S Dunham, Dean Foust Susan B Garland, Howard Gleckman (Sr correspondent), Douglas Harbrecht, Mark Lewyn, Paul Magnusson, Mike McNamee, Mary Beth Regan, Michael Schroeder, Stephen H Wildstrom (Technology & You), Catherine Yang **Bonn:** John Templeman (Mgr), Karen Lowry Miller **Hong Kong:** Joyce Barnathan (Mgr), Pete Engardio **London:** Paula Dwyer (Mgr), Julia Flynn **Mexico City:** Geri Smith (Mgr) **Moscow:** Peter Galuszka (Mgr) **Paris:** Stewart Toy (Mgr), Gail Edmondson, Bill Javetski **Rome:** John Rossant (Mgr) **Tokyo:** Robert Neff (Mgr), Larry Holyoke **Toronto:** William C Symonds (Mgr)
EDITORIAL SERVICES: Broadcasting: Ray Hoffman **Business Manager:** Barbara Boynton **Information Services:** Jamie B. Russell (Director), Judi Crowe (Asst editor), Heather Hartley, Fred Katzenberg, Maria Maronak, Karen Stevens **Office Manager:** Roselyn Kopit **Public Relations:** Christine Summerson, Josephine Coppola **Readers Report:** Yvette Hernandez **Reprint Permission:** Janet Gonzalez **Systems:** Ina L Kichen (Mgr), Andrew Bernardo, Marie Brown-Bryant, Marta Skrelja

PRESIDENT: John W Patten
PUBLISHER: David G Ferm
SR. VP, OPERATIONS: Gary B Hopkins
VP, CONSUMER MARKETING/CIRCULATION: Robert Montemayor
VP, INTERNATIONAL: Gerd Hinske
VP, STRATEGIC PLANNING & DEVELOPMENT: Cara Erickson
VP, MARKETING: Harold K Somerdyk
VPs, SALES: Constance E Bennett (Eastern Region), Dan Dunn (Midwestern Region), Louis R Mohn (Western Region)
VP, STRATEGIC PROGRAMS: James H McGraw IV
CONTROLLER: Gary M Singer
DIRECTOR, ADVERTISING BUSINESS: Linda F Carvalho
DIRECTOR, PRODUCTION: Mario J. Tailuto

Readers Report

HAIL FELLOW WELL MET ON THE INTERNET

Your article "How the Internet will change the way you do business" (Cover Story, Nov. 14) overlooks one important aspect about business on the Internet: the small business. While corporations are quickly exploiting the benefits of internetworking, people should realize that the technology needed for small businesses to harness the Internet's rich resources is already available. With prepackaged commercial products, such as Spry's Internet in a Box, or a combination of shareware products, such as NCSA Mosaic and Trumpet, a small business can dial up and get on line in no time. Most important, Internet-based resources such as electronic mail and the World Wide Web can make anyone a part of the global marketplace for as little as $50 per month. People should not let the "fear" or "mystique" of technology jade their perceptions of reality.

Bijan Marashi
Washington

Rural America could benefit from the interactive promises of the Internet. I shop by catalog for most of my major purchases. My local community has no recreation, no diverse cultural interests. The Internet could connect me to those who share my special interests.

The Internet is a low-cost land of wonder, if you can get to it. Perhaps commercial interests will make the breakthrough. My mailbox is stuffed with catalogs from companies wanting to sell to me. Subsidizing an 800 number might be a lot cheaper than the cost of mailing those catalogs to me, not to mention reducing the high cost of processing a catalog order.

Richard A. Harem
Marfa, Tex.

Your story was interesting and informative. However, it lacked one important piece of information that I and probably hundreds of others want to know. How does one subscribe to the Internet?

Joseph F. Meglen
Mount Sterling, Ky.

CORRECTIONS & CLARIFICATIONS

"Piper Jaffray: A steal or a sinking star?" (Finance, Nov. 7) should have said that th lawsuit against the Institutional Government Income Portfolio is based on a drop i assets of $233 million. If that is the exposure to Piper, a settlement of 12¢ on th dollar would equal 16% of shareholders equity.

"Europe: The push east" (International Business, Nov. 7) gave the wrong numbers fo 1994 estimated growth rates in three Eastern European nations. The correct numbers are 4.5% for Poland, 2.5% for Hungary, and 2% for the Czech Republic.

"Larry Kingmaker live?" (Top of the News Oct. 24) erred in stating that the American Hardware Manufacturers Assn. was among the organizations that paid Larry King $50,000 for an appearance. AHMA officials say the association paid "substantially less."

"Measuring the truth about the economy" (Readers Report, Nov. 28) should have identified the President and CEO of CIT Group Inc. as Albert R. Gamper Jr.

Please provide any possible information about how to access the World Wid Web. Are there any methods of accessing it from here in Saudi Arabia withou going through expensive long-distanc telephone calls?

Frank G. Anderso
Dhahran, Saudi Arabi

Editor's note: For a list of services th can hook you up to the Internet, see "A express lane for the Infobahn" (Tec nology & You, Oct. 24) or "How to g wired" (Personal Business, Oct. 17 Outside the U. S., you can call CompuServe at 614 529-1349 or Delphi at 61 491-3342.

WASHINGTON PASSES THE BUCK ON ILLEGAL ALIENS

In "Prop 187 isn't just cruel, it's hypocritical" (Top of the News, Nov. 14), Eri Schine missed the point. Illegal imm gration is an international matter. A

BUSINESS WEEK
DECEMBER 5, 1994 3402
ISSN 0007-7135 * * *

Published weekly, except for one issue in January, by McGraw-Hill, Inc. Founder: James H. McGraw (1860-1948).

Executive, Editorial, Circulation, and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127039; Intl. 2360127039. U.S. subscription rate $46.95 per year; 2 years, $78.95; 3 years, $104.95. Single copies, $2.75; back issues, $5. Write for rates in other countries. Subscriber Services: 1-800-635-1200 TDD: 1-800-554-1579

Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 43 Hightstown, N.J. 08520. Second-class postage paid at New York, N.Y., a at additional mailing offices. Postage paid at Montreal, P.Q. Canada Po International Publications Mail Product Sales Agreement No. 2464 Registered for GST as McGraw-Hill, Inc. GST #R123075673. Copyright 19 by McGraw-Hill Inc. All rights reserved. Title registered in U.S. Pate Office. European Circulation Center, McGraw-Hill House, Maidenhea Berks, England. Telephone: 0628-23431; Telex: 848640.
Officers of McGraw-Hill, Inc.: Joseph L. Dionne, Chairman and Chief E ecutive Officer; Harold W. McGraw, III, President and Chief Operating O ficer; Robert N. Landes, Executive Vice President, General Counsel, a Secretary; Robert J. Bahash, Executive Vice President and Chief Fina cial Officer; Frank D. Penglase, Senior Vice President, Treasury Operation

PHOTOCOPY PERMISSION: Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Ce ter (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy any article herein for the flat fee of $1.50 per copy of each article. Send payment the CCC. Copying for other than personal or internal reference use without express permission of McGraw-Hill is prohibited. Address requests for c tomized bulk reprints to Business Week Reprints, P.O. Box 457, Hightstown, N.J. 08520, or call 609-426-5494. ISSN 0007-7135/94/$2.75
PRINTED IN THE U.S.A.

MCI AND BRITISH TELECOMMUNICATIONS INVITE YOU TO PLUG INTO THE FIRST GLOBAL NETWORK.

gine a communications network where
ry branch office of your company is in
ce, data, and video contact with every
er branch office. And a network that
vides access to all of your clients, as well.
Now imagine having this global network
talled, configured, customized, and
npletely functional without having to
rry about a thing.
And imagine this entire net-
k managed at a single point
contact so any questions can
answered at any time of the day

or night by speaking with someone who knows your system intimately. What you're imagining is a reality. It's called Concert Virtual Network Service. And it's available today.

MCI® and British Telecommunications have joined forces to create the first truly global, seamless virtual network service that connects your offices throughout the globe.

So call us at 1-800-333-3939 and find out more about Concert VNS.

It's a communications breakthrough of global proportions.

CONCERT™

Global Communications from BT and MCI

1-800-333-3939

ert is a mark of Concert Communications Company. BT is a registered trademark of British Telecommunications, plc. MCI is a registered service mark of MCI Communications Corporation.

"I'm a vice president because I sold 22,000 gizmos this year. How'd you become a v.p.?"
"I made a great deal on the 200,000 gizmos you didn't sell last year."

Turn your **excess inventory** into a tax break and help send needy **kids to college.**

Call for your **free guide** to learn how donating your slow moving inventory can mean a generous **tax write off** for your company.

Call **(708) 690-0010**

EAL

Post Office Box 3021
Glen Ellyn, IL 60138
Fax (708) 690-0565

Excess inventory today...student opportunity tomorrow

Readers Report

associated costs should be funded by
federal government, not by Californ
Californians are not cruel.

Ruth Chambe
Point Loma, C

We're a nation of immigrants, inc
ing my parents, but most of our im
grants are legal. No other natio
earth opens its doors or its resou
to illegal immigration. Is it O. K. for
federal government, empowere
write immigration laws and control
borders, to ignore the laws it manda

Robert J. H
Las Cruces, N

REAGAN AND BUSH WERE HARDLY PROTECTIONISTS

I agree wholeheartedly with R
Dornbusch's viewpoint on trade and
latest GATT in "America's voice on
trade must not falter" (Economic Vi
point, Nov. 14). However, I feel obli
to respond to his remark that "Repu
cans traditionally are [protectionis
It was Republican support that rati
and originally negotiated the No
American Free Trade Agreement. R
ald Reagan and George Bush consiste
ly held the line for free trade again
Democratic congress that pushed
trade barriers against Japan. And b
Presidents were criticized for it.

Randall S. Ha
Huntington Beach, C

I was disappointed in Rudi Do
busch's article. The American Tex
Manufacturers Institute, of which
South Carolina company is a memb
is in favor of GATT. Senator Hollings d
not speak for the textile industry on t
issue.

William D. Hav
Vice-Presid
Apparel Fabrics D
Mount Vernon Mills I
Greenville, S.

HOW TO REACH BUSINESS WEEK

LETTERS FOR READERS REPORT

All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space.

Mail: Business Week, 1221 Avenue of the Americas, 39th floor, New York, NY 10020
Fax: (212) 512-4721
Internet: bwreader@mgh.com

SUBSCRIBER SERVICES

For individual subscriptions, corporate subscriptions, renewals, changes or problems, and single copies.
Phone: (800) 635-1200 or (609) 426-7500

COPYRIGHT PERMISSIONS

Before quoting or reproducing editorial material.
Phone: (212) 512-3396
Fax: (212) 512-4938

malaysia
AIRLINES

WE FLY THE WORLD

To over 90 destinations worldwide, Malaysia Airlines is the premier choice.

Spanning the skies over 6 continents, in some of today's most advanced aircraft.

Including the latest 747-400s and the largest fleet of 737-400s outside the USA.

You'll experience service rated among the world's ten best for long haul.

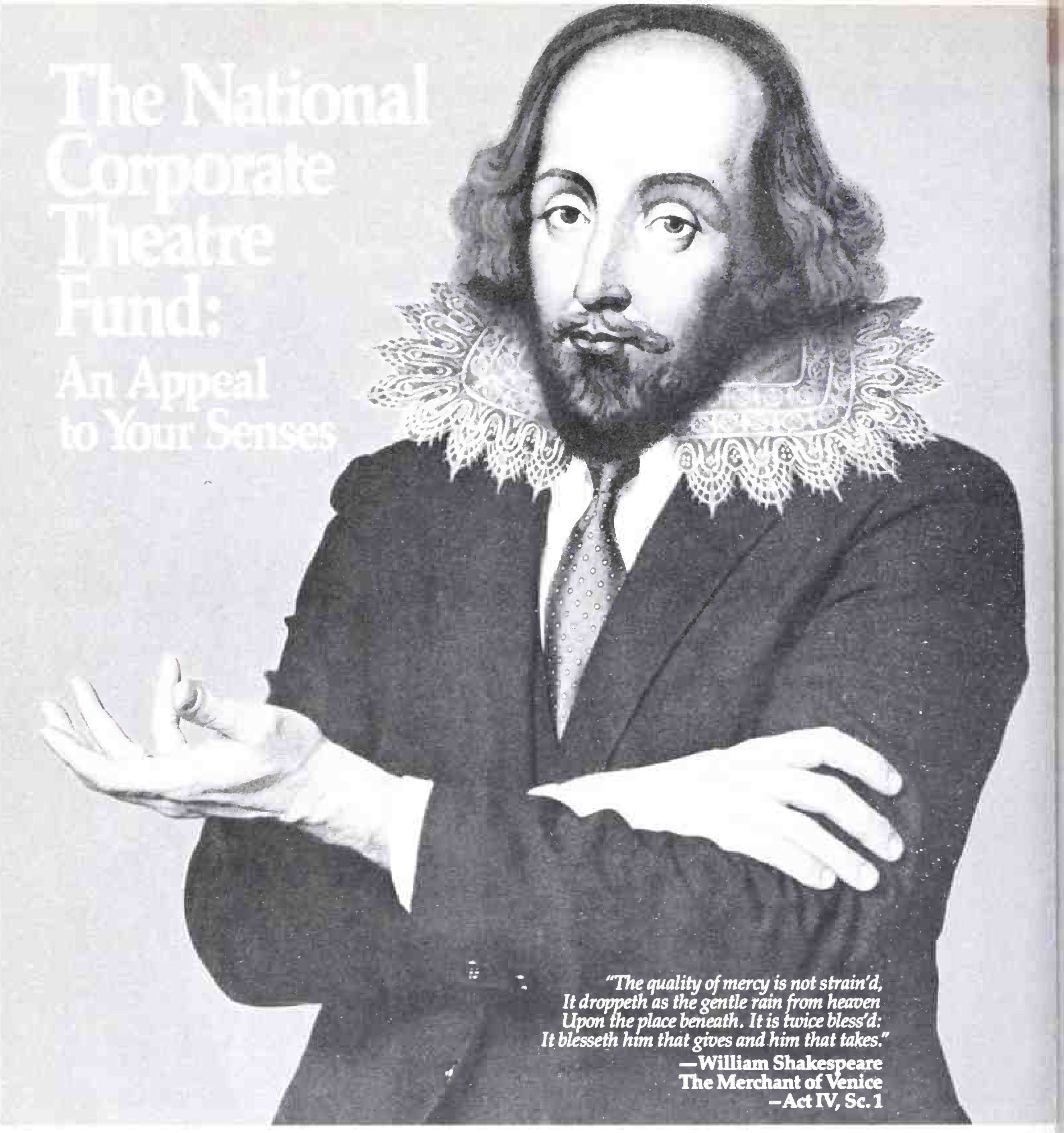
And the finest first class in a survey of 31 international airlines.

Small surprise, we fly more people than any other airline from Southeast Asia.

In making travel a pleasure for you, the sky's the limit for Malaysia Airlines.

Across 6 continents, graced with service from the heart which says, you mean the world to us.

Malaysia Airlines is a member of Continental One Pass For reservations and information, call your favorite travel agent or Malaysia Airlines toll free : 800-421 8641


The National Corporate Theatre Fund:
An Appeal to Your Senses
"The quality of mercy is not strain'd,
It droppeth as the gentle rain from heaven
Upon the place beneath. It is twice bless'd:
It blesseth him that gives and him that takes."
—William Shakespeare
The Merchant of Venice
–Act IV, Sc. 1

More than 160 corporations have invested over $5 million in regional theatre through the National Corporate Theatre Fund. Together, they help support one of America's most vital and valued cultural resources — nonprofit professional theatre.

Learn how your corporation can help insure the continued vitality of the regional theatre movement. You'll be in good company. Two million theatregoers support these theatres and recognize the corporate sponsors who have demonstrated their commitment to our nonprofit professional theatres.

Contact Michael Wall, Executive Director, National Corporate Theatre Fund,
32 Avenue of the Americas, Suite 2000, New York, NY 10013. Telephone (212) 387-5115.

NATIONAL CORPORATE THEATRE FUND

Actors Theatre of Louisville • American Conservatory Theater, San Francisco • American Repertory Theatre, Cambridge • The Cleveland Play House • Goodman Theatre, Chicago • Guthrie Theater, Minneapolis • Long Wharf Theatre, New Haven • Old Globe Theatre, San Diego • Seattle Repertory Theatre • Trinity Repertory Company, Providence

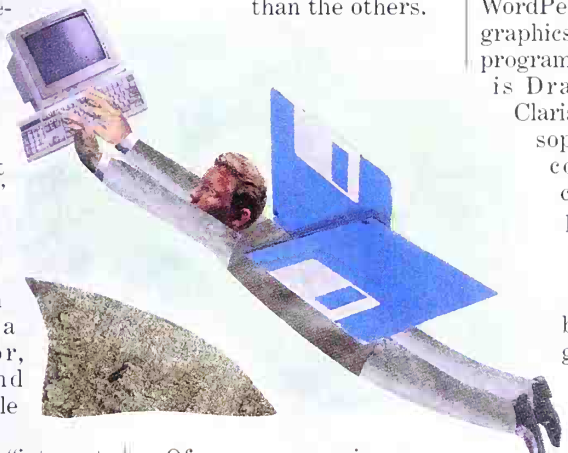
ITED BY STEPHEN H. WILDSTROM

VILL THE ‘WORKS’ O THE JOB?

When was the last
time you used your
word processor to
eate an index? Or pro-
mmed a macro for calcu-
ons in your spreadsheet?
More than likely, the an-
er to both questions is,
ever.” And you’re probably
ng software that’s more
nplicated, and de-
nds more com-
ter resources,
n necessary. As
alternative, you
ght consider
nmed-down but
pable “works”
kages from Mi-
soft, Claris, and,
st recently,
rdPerfect. Such
kages combine a
rd processor,
readsheet, and
phics into a single
gram.

FICE WARE. Such “integrat-
” programs have been
ound for years. In fact,
aris Works, a product of
ple Computer’s software
sidiary, traces its lineage
the Apple II. These pack-
es haven’t been taken seri-
sly as business tools, in
rt because software pub-
ners don’t want to compete
th their own heavyweight
fice” programs. Microsoft,
example, markets Works
der the Microsoft Home la-
l and sells it installed on
ny retail computers. At
00 or less, vs. $450 for
crosoft Office, Works is
emarkable bargain—es-
cially since the CD-ROM
rsion for the Mac in-
des the Bookshelf refer-
ce collection.

Over the years, these
ograms have grown from minimal tools to feature-packed powerhouses. I found the word processors in the WordPerfect and Microsoft packages surprisingly powerful, closely resembling WordPerfect for Windows and Word. The Claris editor, derived from Mac Write, is adequate but less feature-rich than the others.



Of course, you give up something using a program like Microsoft Works. The biggest missing piece is a programming language, which lets you automate tasks or customize the program, say by creating fill-in forms linked to a database. This feature might be essential at work, but few individual users would miss it. And since Works takes up about 7 megabytes on your hard disk (vs. 20 for Word), that leaves a lot more room for other software.

All three packages offer spreadsheets that look like stripped-down versions of Microsoft Excel. I wouldn’t want to use these “lite” spreadsheets to build a complicated financial model, but they would do fine for simple calculations or charts. Claris Works, however, is at a disadvantage because it, unlike the other two, can’t read or save files in popular spreadsheet formats, such as Lotus 1-2-3 or Excel. All three programs also have simple database modules, useful for such chores as maintaining mailing lists.

ICON STRAIN. Claris and WordPerfect have an edge in graphics. They offer drawing programs that resemble Claris Draw and Mac Paint. Claris Works features such sophisticated effects as color gradients and could easily be used to produce a slide show of considerable complexity. Microsoft Works has only the bare-bones Draw program that comes with Word.

Who should use these works programs? They are ideal for the home or small office and are well suited for often-underpowered laptops. And which to choose? As a Word user on both Windows and the Mac, I found the Microsoft word processor more comfortable, while someone comfortable with WordPerfect for Windows might be drawn to the company’s just-released Works product. I was bothered by Claris’ inscrutable icons and the lack of automatic help to explain their functions. On balance, WordPerfect is probably the strongest, though its 13-megabyte disk footprint is the biggest, and Mac users will have to look elsewhere. But if you don’t need full-featured setups, you won’t go wrong with any of these packages. *S.W.*

BASIC SOFTWARE COMBOS

PROGRAM	SYSTEM	PRICE
CLARIS WORKS	Macintosh Windows	$129 99
MICROSOFT WORKS	Macintosh Windows	99 99
WORDPERFECT WORKS	Windows	79

DATA: BUSINESS WEEK

BULLETIN BOARD

LAPTOPS

GIGABYTES TO GO

Disk storage can be a scarce commodity on a laptop. While desktop PCs have hard disks holding up to a billion bytes, laptop disks hold only a fifth as much. With some bulky Windows programs and a few slide shows, a 200-megabyte disk can fill up quickly.

The Pereos digital audio tape drive from Datasonix Corp. (800 328-2779) can help ease the crunch. The 10-ounce, $649 device can carry some 1,200 megabytes of information on a $29 tape cassette about the size of a sugar cube and half as thick. The device, which connects to the printer port of any Windows computer, is powered by two AA batteries and can shuttle data on and off of your hard drive at 5 to 10 megabytes per minute.

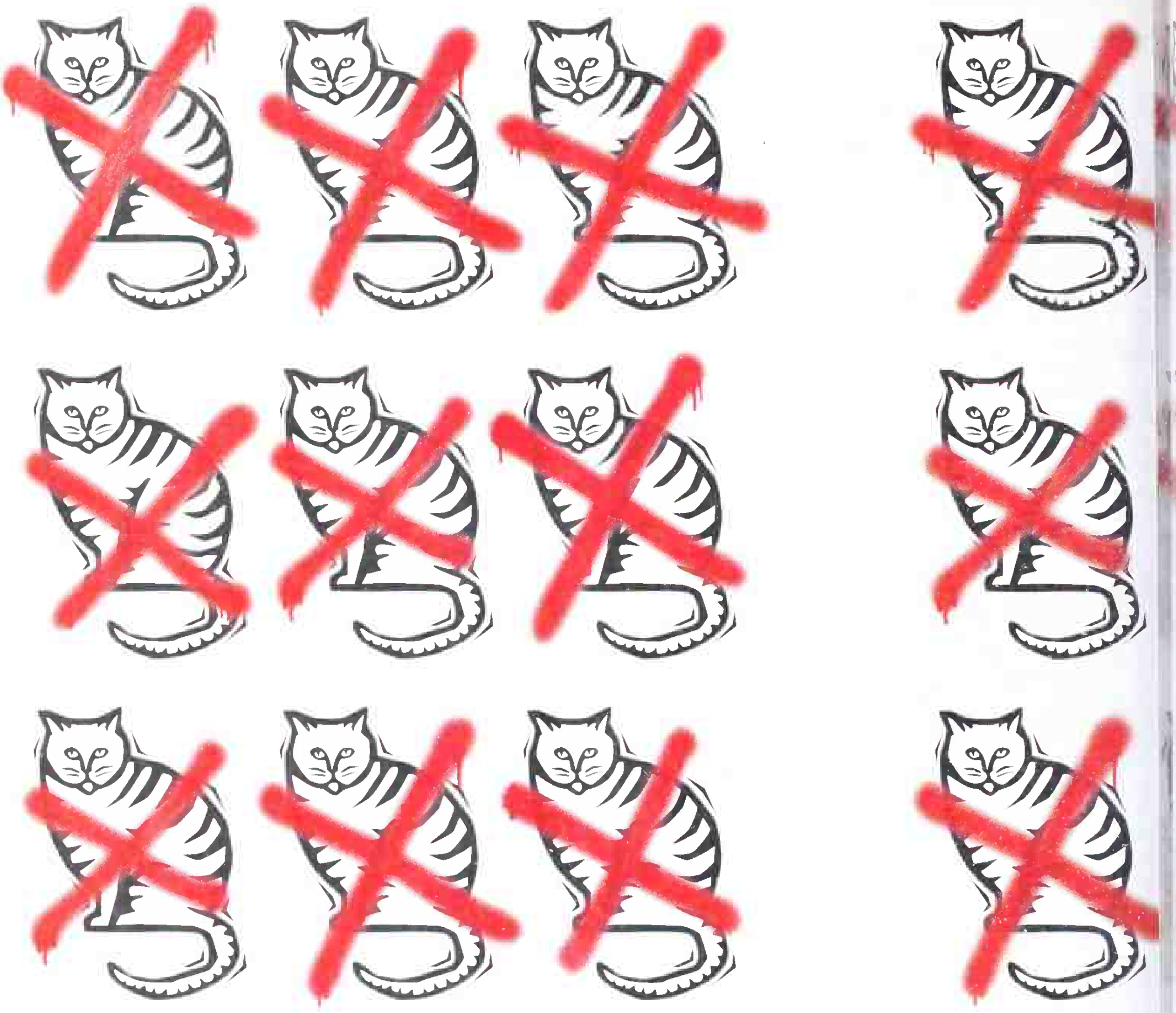
MODEM ALERT

“HOT” HOTEL JACKS

Most road warriors have learned that laptops won’t work on the digital phone systems found in some hotels. But did you know that simply plugging your phone card into a wall jack can fry a credit-card-style modem? The popular micromodems lack the mechanical relays that protect bigger modems from the high voltages present on some digital systems. Jacks marked “data” are usually safe. But when in doubt, check with hotel management before plugging in.

ILLUSTRATION BY ELLEN WEINSTEIN

QUESTIONS? COMMENTS? techandu@mgh.com on Internet or fax (202) 383-2125



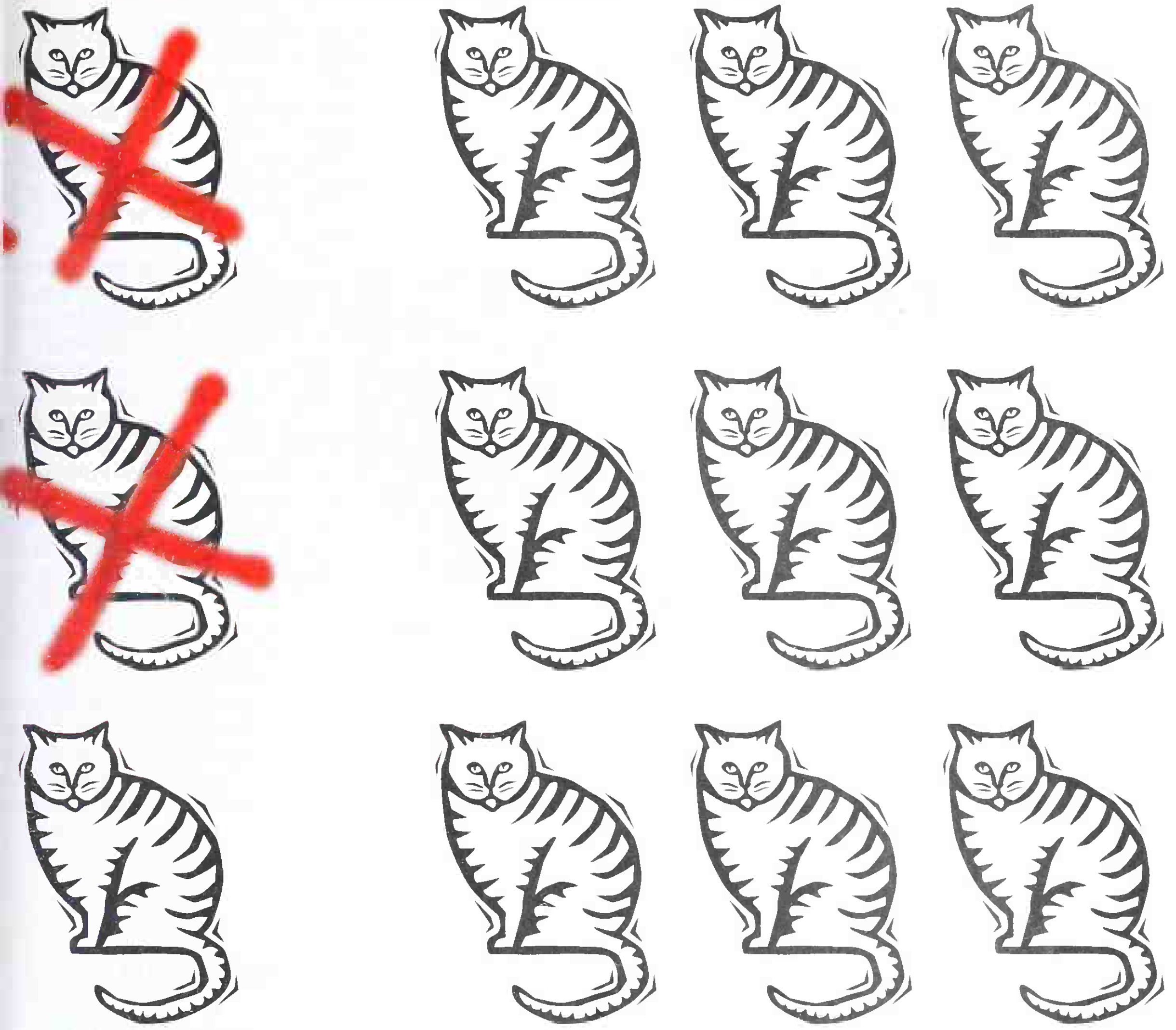
Let's say compu

intel inside
pentium
PROCESSOR

Some computers have nine lives left. Others don't. That's why if you're buying a PC today, you should only be considering Pentium™ processor-based PCs.

The reason is simple. A more powe
PC lasts longer, since it will still have plenty of horsepower when tomorrow'
applications come along. And most ne
Pentium processor-based systems also
include the latest PC technology — lik

© 1994 Intel Corporation



Pentium™ processor-based PCs

have nine lives.

local bus for high-speed graphics and
and Play technology for easy expansion
e years to come.
That, plus the fact that these PCs are now
ffordable, makes this a great time to buy a
tium processor-based PC. Especially when
you'll be getting a system that performs so well. Today. And several lives from now. For more information call 1-800-626-6788, Ext. 213.

intel®

THE COMING PLAGUE
Newly Emerging Diseases in a World Out of Balance
By Laurie Garrett
Farrar Straus Giroux • 750pp • $25

THE HOT ZONE
By Richard Preston
Random House • 300pp • $23

KILLERS ON THE LOOSE

It's easy to get smug up here on top of the food chain. But nature finds chilling ways to remind us we're in constant battle with the most patient and opportunistic of foes: microscopic organisms. Witness pneumonic plague in India, flesh-eating strep, antibiotic-resistant tuberculosis in inner-city hospitals. Those are just the most recent gruesome threats.

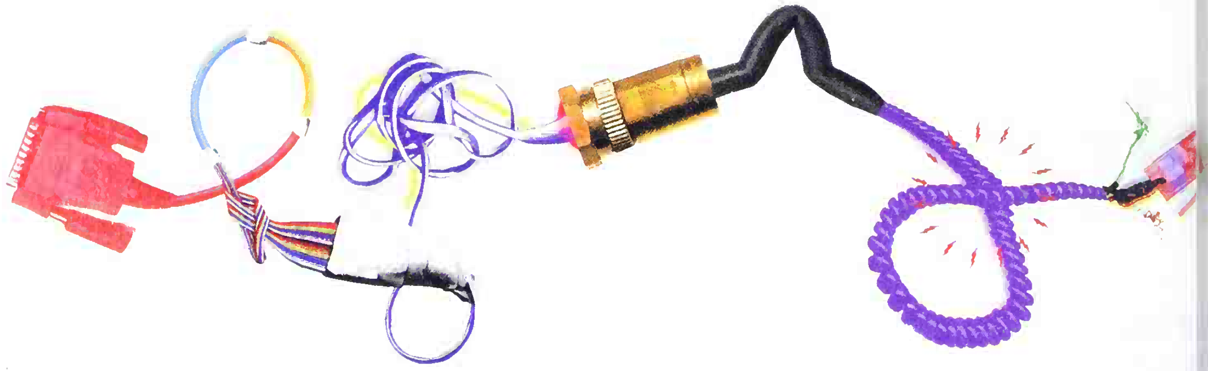
It's fascinating how virulent organisms emerge and wreak havoc—not least because it usually has as much to do with politics, supposed progress, or even good intentions run amok as with biology, zoology, or virology. What do Idi Amin, super-absorbent tampons, missionary clinic nuns, a conservative U.S. administration, mouse feces on a Navajo reservation, and the building of the Aswan Dam have in common? They're all primary villains, directly or indirectly, in the spread of a slew of lethal epidemics. By reusing needles for vaccinations, for example, those well-intentioned missionaries have helped spread numerous killers, including HIV, in Africa.

Laurie Garrett's new work, *The Coming Plague: Newly Emerging Diseases in a World Out of Balance*, spells out these episodes in smart and comprehensive fashion. Title notwithstanding, the book is not about some terrifying new threat ready to pounce. Rather, it's an in-depth exploration of how recent epidemics emerged, often with the u
ting assistance of individuals, soci
and governments. It brings us
date on how research into and b
against such scourges as AIDS, ma
toxic shock syndrome, Legionnaire
ease, childhood ailments, and leth
rican viruses such as Ebola and
burg are going.

What Garrett does best is reve
interconnectedness of diseases an
conditions that amplify them. A
mon problem is governments' al
criminal neglect of public-health
veillance and prevention—and it'
just an issue for the Third Worl
Garrett notes, most of the childhoo
eases that can be easily prevente
vaccination are on the rise in the
because public-health budgets were
imated during the 1980s and pu
health agencies are in disarray. Ac
ing to Garrett, fewer than 1,500 chi
contracted measles in the U.S. in
In 1990, 27,000 cases were reported
100 children died.

There's no denying that reading
Coming Plague, with more than
pages of text and an additional 100
es of notes, is an endurance test. Ga
loosely drapes her work on the s

Some companies say they're joining forces to make international network communications simple.



In the U.S., IBM Global Network services are provided by Advantis, a joint venture of IBM and Sears, Roebuck and Co.

One global network
has all the advantages

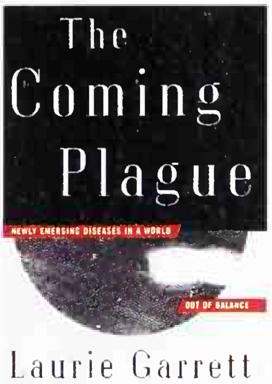
More local support
from 5,000 networking specialists worldwide

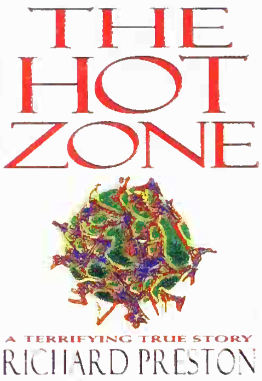
Total outsourcing
and management of SNA, multi-protocol and emerging ATM-based networks

NE OF THESE DISPATCHES FROM THE VIRAL FRONT IS SENSATIONALISTIC; ONE IS A SOLID WARNING

s of a group of "disease cowboys"—
ernational infectious-disease special-
who have traveled the world bat-
ng microbes for decades, often at
at personal peril. Checking in with
"cowboys" as the book progresses
vides a useful structure for ex-
ring how we have learned about
lemics and the similarities among
m. But it also means that Gar-
jumps back and forth in discuss-
diseases and includes eclectic,
levant detail. That makes it dif-
lt to use *The Coming Plague* as
kind of reference document that
ork of this size and scope should
It's downright dangerous to skim
book, in fact, because Garrett
n fails to foreshadow that she'll
eturning to a subject with more
rent information.

lso beckoning armchair epidemiol-
sts is Richard Preston's far slimmer
more engrossing *The Hot Zone.*
ston focuses on the incredibly dan-
ous, or "hot," Ebola virus, an African
robe that kills 9 out of 10 victims by
sing bleeding from every orifice and virtually melting down organs. In 1989, monkeys from an importing facility in Reston, Va., began dying of an agent that looked just like Ebola. That set off a top-secret operation by the U.S. Army to seal off and shut down the threat.





The Hot Zone originated as an article in *The New Yorker*, and it's no surprise a movie was in the works before the book was even published. Preston's opening, set in Africa, is spellbinding. Here is Frenchman Charles Monet, dying of Ebola on an airplane: "His blood is clotting up.... His personality is being wiped away by brain damage.... Tiny spots in his brain are liquefying. The higher functions of consciousness are winking out first...." No wonder that, as the cover blurb attests, Stephen King loves this book.

It soon becomes apparent, however, that Preston has concocted a suspenseful narrative of terrors that mostly prove unfounded. He anoints the people willing to combat these viruses as heroes, then dramatizes their personal challenges rather than exploring bigger, more relevant issues. But nearly every threat a character faces has to be debunked by the end of the book. Preston spends pages leading up to a kitchen-knife wound on the hand of a veterinarian that you think will be significant—but it isn't. He offers a lush description of the crystals, bat dung, and the occasional leopard inhabiting Kenya's fantastic Kitum Cave—then admits that only circumstantial evidence suggests it's the source of the dread virus. Worst of all, he finally reveals that

We'd like to set the record straight.

There's nothing simple about a communications network that's patched together by a collection of companies around the globe. Common sense suggests it would be better to have *one* global company responsible for managing your network. And that's exactly what you get with the IBM Global Network. Others may offer a "single point of contact"—but if you ask for something like global E-mail, they're likely to tell you some of their overseas affiliates aren't on line yet. The IBM Global Network provides access to more than 90 countries. Now. So you can get a head start on the high-speed global networking you need. Questions? In the U.S. and Canada call us at 1 800 455-5056 for some straight answers about international network communications.

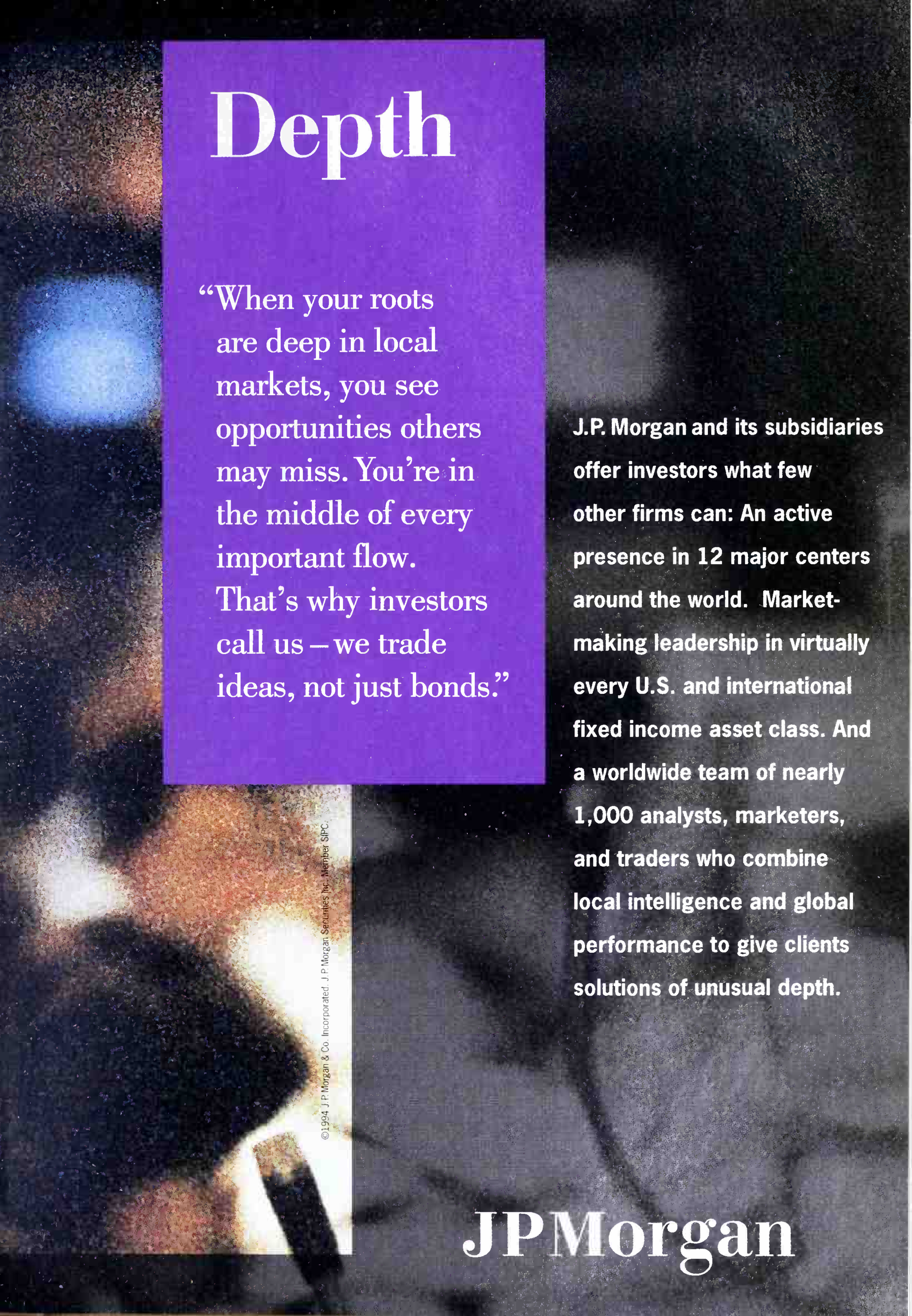
The IBM Global Network

Advanced
LAN internetworking for
client/server computing

Efficient
global messaging with EDI,
E-Mail and the Internet

IBM®

Fixed income trading floor, Milan



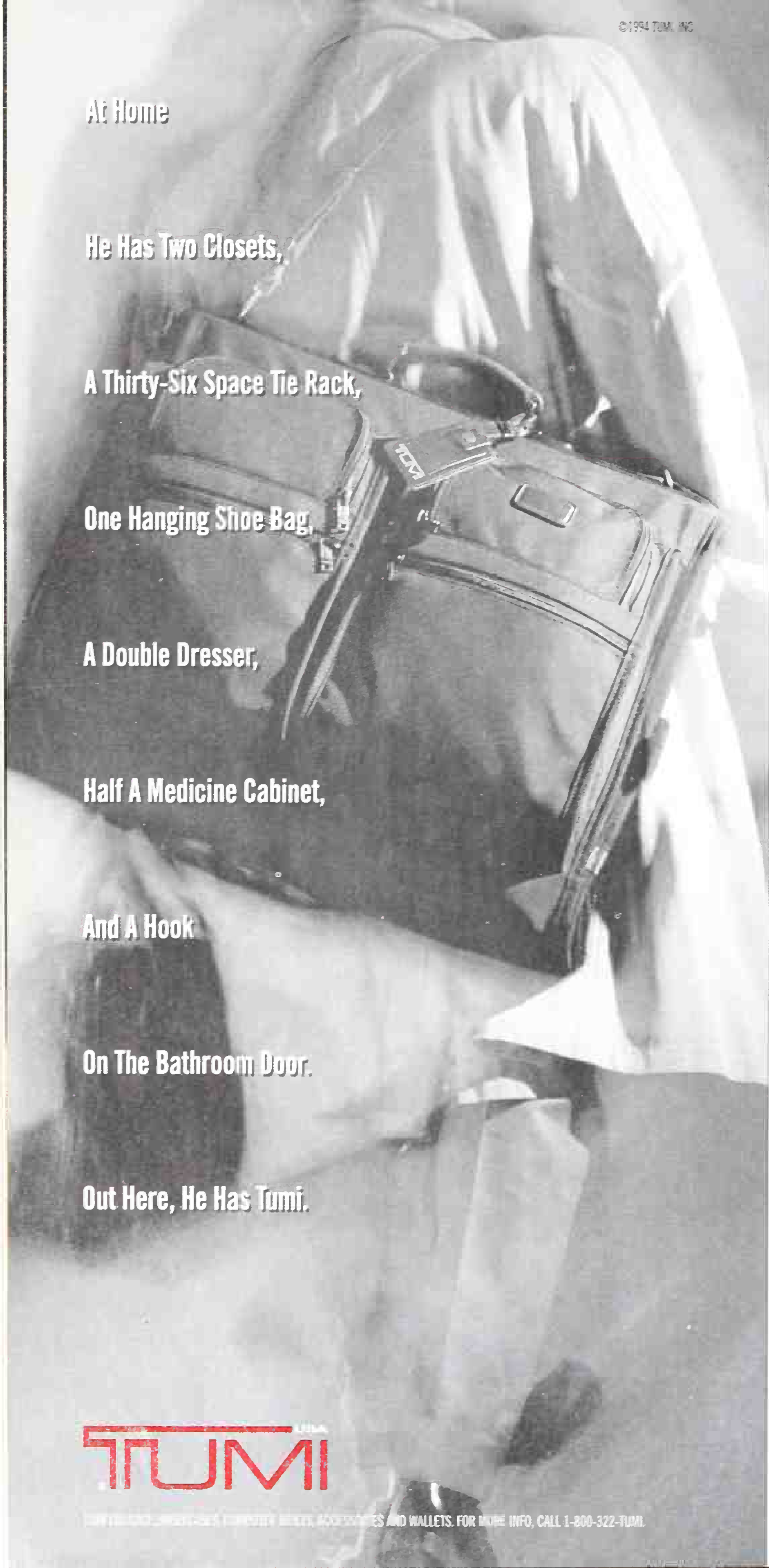
Depth

"When your roots are deep in local markets, you see opportunities others may miss. You're in the middle of every important flow. That's why investors call us – we trade ideas, not just bonds."

J.P. Morgan and its subsidiaries offer investors what few other firms can: An active presence in 12 major centers around the world. Market-making leadership in virtually every U.S. and international fixed income asset class. And a worldwide team of nearly 1,000 analysts, marketers, and traders who combine local intelligence and global performance to give clients solutions of unusual depth.

JPMorgan

©1994 J.P. Morgan & Co. Incorporated. J.P. Morgan Securities Inc. Member SIPC.



Books

for all the scariness of the Army's h hush assault on the "hot zone" (the ton monkey house), the virus killing monkeys wasn't Ebola—and was h less to humans. Obviously, it's a r that no one died of Ebola in Reston. hanging a whole book on a triumph imaginary threats and near-mi works better in fiction. Garrett, by trast, never exploits her subject o necessarily inflames emotions.

The shared topic of these boo crucial for everyone to appreciate the one hand, evolution dictates plagues will never stop, no matter we do, since organisms constantly tate. On the other, we know eno about what facilitates infectious dis to prevent a lot of it, especially thro vaccination. Alas, in the absence crisis, governments grow complac

That can expose citizens to grave gers. In fact, it's critical that gov ments keep in mind the many face infectious disease when evaluating true cost of poverty, war, developm pirating resources from the rain fore overcrowded prisons, and politically tivated public-health policies. Cons California voters' recent, overwhelm approval of Proposition 187, a meas that would, among other things, d all but emergency medical care to ill immigrants. Such withholding of cines or treatment is a virtual presc tion for amplifying infectious disea within the state.

And you? How worried should you about your and your family's heal Garrett's discussion points to some vious measures: Stay off the infect superhighways of sexual promiscu and IV drug abuse. Follow instructi carefully when using antibiotics.

The scope of both books goes so beyond the individual sphere, thou as to leave one feeling powerless. H can readers in developed nations af the spread of cholera in the Third Wo It's not about sending money or me cines. Absent more stable governme and more effective public-health stra gies, they can't. Yet with each outbre the chance of the disease crossing b ders grows. "While the human race b tles itself, fighting over ever m crowded turf and scarcer resources, advantage moves to the microbes' cou Garrett concludes. And thus dodgin killer microbe that evolves in or g transported to an air conditioning du a city's water supply, or a crowded a plane becomes a matter of fate.

BY JOAN O'C. HAMILT

Hamilton covers biotechnology a medicine from San Francisco.

IBM®

AS/400
RISC System/6000
ValuePoint

BusinessWeek

Beyond news. Intelligence.

MCI®

PROOF POSITIVE℠

IBM, Business Week, and MCI proudly present a new series airing on Public Television this Fall . . .

SMALL BUSINESS TODAY

Small Business Today salutes the spirit of enterprise and provides information, advice and inspiration to help small business owners achieve their ambitious goals.

Regular features include:

- Interviews with small business owners on how they got started . . . and how they're growing.
- Innovations in technology and telecommunications to improve productivity and expand a growing business.
- Discussions on the law, marketing, selling, financing . . . and more.

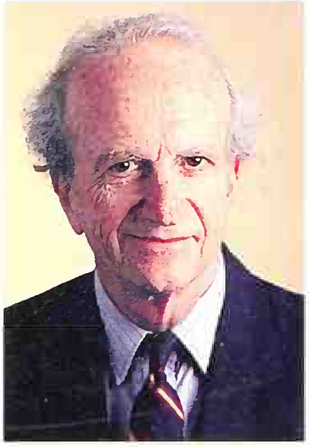
Check your local listings for details.

Small business owners Terry Fansler and Hattie Bryant co-host Small Business Today.

Economic Viewpoint

BY GARY S. BECKER

CONGRESS, SET THE PHONE COMPANIES FREE


MICHAEL L. ABRAMSON

OUTDATED: Federal restrictions are hampering progress. As cable-TV and telephone technologies merge, the old barriers must drop

In 1982, after a lengthy court battle, AT&T agreed to divest itself of the 22 Bell companies that operated its local exchange networks. The presiding judge, Harold H. Greene, gave the seven surviving regional Baby Bells a monopoly on local telephone service in their territories. AT&T was limited mainly to long distance and, as a carrot, entry into the computer business.

Rapid changes in the telecommunications industry have since rendered these and other restrictions obsolete. Unfortunately, the judge kept the power to deny—subject to appeal to higher courts—any proposed changes by telephone companies in their activities. But because Greene is a judge, not a businessman, it isn't surprising that he has been slow in recognizing the radical transformation of telecommunications. As a consequence, he has been an obstacle to efficient organization of the industry.

His 1982 judgment was based on the belief that the local exchange was a "natural monopoly," since many telephone calls could be handled cheaply by a single company that strung wires in a town. Indeed, the lawsuit arose because AT&T was alleged to have used this monopoly power to block competition in long-distance calls. The judge justified his imposition of line-of-business restrictions on the Baby Bells as being necessary to prevent them from leveraging their monopoly power in local exchanges to compete unfairly in other markets.

Among other things, Judge Greene blocked the Baby Bells from selling phone services and many products outside the regions where they operated local exchanges. Yet the potential abuse of monopoly power in local service could hardly apply to activities lying entirely outside the Baby Bells' own markets. There, they would simply be new entrants who would compete against established companies in supplying telephone services and products.

WONDER WIRE. When AT&T was broken up, the potential abuse of monopoly power may have justified some control over telephone pricing. But most other curbs on phone companies made little sense even then, and the revolutionary changes in telecommunications have destroyed the case even for price controls.

That's because cable-TV-wire systems and cellular phones have the potential to override any local monopoly power the Baby Bells have. About 90% of American houses have access to cable, and cable wiring can be fitte provide two-way telephone communicati But regulations have kept cable compan from providing phone service and limit vi programming offered by phone compani Competition would increase if these compar were allowed to pool their knowledge—a offer both local and long-distance phone s vices along with video and TV services.

YANKEE RAIDERS. Several months ago, Ju Greene finally approved the merger of AT and McCaw Cellular Communications I the nation's largest cellular-phone compa Other mergers are rapidly taking place am telephone, cellular, and cable companies—pa ly to position them for the upcoming auctior additional radio-frequency licenses, for p viding cellular-phone, paging, E-mail, a many other services.

Competition in long-distance phone ca and video programming has been vigorous the U. S. But America is falling behind Brit and New Zealand, for example, in other serv es. Britain now lets cable companies offer b phone and TV services through their wir Cable outfits are competing for local custom against British Telecom PLC, the domina phone supplier. The paradox is that the com tition is coming from U. S. cable compan and Baby Bells, which are doing overseas wh they cannot do at home: freely offer both cab TV and telephone service.

New York, California, and several oth states have begun to allow much greater int state competition in local phone and cable services. But federal legislation to overha telecommunications got bogged down duri the current congressional term in conflicts tween Republican- and Democratic-sponsor bills. In the Congress soon to end, Bob D (R-Kan.) took the lead in the Senate in calli for substantial deregulation of the teleco munications industry. That's a good reason believe the new Republican-dominated C gress will move quickly to scrap the regu tions on prices and on what lines of busine the phone, cellular, video, and cable com nies may offer. As a result, consumers will able to get full benefit of new technology.

No judge—and no lawmaker, regulator, economist—can foresee the future in an dustry changing as fast as telecommuni tions. That is why competition, rather th officials and bureaucrats, should determi its evolution.

Gary S. Becker, the 1992 Nobel laureate, teaches at the University of Chicago and is a Fellow of the Hoover Institution

The Toshiba T4700CT

A notebook so powerful, it breaks the sound barrier.

T4700CT
Pushing the Envelope
TOSHIBA

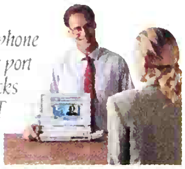
The Toshiba T4700CT can run your most intense applications or even help you run a presentation. With its SL Enhanced i486™DX2 50MHz processor, it easily handles graphics-rich programs. The built-in multimedia capabilities let you create and give breakthrough presentations anywhere, all on Toshiba's stunning color active matrix screen. With so much going for it, buying a T4700CT notebook is a very sound decision. **For a Toshiba dealer near you, call 1-800-457-7777.**

credible Sound: *integrated sound stem and built-in eaker let you joy fantastic sound henever you want.*

The only computer you'll ever need: *The optional Desk Station IV, lets you instantly connect to your network, printer, VGA monitor, mouse, and full-size keyboard.*

Two separate PCMCIA slots: *A 16mm and a 5mm slot are your keys to expansion, —for modems, storage and more.*

A multimedia roadshow: *Headphone or external speaker port and microphone jacks make the T4700CT perfect for presentations.*



T4700CT FEATURES:
- 50MHz SL Enhanced i486™DX2
- 9.5" dia. color TFT-LCD active matrix display
- 256 simultaneous SVGA colors at 640x480 resolution
- 320/200MB HDD
- 8MB RAM expandable to 24MB
- Two PCMCIA slots (16mm and 5mm)
- VL local-bus video
- Integrated graphics accelerator
- Built-in microphone
- WAV Audio capabilities
- Audio jacks: headphone/speaker, microphone
- NiMH battery for extended life
- QuickCharge battery recharge system
- 3.5" 1.44MB floppy disk drive
- BallPoint™ mouse with QuickPort™
- MaxTime™ Power Management system
- LCD status icon bar
- DOS™, Windows™, and Windows Sound System™ software pre-installed
- Toshiba Technical Support line: 7 days a week, 24 hours a day

intel inside®

3 YEAR LIMITED WARRANTY

energy

In Touch with Tomorrow

TOSHIBA

© 1994 Toshiba America Information Systems, Inc. The Intel Inside logo is a trademark of Intel Corporation. All products indicated by trademark symbols are trademarked and/or registered by their respective companies.

Economic Trends

BY GENE KORETZ

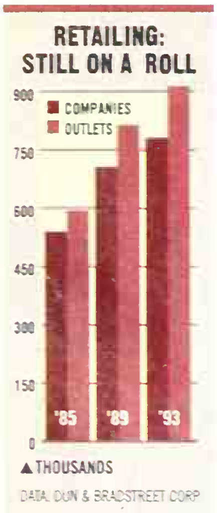
THOSE PLUCKY CORNER STORES

They're not becoming extinct

Over the past decade, rapid growth at the behemoths of retailing—Home Depot, Wal-Mart Stores, Toys 'R' Us, and other chains—has given rise to doomsday prophecies for small and midsize retailers. One version has the big guys swallowing up the little guys in more and more product areas, leaving the landscape dominated by a few major players operating large stores.

The trouble with such predictions, however, is that they exaggerate the reach of giant chains. "In many sectors, small retailers are growing as rapidly as big retailers," says economist David T. Kresge of Dun & Bradstreet Corp., "and there are no sectors controlled by just a handful of companies."

An analysis of D&B's nationwide database tells the story: After rising rapidly in the late 1980s and contracting during the 1990-91 recession, the number of retail stores has been showing healthy growth—and so has the number of retail companies. While the ranks of $100 million-plus companies jumped by 20%, to 3,600, from 1989 to 1993, companies with less than $1 million in sales also rose by 15%, to 775,000. If anyone has taken a hit in the 1990s, it has been midsize outfits with sales of $1 million to $100 million. Such companies have actually shed workers since 1989.



DATA: DUN & BRADSTREET CORP.

Although the giants have accounted for much of the job growth in recent years, they dominate just a few product fields: clothing, drugstores, general merchandise, lumber, and home supplies. On the other hand, notes Gary A. Wright, a Denver retail consultant who helped analyze the D&B data, "in the sectors dominated by individualized products or services, small firms continue to flourish."

Small companies still dominate employment in hardware, sporting goods, jewelry, and gift stores. And they remain major retailers of such products as auto supplies, books, paint, cameras, appliances, women's accessories, carpeting, and children's clothing.

Although bigger businesses are starting to offer more personalized service, says Kresge, smaller retailers could actually gain ground "as an older, more affluent, and diverse population seeks greater convenience, quality, service, and lifestyle compatibility."

EUROPE: NOSE TO THE GRINDSTONE

And unit labor costs are falling

The U. S. isn't the only country keeping a lid on labor costs. Robert Minikin of Bankers Trust Co. notes that trade unions across Europe are exhibiting "a pragmatic and cautious approach in negotiating new pay deals, despite the economic upswing."

In Britain, for example, unit labor costs are declining at roughly 1.5% a year, reports Minikin. And in Germany, where the prospect of major workforce reductions has wrung real wage declines from unions, unit labor costs at last count were running nearly 11% below their year-ago level.

They are headed down in France and Italy as well. In July, the Organization for Economic Cooperation & Development predicted that European Union costs would rise by just 0.7% this year, but Minikin thinks a marginal decline now looks more likely.

FEWER BARGAINS IN OFFICE RENT

So far, the trend is in smaller cities

For the past two years, vacancy rates have edged downward in U. S. commercial real estate. But so have effective rents, as office-building owners offered prospective tenants concessions and negotiated renewals with sitting tenants at sharply lower rates.

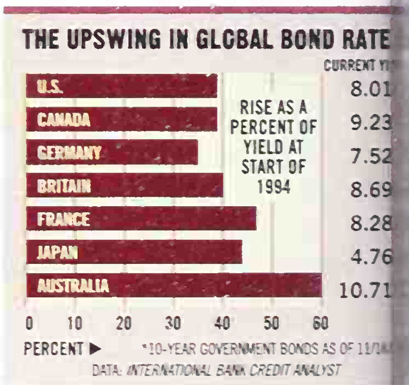
Now, however, rents are firming. REIS Reports Inc., a real estate database firm, reports that its third-quarter survey shows that most of America's biggest metropolitan areas (28 out of 50) are enjoying both falling commercial vacancy rates and rising effective rents for the first time in five years.

So far, the trend is restricted to second-tier cities such as Columbus, O Fort Lauderdale, Fla.; Salt Lake C San Antonio; Richmond, Va.; and T son—where occupancy rates and re have both risen at least 3% since third quarter of 1993. Of the top cities, only Atlanta and Boston m the list of dual gainers.

GLOBAL BOND YIELDS IN MOTIO

Soaring rates may hit a downdraf

American bond investors aren't al in taking a beating this ye Throughout the industrial world, year government yields are now fr about 35% to 60% higher than they w at the start of the year (chart). For mestic holders of such bonds, this tra lates into heavy losses—from close



*10-YEAR GOVERNMENT BONDS AS OF 11/1
DATA: *INTERNATIONAL BANK CREDIT ANALYST*

8% in Japan and Germany on a total turn basis, to around 10% in the U. Britain, and Canada, nearly 12% France, and 17% in Australia.

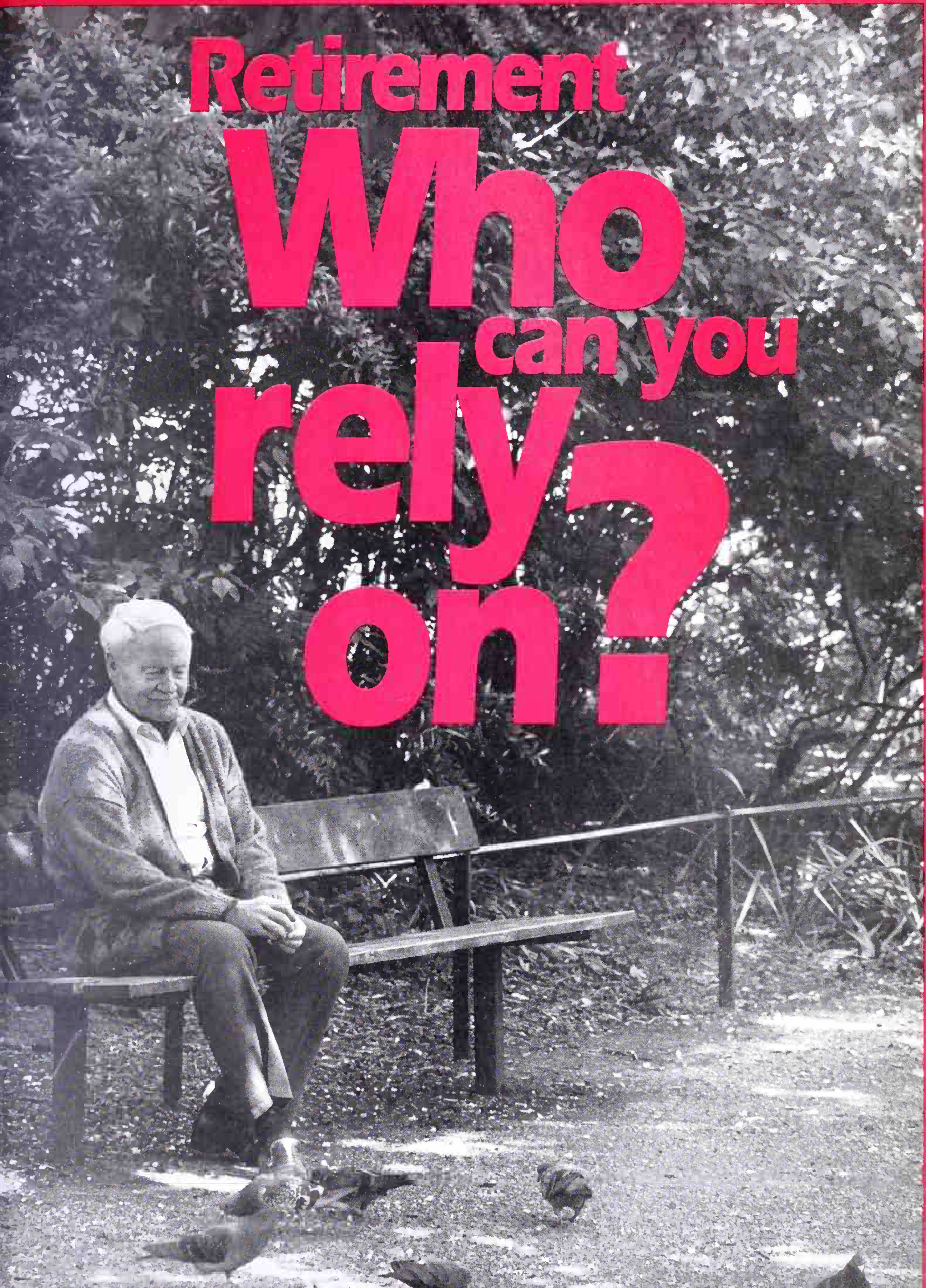
A number of economists think a rection is approaching, however. one thing, the rise in rates may sl these economies somewhat. More portant, as economists at Citibank po out, inflation is unusually low "and li ly to remain low" in many of the natio experiencing big rate increases.

At the very least, this lowers the r for investors betting on a turnarou in yields. With bond rates already high, economists at the monthly *International Bank Credit Analyst* figu rates would have to rise about 140 ba points over the next year before mestic purchasers of U. S., British, French bonds lost money on a total turn basis. For Canadian and Austral bonds, the cushion is 164 and 206 ba points, respectively.

If yields move lower over the ne year, of course, total investment retu will look that much fatter.

Retirement

Who can you rely on?



11 000 000 clients

With so many clients worldwide, we have acquired such diversity of experience that we can be confident in the commitments we make.

Go ahead
ou can rely on us

This figure speaks not only of AXA's size, as one of the world's insurance leaders. For us it translates into a rare, perhaps unique efficiency.

These clients live on three continents, in 16 countries, each of which has a different culture and different retirement problems. Cross fertilization, as we practice it through specialized international synergy committees, has been instrumental in helping us devise innovative and thoughtful solutions...

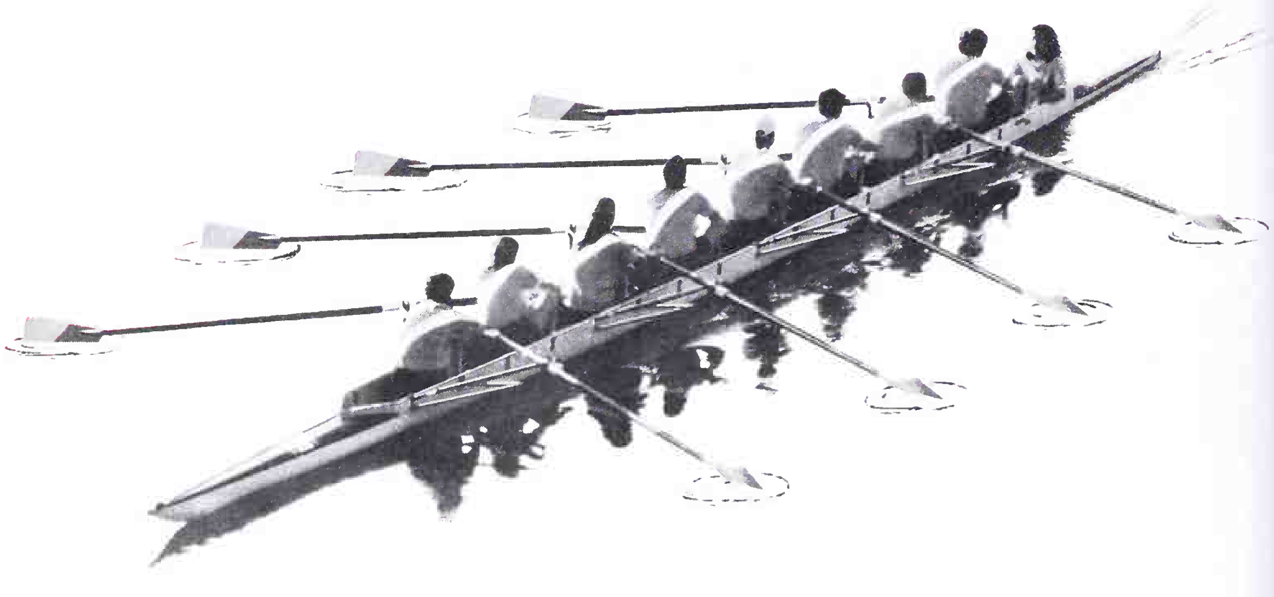
Our experience as the fourth largest insurance group in the world, based on funds under management, having being entrusted with more than $220 billion, testifies equally to our performance and our strength.

So you can see that we are not speaking lightly when we say : "Go ahead. You can rely on us".

AXA Group has companies in : Belgium, Canada, France, Germany Hong Kong, Italy, Japan, Luxembourg, Malaysia, Mexico, Netherlands, Portugal, Singapore, Spain, United Kingdom, United States.

AXA

INSURANCE & INVESTMENT



The Result of Pulling Together.

When your job is on the line every day, it's critical to see a team of experienced hands working together. Pulling for you. Helping you get ahead.

S&P's ability to swing into action comes from long practice, analytical skill and proven teamwork.

This team approach gives you easy access to our credit ratings, our rationales, and direct contact with our analysts. Their experience and willingness to share in-depth knowledge can help you set the pace when it comes to today's complex investment strategies.

You'll see a difference with S&P pulling for you. We really put our backs into it.

Standard & Poor's
A division of McGraw-Hill, Inc.

Corporate Finance	*Financial Institutions*	*Insurance Rating Services*	*International Finance*	*Public Finance*	*Publishing Services*	*Structured Financ*
212-208-8931	*212-208-1836*	*212-208-1367*	*212-208-1912*	*212-208-1723*	*212-208-1146*	*212-208-1399*

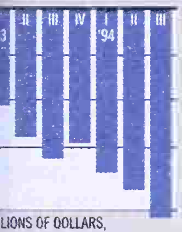
AMES C. COOPER & KATHLEEN MADIGAN

OU CAN'T BLAME TRADE OR THE ECONOMY'S TROUBLES

U.S. ECONOMY The debate over the General Agreement on Tariffs & Trade
ecome the first battleground between Congress and
Vhite House. So trade and international markets are
ral themes in the volley of rhetoric fired between Re-
icans and Democrats. Lost among the partisan salvos,
ever, may be the fact that foreign trade is already a
ficant part of this economy, and its importance will
inue to grow.

fact, foreign demand will be especially crucial to ec-
nic growth in 1995 when manufacturers will have to
ch for new markets as demand in the U. S. slows. In-
, exports are poised to grow faster in 1995 than they
n 1993 or 1994. Factors such as infrastructure-build-
n emerging markets, a recovering Europe, and the
p dollar all will converge to lift foreign purchases of
rican-made goods.

HE TRADE GAP MAY
E HITTING BOTTOM



LIONS OF DOLLARS,
QUARTERLY RATES
COMMERCE DEPT., BUSINESS WEEK

At the same time, the slowdown of domestic demand in the U. S. should dampen the influx of imports. However, imports are still expected to grow faster than the overall economy next year. So a greater share of goods bought in the U. S. will be made somewhere else.

Taken together, the pickup in exports and the slowdown in imports suggest that the foreign
e deficit may be bottoming out right now (chart). And
will see some narrowing in the trade gap, even as it
gs a more moderate economy. Indeed, it is the pros-
of weaker growth next year, along with fears of high-
terest rates, that have rattled the stock market.
k prices tumbled in the days before the Thanksgiving
lay.

oreign trade did continue to worsen in September.
deficit for all goods and services widened to $10.1
n from $9.7 billion in August. Imports rose for the fifth
ght month, increasing 0.3%, to $69.8 billion. Exports,
ever, fell 0.5%, to $59.7 billion in September. For
s alone, the deficit increased to $14.6 billion from
ust's $14.1 billion.

PITE A DROP in September, merchandise exports
been doing much better now than they were in 1993.
eign shipments are up 14.9% from a year ago. Last
ember, they were growing a mere 3%.

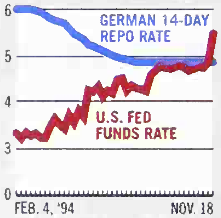
The big gains have been in Mexico, where the North American Free Trade Agreement has opened up markets, and in areas where economic growth is booming. Exports to Mexico are up 21.7% so far in 1994 compared with 1993. Along the emerging nations of the Pacific Rim, exports are rising 12.6%, and in Latin America, they have grown 10%.

The dollar—the 90-pound weakling of the currency markets— has helped to supply the muscle for U. S. manufacturers in the emerging markets. True, most of these nations peg their currencies to the U. S. greenback. But the cheaper dollar has given American manufacturers a price advantage over their major competitors from Japan and Germany. The dollar has fallen 13% against the yen and 12.2% against the mark since the start of the year.

The currency advantage has been vital in boosting overseas demand for capital goods made in the U. S. Shipments of capital machinery are growing faster than exports overall.

Against European rivals, U. S. companies will likely start to lose that pricing edge sometime in the first half of 1995. That's because the dollar may start to strengthen against European currencies. A big reason: Short-term interest rates here are above rates in Germany for the first time in four years.

WILL HIGHER RATES LIFT THE DOLLAR?



▲PERCENT, WEEKLY AVERAGES
DATA: FEDERAL RESERVE BANK, DRI/McGRAW-HILL, BLOOMBERG FINANCIAL MARKETS

The latest Federal Reserve move on Nov. 15 pushed the federal funds rate—the cost of interbank borrowing—above the comparable rate of the German Bundesbank (chart). Lower German rates should make dollar-denominated securities—and thus, the dollar—more attractive to foreign investors.

THE DOLLAR will probably continue to have problems against the yen, though, because of America's massive trade deficit with the Japanese, now about 40% of the U. S. trade shortfall with the entire world. In September, the trade gap improved only slightly, to $5.4 billion from $5.8 billion in August.

U. S. trade deficits with other nations are soaring as well. After Japan, our second-biggest deficit is with China. In September, the U. S. bought $3.5 billion more in goods from China than it exported. That's up from $3.2 billion in August. In the first nine months of 1993, U. S. trade with Europe was roughly in balance. So far in 1994, the

ERIC HOFFMANN/BW

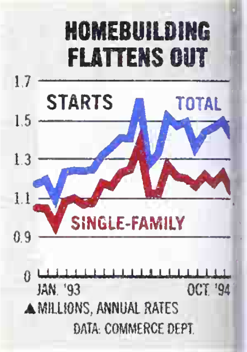
trade gap with Europe has widened to nearly $9 billion.

The big reason for the trade deficit is the influx of imported goods. Merchandise imports are up 12.6% so far in 1994. Businesses are leading the import binge, though some of their purchases are used as part of the manufacturing process here at home. Imports of capital goods are up 20.4% this year, with big increases of computer parts, telecommunications equipment, and semiconductors. Imports of nonoil industrial supplies have increased 16%.

Import growth will taper off only when domestic demand feels the downward tug from tighter Fed policy. That pull will be stronger in 1995. So far, housing has been the primary victim of monetary policy, subtracting slightly from economic growth in the third quarter. In October, housing starts fell 5.2%, to an annual rate of 1.42 million. Single-family starts fell a steeper 7.4%, to a 1.14 million pace (chart).

STILL, HOME BUYING has held up fairly well in 1994, despite higher mortgage rates. That's because buyers have switched to adjustable-rate mortgages. But even these rates are becoming less enticing. According to HSH Associates, the initial rate for a one-year ARM stood at 6.33% in mid-November, almost where 30-year fixed rates were last October.

With affordability becoming more of an issue, demand is sliding. Mortgage applications in the first half of November were about even with their October average, wh was down from September's pace. In addition, the Nati al Association of Home Builders said that just over hal its members reported low buyer traffic in October, e sparest traffic reading in almost three years.


HOMEBUILDING FLATTENS OUT

▲MILLIONS, ANNUAL RATES

DATA: COMMERCE DEPT.

The rise in short-term interest rates won't just hit housing. For homeowners with ARMs, the Fed tightening means higher monthly house payments. So more money will have to be budgeted away from other spending. Likewise, the boost in banks' prime lending rate will lift the interest cost of small-business borrowings, home-equity loans, and credit-card balances.

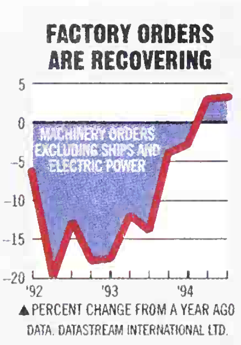
Of course, less borrowing is part of the Fed's plan slow this economy and hold inflation under wraps. The creased demand from abroad, however, will complica the Fed's job. If manufacturers can sell their produ overseas easily, they will not have to hold the line on pr es. That's one reason why the Fed will probably have hike interest rates further in 1995. But for exporters, t increased demand overseas will offer a safety valve f their businesses, even as customers in the U. S. sca down their buying plans.

ASIA

JAPAN'S RECOVERY IS WELL UNDER WAY

Last year, Japan's Economic Planning Agency incorrectly dated the end of the latest recession to June, 1993. So it was more cautious the second time, waiting until Nov. 17 to declare that Japan's second-longest recession in the postwar era ended back in October, 1993.

The latest data back up the declaration. The leading index stood at 54.5 in September, down from August's 100, but still high enough to signal growth. Manufacturing is improving, helped by some inventory rebuilding and increased exports. Factory output and machinery orders are growing (chart).


FACTORY ORDERS ARE RECOVERING

▲PERCENT CHANGE FROM A YEAR AGO

DATA: DATASTREAM INTERNATIONAL LTD.

Exports and capital spending won't do it all in this upturn. In its monthly economic report on Nov. 22, the Bank of Japan cited the need for increased consumer outlays to keep the recovery on track.

So far, a tax cut in the form of a rebate has boosted shopping. In September, real household spending increased 2% from a year ago. Demand for beer, air conditioners, and clothing surged during this year's unusually hot summer, lifting third-quarter spending 0.5% above its year-ago level. Outlays should continue to rise into 1995, helped by winter bonuses and the second part of the tax rebate. Sluggish job growth, however, will keep consumers from any buying sprees.

Shoppers may be getting more bang for every yen spent, though. That's because the government doesn't include discount stores when tallying inflation. So consumer prices, which were up 0.2% nationally in the year ended in September, may really be falling.

The monthly data suggest that growth in Japan's third-quarter gross domestic product, which is to be released in mid-December, could be strong. Real GDP fell at a 1.6% annual rate in the second quarter.

The Japanese government is taking no chances, however. Tokyo recently increased the number of homebuyers who are eligible for mortgage subsidies to a record 1 million. That should keep homebuilding on solid ground and prevent the Japanese economy from floundering again.

ERIC HOFFMANN/BW

DEVOTES INCREDIBLE ATTENTION TO DETAIL

JUST LIKE A PARKER

PARKER
INSIGNIA

The PARKER INSIGNIA Laque Black shows our dedication to detail. The durable, deep gloss finish is highlighted by 14kt. Dimonite G trim, a gold-plating process we have patented. The refill in the Ball Pen is specially designed to be long-lasting and write cleanly and smoothly. Like all PARKER writing instruments it has a lifetime guarantee.

Ball Pen shown, $32.* PARKER INSIGNIA collection includes a wide range of other finishes. Ball Pens and Pencils available from $16 to $100.*
*Suggested retail price. For the store nearest you, call 1-800-BEST PEN. ©1994 Parker Pen USA Limited

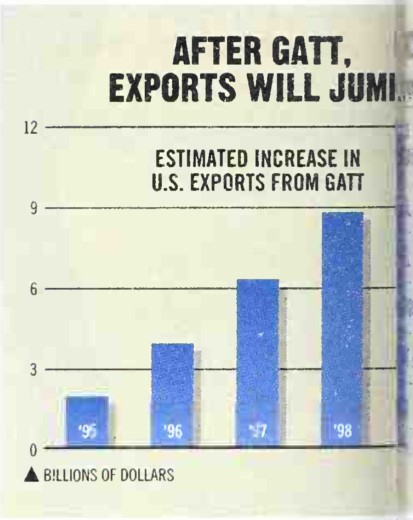
'DELAY WOULD MEAN THE DEATH OF GATT'

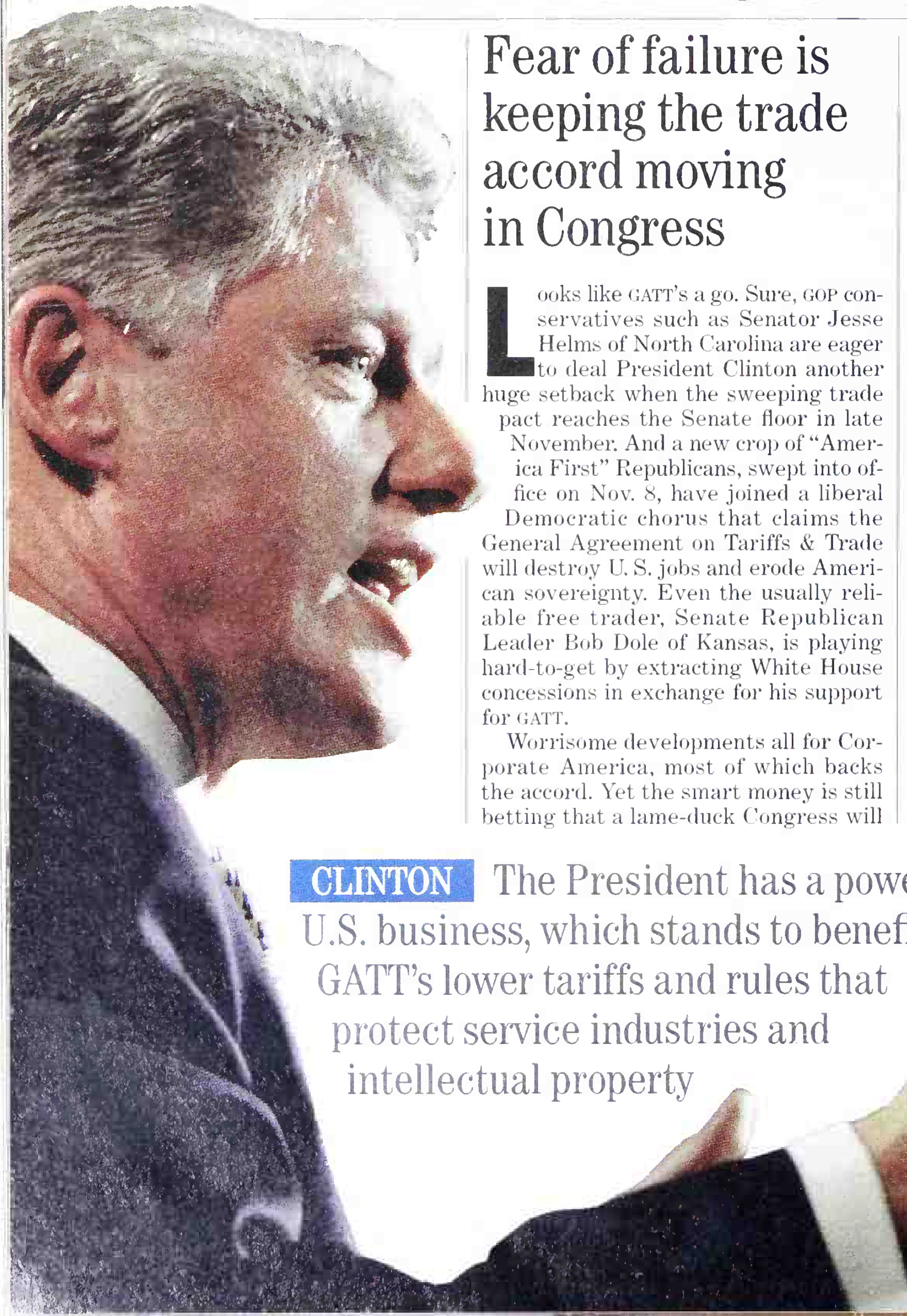
Fear of failure is keeping the trade accord moving in Congress

Looks like GATT's a go. Sure, GOP conservatives such as Senator Jesse Helms of North Carolina are eager to deal President Clinton another huge setback when the sweeping trade pact reaches the Senate floor in late November. And a new crop of "America First" Republicans, swept into office on Nov. 8, have joined a liberal Democratic chorus that claims the General Agreement on Tariffs & Trade will destroy U. S. jobs and erode American sovereignty. Even the usually reliable free trader, Senate Republican Leader Bob Dole of Kansas, is playing hard-to-get by extracting White House concessions in exchange for his support for GATT.

Worrisome developments all for Corporate America, most of which backs the accord. Yet the smart money is still betting that a lame-duck Congress will approve the trade accord, on which t
House is expected to vote Nov. 29 a
the Senate on Dec. 1. Clinton Admin-
tration officials may be numb over t
Democrats' election rout, but they c
still count votes. "At the end of the d
I think we will have enough votes. B
it won't be easy, and it won't be prett
says one senior Administration offic

The reason for the growing optimis
As it did with the North American Fr
Trade Agreement, the White House


AFTER GATT, EXPORTS WILL JUM


CLINTON The President has a powerful ally in U.S. business, which stands to benefit from GATT's lower tariffs and rules that protect service industries and intellectual property

ing out all stops to get a GATT deal ough. U. S. Trade Representative key Kantor and Treasury Secretary yd M. Bentsen have been in daily otiations with Dole. As of Nov. 22, a ipromise was in the works that ld make it clearer that the U. S. can ew decisions of the World Trade Or- zation, which would be set up to ar- ate trade disputes under GATT, and d pull out of the organization if it is atisfied with the overall tenor of its ngs. Under the tentative deal, a pan- f retired judges would monitor WTO sions for fairness.

INESS BLITZ. Such bargaining won't ire passage of the accord. But if the te House can pull off GATT, business have played a big role. Among those tically lobbying Dole: the American m Bureau and Boeing Co., which ufactures aircraft in Kansas. Boe- and most other big companies ex- to benefit handsomely from GATT's er tariffs and new rules that protect ice industries and intellectual prop- worldwide.

year ago, an eleventh-hour corpo- lobbying blitz helped rescue NAF- rom defeat. Today, the Alliance GATT Now, a 200,000-member- ng business umbrella group, is ilizing for a similar push. It is ling Congress with phone calls n CEOs in their districts. Also eduled: formal endorsements of r by Presidents Bush, Ford, and er. At the same time, the Business ndtable has been beating on the s of key Republicans such as Texas ator Phil Gramm.

hat's crucial because GATT's toughest lle is in the Senate. There, rules man- that at least 60 senators waive bud- requirements that the pact's tariff uctions be matched by offsetting tax hikes and spending cuts. That's why strong backing by Dole is essential. Without him, the GATT implementing legislation—which creates the WTO—would die.

The rub is that Dole has his eye on the GOP Presidential nomination in 1996. And his party's right wing is wary of the pact, fearing that the WTO, like a mini-U. N., will be dominated by small, anti-American developing countries. "Dole's in a tough spot," says one Clintonite. "His home state favors GATT, especially the farmers. But he's raising [doubts] to prove to his party's right wing that he's a credible candidate."

Most businesspeople, however, don't harbor any such doubts. The way they see it, GATT is NAFTA on steroids. Twenty times as big as the U. S.-Canadian-Mexican deal, the pact promises enormous macroeconomic benefits: an additional $100 billion to $200 billion a year in U. S. economic activity after a 10-year phase-in, according to the Treasury Dept. and the Organization for Economic Cooperation & Development. And U. S. approval of the 124-nation accord would give retooled U. S. companies a leg up in cracking new markets. "We're actively working for it and will continue to push hard," says Chrysler Corp. Chief Executive Robert J. Eaton.

WARNINGS. But the chief motivation for passing GATT may be the overriding fear that defeat or delay would almost certainly doom the pact in a new Congress more hostile toward free trade. "Delay would mean the death of GATT, pure and simple," warns Vice-President Al Gore. "And that would hurt the country's economy immeasurably."

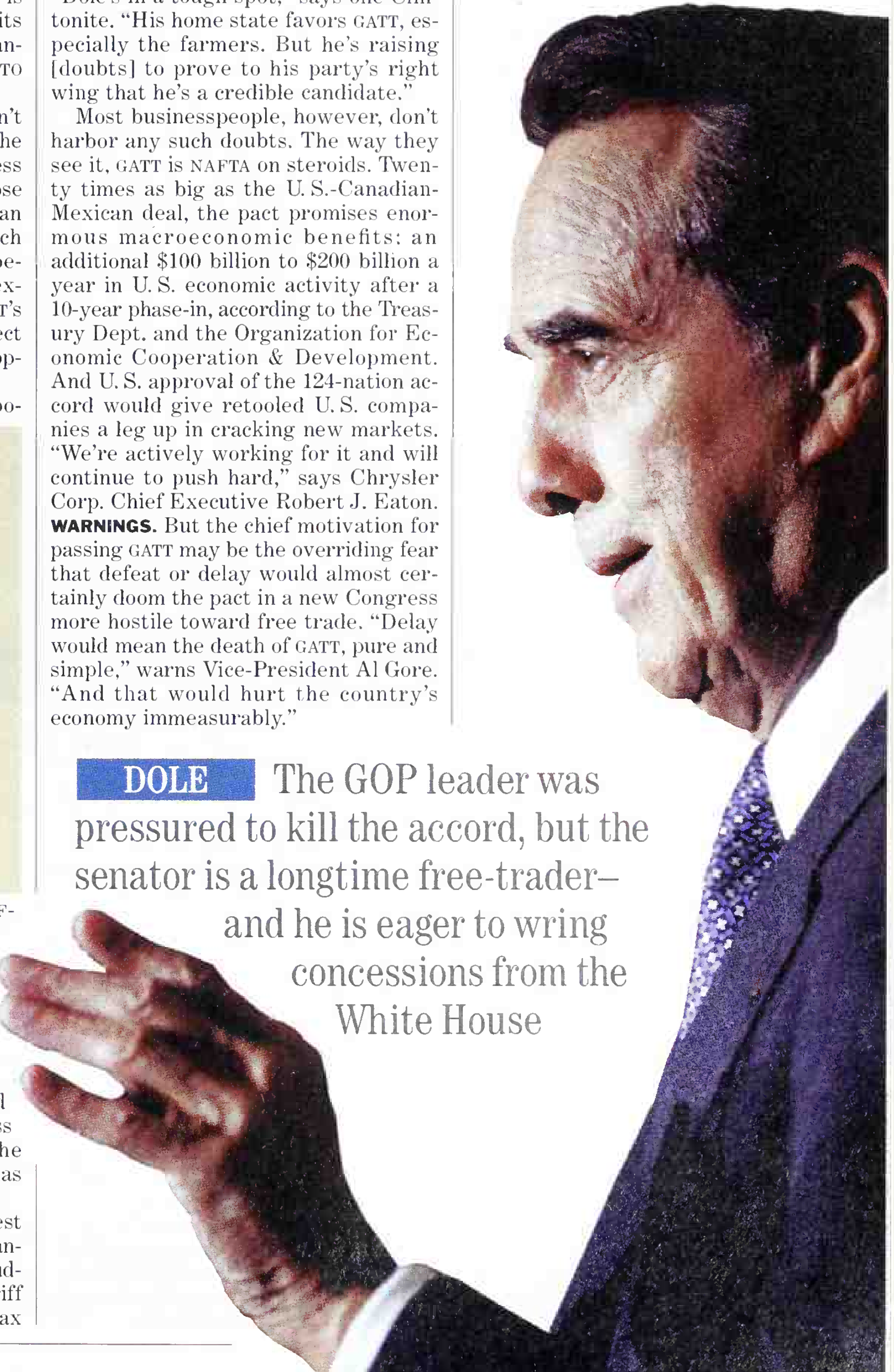
Indeed, the defeat of GATT would humiliate the U. S. and send shock waves through world financial markets. After all, three Administrations spent seven years pushing for an accord to open world markets despite fierce objections from Europe and Asia. "The markets would be badly shaken," says Robert Hormats, vice-president for international relations at Goldman Sachs Interna-

ND PRICES WILL FALL

ngs from reduced tariffs

	MILLIONS
Y ANCES	$2,056
L EQUIPMENT	2,375
L	534
PORTS EQUIPMENT	566
E AND BEDDING	222
S	$9,253

TA: OFFICE OF THE U.S. TRADE REPRESENTATIVE, *THE URUGUAY ROUND: AN ASSESSMENT*



DOLE The GOP leader was pressured to kill the accord, but the senator is a longtime free-trader—and he is eager to wring concessions from the White House tional Ltd. "If GATT fails, it will stop U. S. global economic policy dead in its tracks." Hormats contends that, in a GATT-less world, the U. S. could forget about winning future international cooperation on currency stabilization or persuading Russia to stick with free-market reforms. Adds John P. Pipsky, chief economist at Salomon Brothers Inc.: "It's inconceivable that Congress wouldn't pass it."

The vote also marks the first big test of bipartisan cooperation since the Democrats were decimated in the election. If Congress hands Clinton a defeat of this magnitude so soon after the GOP landslide, the President's weakened status will loom over every policy initiative for the remainder of his term. And Republicans will look like masters of gridlock rather than the leaders of a new era of accomplishment. That's why Representative Newt Gingrich (R-Ga.) has embraced the pact, over the objections of GOPers who want to delay it until next year.

GIVEAWAYS. Of course, even if GATT passes in the lame-duck session, both parties are running political risks by pushing for it. The Administration foolishly loaded up the GATT bill with extraneous pork such as the Pioneer preference amendment. That provision settles a dispute with Washington Post Co. and two other media companies seeking settlement of a flap with the government over use of cellular-phone airwaves. The companies, forced to pay market prices for licenses originally given for free, won financial concessions in the amendment.

That has been seized upon by critics as the kind of giveaway that voters rejected on Election Day. White House officials now say the provision may be renegotiated next year. But by asking for quid pro quos in return for his support for GATT, Dole could come off as being just as mired in deal-mongering.

Despite the turbulence, business believes there's too much at stake for GATT to fail. The U. S. software industry would would have no recourse in fighting copyright piracy of an estimated $12.8 billion a year, says the Business Software Alliance. And by some estimates, U. S. agribusiness would lose up to $10 billion in additional crop exports over the next decade. Without passage, moreover, the Summit of the Americas in Miami on Dec. 9-11 (page 52), where Clinton is to unveil his plan for a hemispheric free-trade zone, would turn into a Wake of the Americas. It's such fears that should put GATT over the top.

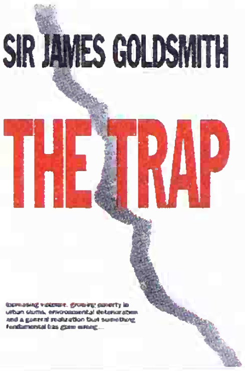
By Douglas Harbrecht, with Susan B. Garland and Owen Ullmann, in Washington, and bureau reports

TRADE

SIR JIMMY GOLDSMITH GOES JOUSTING AT GATT

His book argues that free trade will unleash social instability

Capitalist buccaneer Sir James Goldsmith is on the rampage again. On Nov. 15, he testified before the U. S. Senate Commerce Committee. Then he appeared on Charlie Rose's public-television talk show. Now, he's taking out huge ads promoting his year-old book *The Trap*, just released in America.



NEW FOCUS: *Growth is not the ultimate value*

What ax does the feared corporate raider have to grind? Believe it or not, Goldsmith is passionately attacking global free trade and its principal institution, the General Agreement on Tariffs & Trade (GATT).

Goldsmith's argument centers on the threat that is posed to the industrial West by the collapse of communism and the spread of capitalism throughout much of the developing world. Social upheaval abruptly has brought some 4 billion people into the world economy, and Goldsmith contends that fierce competition from such low-wage workers will clobber American and European workers. "The social divisions that this will cause will be deeper than anything ever envisaged by Marx," he warns in his book.

BUILDING BLOCS. The way to avert the carnage, he argues passionately, is to replace global free trade with regional trading blocs. These blocs would put up strong protectionist barriers against outsiders, but permit free trade within regions. Logical groupings might include North America, Europe, Southeast Asia, and Latin America.

Other *bêtes noires* the wealthy industrialist and current Member of the European Parliament takes on in his 186-page book include the welfare State, intensive agriculture, and nuclear power. The book is set up in an easy-to-digest format in which Goldsmith answers questions posed by Yves Messarovitch, economics editor of *Le Figaro*.

How good a case d
Goldsmith make? His e
nomic argument for prot
tionist trading blocs is
persuasive. In the case
the U. S., he underestima
the economic vitality of t
information economy, a
how productive Americ
workers are in the global
onomic sweepstakes.

Yet Goldsmith's argum
is less about economics th
values. He argues that "e
nomic growth is only bene
cial insofar as it serves t
needs of society, consolid
ing stability and increasi
contentment."

Economic statistics are
mismeasure of a nation
well-being, he contend
Look at the U. S, he writ
Despite a quadrupling
U. S. real gross nation
product in the past 50 yea
and giant strides in scien
and technology, communiti
are breaking down and vi
lence is up.

Like many turn-of-th
century European conserv
tive intellectuals, Goldsmi
blames the Enlightenment for t
wrong turn Western economies ha
taken. He wants to rein in science a
technology, reaffirm traditional soci
values, limit immigration, and preser
cultural identity—all to ensure a mo
stable society and harmony with natu

He's right, in a sense. Yet there is
very different vision underlying GAT
A world open to freer trade is one th
is open to new ideas, new ways of org
nizing life, and civilized discourse amo
different peoples. Better yet, the fre
flow of commerce and information nu
tures democracy and is hostile to close
minded bureaucracies.

Goldsmith too easily glosses over t
fact that protectionism invites bigg
government and economic stagnatio
Many things are going wrong in th
West. But in no case is protectionis
the answer.

By Christopher Farrell in New Yo

COMMENTARY

By Douglas Harbrecht and Owen Ullmann

HOW BUSINESS CAN MANAGE THE BACKLASH

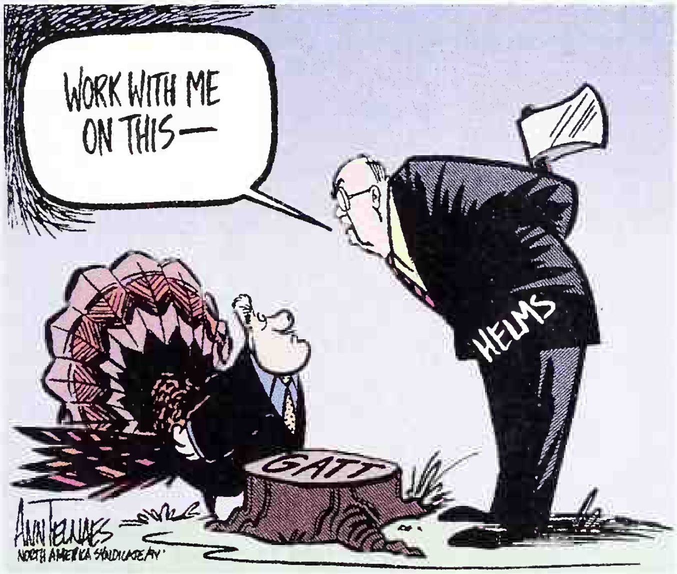
Debate on the General Agreement on Tariffs & Trade can be summed up by three immutable acts: Economic globalization is acelerating—with or without GATT. The trade accord will be a big plus or the U. S. economy. Yet the shift to free-trade world is terrorizing milions of Americans who fret that heir jobs are at risk.

Therein lies GATT's great internal ontradiction: good economics, bad olitics. No wonder a trade deal that leserves to sail through Congress got tuck in choppy waters.

Free-trade advocates—rom President Clinton to ATT backers in Congress o corporate CEOs—have een so confident they're n the right side of the isue that they've underestinated the huge backlash hat is being stirred up gainst this particular acord and the broader conept of free trade. The ro-GATT crowd assumed he debate was settled a ear ago by passage of the North American Free rade Agreement. Instead, t's heating up again. From onsumer advocate Ralph Nader on the left to Senaor Jesse A. Helms on the ight to raging populist Ross Perot n between, opponents are portrayng free trade as a threat to the American way of life.

"TOUGH SELL." Why? Because global ommerce is claiming plenty of vicims, and everyone knows it. While Congress will probably approve GATT ecause it will mean a net gain of obs for the U. S., there is no denying hat dislocations inherent in the new global economy mean some factories will close and jobs will move to Boivia or Bangladesh. American workers everywhere feel threatened. Uness these gnawing anxieties are addressed, the march toward open narkets could be reversed by a new reed of lawmakers veering toward rotectionism.

Much of the opposition to GATT is ed by rage. A growing number of Americans believe their economic concerns are being dismissed by a unch of elitist politicians, economists, and journalists who have never had to worry about foreign competition in their lines of work. "Free trade is a really tough sell for ordinary Americans," admits GOP pollster Frank I. Luntz. "Viscerally, they've seen the devastation, but they haven't felt the growth."



ANN TELNAES/NORTH AMERICAN SYNDICATE

According to a survey by another GOP pollster, Anthony Fabrizio, three out of every four Americans want consideration of a new world trade pact put off until next year. The reason: Most feel they don't know the issue well enough to express an opinion. True enough, a meager 3% of Americans rank trade as a top concern. But of those who do, opinions are passionate. And the people most uneasy about free trade include white males who feel their jobs are most at risk. "Words like sovereignty and World Trade Organization have a titillating feel to them," worries Texas Instruments Inc. CEO Jerry R. Junkins, who heads a pro-GATT business group.

As Junkins says, "we cannot hide from globalization pressures." But U. S. business must acknowledge that with the lucrative opportunities of globalization come responsibilities, too. Companies must work with federal, state, and local governments to devise more credible, cost-efficient retraining and relocation programs for workers who lose their jobs to foreign competition. Current programs—the feds spend just $200 million a year—have failed to keep pace with the enormous changes that have occurred in the global economy over the past decade. As Labor Secretary Robert B. Reich noted on Nov. 22, if the government can afford to give Corporate America tens of billions a year in tax breaks, it can afford to spend more on worker assistance. Think of it as a cheap insurance policy against the backlash.

GATT's advocates have got to do a better job of selling free trade to the public

DEFEATISM. At the same time, free-trade advocates have got to do a much better job of selling open markets to the public. Privately, White House officials admit that their rhetorical efforts thus far have been a dismal failure, and they see the issue as a loser with the public. "If this weren't so important, we wouldn't go near it," says one official. With a defeatist attitude like that, no wonder the message doesn't come through. Business groups readily admit their failures, too. "When CEOs talk about free trade, people see a greedy mogul out to make a buck," sighs one business lobbyist.

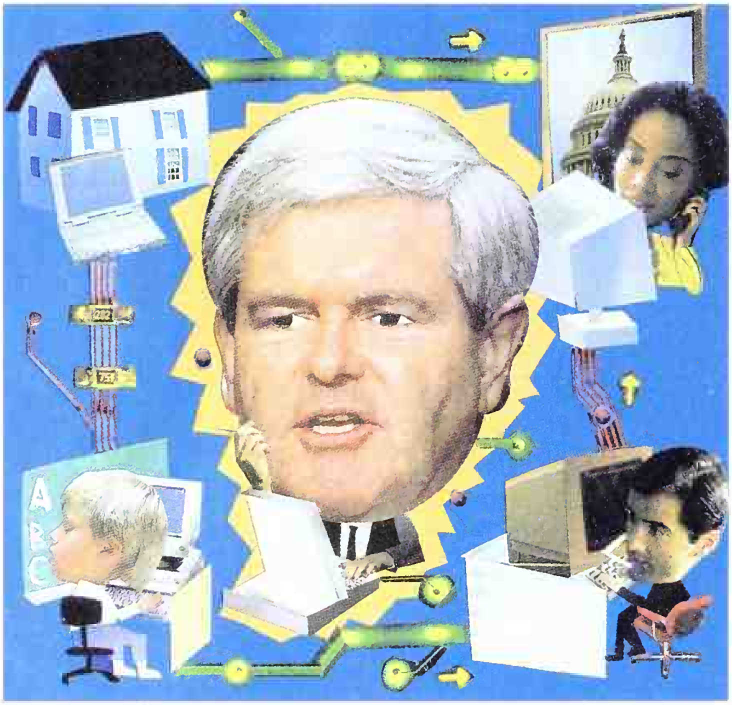
But there's no ducking reality. Like it or not, globalization is here to stay. China is becoming the textile capital of the world. India has a booming telemarketing industry that can service Thailand as well as the U. S. Mexico will become a source of cheap autos. The preachers of free trade had better learn that it's no longer enough to be right. They have to be compelling—and caring, too—or face the consequences.

Harbrecht and Ullmann follow the trade debate from Washington.

CONGRESS

WILL AMERICA LOG ON TO THE INTERNEWT?

Gingrich envisions no mere electronic town hall



Is America ready for Newtnet, the pulsing, on-line heartbeat of conservative populism?

The nation may not have a choice. If Speaker-in-waiting Newt Gingrich (R-Ga.) gets his way, he'll use the Internet as an electronic town hall that could build grass-roots support for his singular brand of conservatism. And Gingrich wants to create information empowerment zones in those rural and urban areas that aren't yet cradles of on-line activity. "The best description of me is that I'm a conservative futurist," he declared in a Nov. 11 speech. Adds Kenneth Kay, director of the Computer Systems Policy Project, a lobbying group of computer-industry chief executives: "Gingrich has a populist notion that with information technology, angry, disenfranchised people will be empowered to take more control over their government."

Thus far, Gingrich's techno-vision may be a wee bit ahead of his capacity: He didn't return electronic requests for information on his plans left at his Internet address. But the House Republicans' "Contract with America" lays out the modest beginnings of his electronic agenda. Top priority: making Congress as computer-friendly as the White House, where the President and Vice-President have Internet addresses—and actually use them. Gingrich intends to put all pending House legislation on-line, thus thwarting the shadowy cloakroom tricks of special-interest lobbyists and skulking Democrats.

"OUT-GORE GORE." The move toward electronic access is an outgrowth of Gingrich's belief in participatory democracy—greater citizen access, via direct referendums and ballot initiatives—to bypass an entrenched bureaucracy. His strategy also reflects a fondness for *The Third Wave* authors Heidi and Alvin Toffler, who proclaim an Information Revolution that could transcend the Industrial and Agricultural Revolutions in its impact on American society. The Tofflers and Gingrich became friendly in the early 1970s while the future lawmaker was teaching history at West Georgia College. Gingrich even penned the foreword to the Tofflers' new monograph: *Creating a New Civilization: The Politics of the Third Wave*. "On virtually every front," he wrote, "we see the information revolution changing the fabric, pace, and substance of our lives."

In that sense, Gingrich sees eye to eye with Vice-President Al Gore, the Administration's Info Highway evangelist. The Speaker may be trying to "out-Gore Gore," as one White House official puts it. But he is less willing than the veep to use government money to fund demonstration projects and other industry efforts to prove the technology. GOP bean counters, in fact, already are taking aim at the High Performance Computing & Communications Init tive, which provides public funding supercomputing and network resear

Gingrich's desire to put all legislati on-line, though, represents sound str egy. It stems from GOP anger over bei forced to vote for the crime bill last A gust without knowing what was in the final version was being printed the House basement as the vote to place. Under Gingrich's rule, no fir House vote could take place until measure is on-line.

That would allow the on-line nati to send gripes electronically to lawma ers. But it also would limit the pow of new GOP House leaders to cram po and other goodies into legislation in t dead of night. No matter, say Repub cans. "We're trying to bring the Hou into the 21st century," says Represent tive Vernon J. Ehlers (Mich.), who heads the GO automation task force.

POWERFUL TOOL. Gingric plans are far more swee ing, though, than proced ral reform of the House. wants to harness cybe space, a hotbed of politic activism that tends to ve toward the economic co servatism and social libe tarianism of the Righ Shortly before the midter elections, for example, t Prodigy on-line servi polled subscribers on the party affiliations. Of t 20,800 people who respon ed, Republicans outnur bered Democrats 53% 26%. Numerous electron bulletin boards are targe ed at conservatives, ar CompuServe has long ha a forum for fans of conse vative talk-show host Rus Limbaugh, who met his wife on-line. R cently, according to one cyberpunk, tra fic devoted to Gingrich on the Ameri Online service even outstripped th about Limbaugh.

If the on-line nation really is predon inantly Republican, Gingrich may hav a powerful political instrument in h hands. He can use it for everything fro raising funds from Silicon Valley exe to reaching vast numbers of potenti recruits in his antigovernment crusad Gingrich wants to use the Infobahn t promote grass-roots democracy. But h wants to make sure it's spelled with small "d."

By Mark Lewyn and John Care in Washington

NEWT ON THE NET

georgia6@hr.house.gov

f you're managing your company's finances, what's your next move?

REAL Solutions.

Real Solutions℠ from Sprint Business

Real business challenges demand *Real Solutions*. The new program that's helping businesses boost their bottom lines.

Your free action plan

Call us for a free top-to-bottom analysis of where your business stands, with information such as industry comparisons for operating expenses, spending trends and other vital financial benchmarks.

Talk to a professional business consultant

You'll have unlimited access to our experienced staff of professional consultants at the *Real Solutions* Business Center. They'll work with you on strategies to manage finances more efficiently. And show you how advanced communications technology can help your business do more business.

Here's what else you'll get:

- Flat rate pricing (to take the guesswork out of monthly expenses).
- One simplified bill combining voice and data.
- Free software to receive your bill on a disk.
- Credits for valuable business products and services.

So call today for *Real Solutions*. It's your move.

1-800-816-REAL

Sprint® Business

© 1994 Sprint Communications Company L.P. Monthly minimum and term plan apply

BALANCE SHEETS

THE PROBLEM NOW: WHAT TO DO WITH ALL THAT CASH

Corporate America is flush, but it can't forget darker days

Only 16 months after emerging from a messy bankruptcy, wallboard manufacturer National Gypsum Co. received a surprise $940 million buyout offer on Nov. 15 from a group headed by Chairman C. D. Spangler Jr. Why now? Thanks to new housing starts, Gypsum's profits are soaring. And the company lately has paid off almost all of its $100 million in debt. Most important, Gypsum is awash in cash—to the tune of $55 million. With further profit growth on the horizon, Spangler may not have much to lose. "Cash is cash," quips Barnes Hauptfuhrer, a banker at First Union Corp., which is co-funding the bid. "It's worth what it's worth."

It's also overflowing the coffers of Corporate America. Companies, enriched by surging profits through most of 1994, are churning out cartloads of cash. Their shareholders are the clear winners: Dividends paid out by companies in Standard & Poor's 500-stock index will jump about 5% this year and 7% in 1995, up from a 2% increase last year.

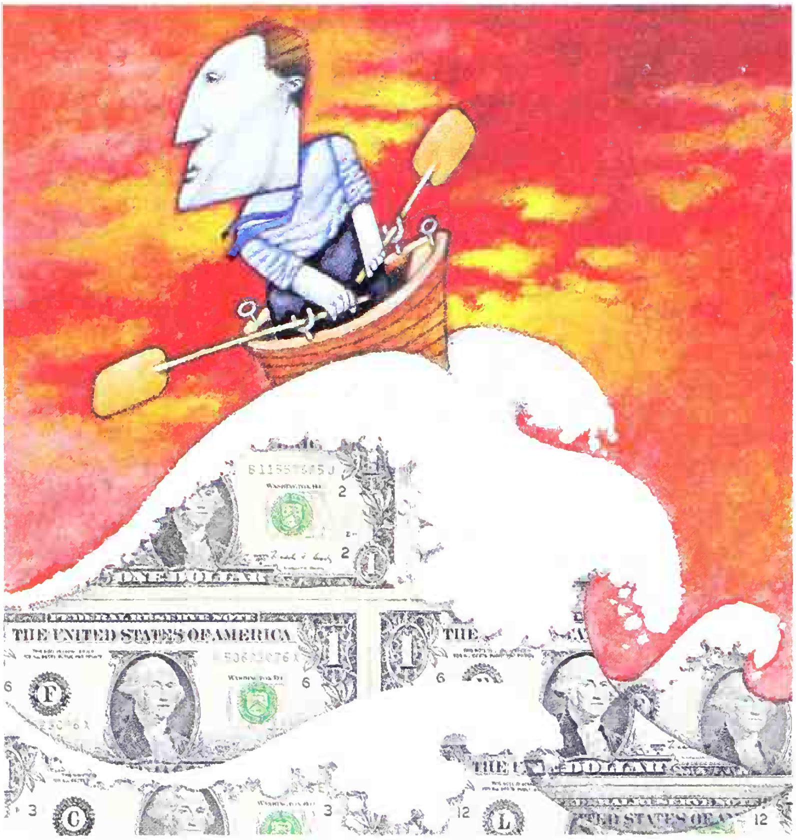
POUNCES. And the spree goes well beyond that. Capital spending, acquisitions, and debt repayment remain far more robust than many analysts had expected in the face of interest-rate hikes by the Federal Reserve Board. "As each month goes by, I see a higher degree of business confidence, despite increases in interest rates," says David J. Rudis, executive vice-president at LaSalle National Bank in Chicago.

Just how well are things going for U. S. companies? According to the Fed, corporate cash flow increased 12.3% during the second quarter of 1994. And 54% of U. S. companies reported better-than-Wall-Street-consensus earnings during the third quarter. The largesse has fueled an 8.8% hike in capital spending this year, says the Comme
Dept., topping the 8.3% increase it p
dicted in January.

With lots of cash on hand, compa
are pouncing fast when they see a b
ing opportunity: Spending on acqu
tions this year is expected to appro
the 1988 record of $336 billion. The
est example: On Nov. 21, Rockw
International bested General Signal
agreeing to pay $1.6 billion—all
cash—for Reliance Electric, a make
industrial motors. Rockwell could e
ly afford the bid because its indust
automation and auto parts busines
are spinning off tons of cash. Anot
recent bid: Drugmaker Amgen In
Nov. 18 deal to pay $262 million in c
for Synergen Inc.

But not everyone
hanging up buntir
"There's a palpable c
cern about a downtur
says Goldman, Sachs
Co. Senior Econom
Edward F. McKelv
With rates up, econom
Laurence Meyer,
Laurence Meyer &
sociates, predicts gr
domestic product w
grow only 2.9% ne
year, down from t
year's expected
growth rate. And he f
ures pre-tax corpor
profits will jump 5.
next year. That's O.
but well below th
year's projected 12.
increase.

Some companies
ready are moving to
sulate themselves fr
the downturn. Appliar
manufacturer Whirlp
Corp., which expec
strong earnings th
year and next, a
nounced plans in mi
November to cut 3,2
workers and close t
North American plan
Engine maker Briggs
Stratton Corp., despi
recording earnings
$102 million on sales
$1.28 billion for the ye
ending in June—and e
pecting to do even be
ter in 1995—plans
shift 2,000 jobs out of i
Milwaukee factory
lower-wage sites in t
Southern U. S. Say
Chief Executive Fre



BIG BUCKS, BIG PLANS

AUTOS Chrysler and Ford, with $6.6 billion and $9.2 billion in cash on hand, respectively, are hoarding for the next downturn.

COMPUTER COMPANIES High profits have spurred heavy capital investments. Hewlett-Packard upped its spending this fiscal year 34%, to $1.7 billion.

MANUFACTURERS Standard & Poor's figures dividends at the 500 top U.S. companies will increase by 7% in 1995 vs. 2% in 1993 and 4.8% so far this year.

BANKS Higher profits have helped Citibank fund a branch refurbishing campaign. Chase Manhattan has hiked its dividend and made acquisitions.

AIRLINES Northwest and American are using higher-than-expected third-quarter profits to rebuild their balance sheets by paying down debt.

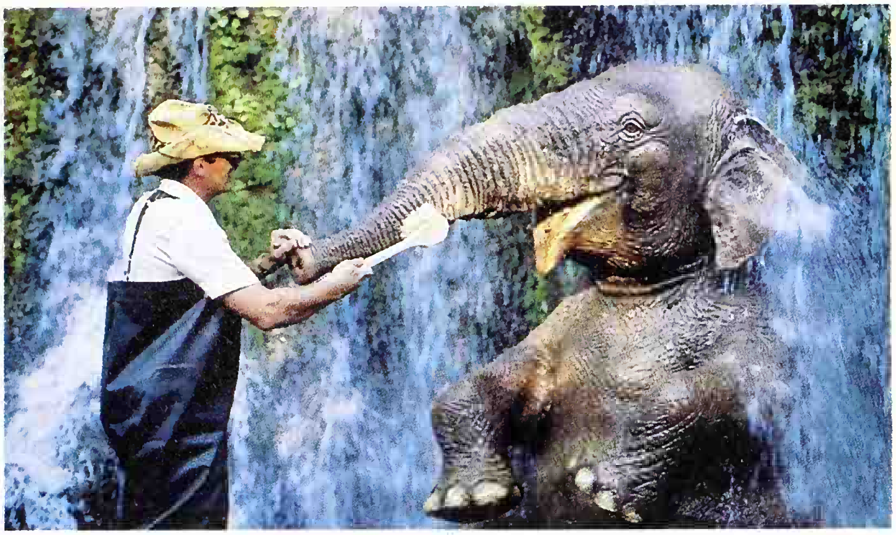
k P. Stratton: "We have to think of long-term competitiveness of the pany."

ome companies have been so bruised ecent years that they're simply using r good fortune to rebuild tattered ınce sheets before the next down- hits. Take the hard-hit airline in- ry. Recent profits have allowed NWA , parent of Northwest Airlines Inc., uild a cash pool of $1.6 billion, at t $600 million of which it plans to to pay down debt. American Air- Inc.'s parent, AMR Corp., also aims etire debt. Says AMR's senior vice- sident for finance, Michael J. Dur- : "Our first priority is to repair the pany's capital structure."

EADING THE WEALTH. Concern about future at least partly explains why d Motor Co. and Chrysler Corp. are ng on big piles of cash. Fat profits e allowed Ford to accumulate $9.2 on by the end of the third quarter, from $6.8 billion in 1993. But CEO xander J. Trotman feels justified in ling on to the booty. He expects cap- spending to eat up more than $25 ion during the next five years. ysler has another concern: Inves- Kirk Kerkorian is demanding that it out more of its $6.6 billion cash rd to investors.

Iany companies are plowing excess into markets overseas. Toledo-based omotive parts manufacturer Dana p., which reported earnings of $169 ion for the first nine months of 1994, rom $93 million last year excluding ccounting change, just opened a new t in Thailand and plans further for- expansion. Consumer products mak- Procter & Gamble Co. has $2.4 bil- in cash on hand and is using most of strong cash flow to expand. It ıked down $607 million during the t recent quarter on acquisitions, t of it for a German tissue company. ndeed, many companies seem to erstand that to make money, they e to spend some. Take tiny biomed- company Research Industries Corp. Iidvale, Utah, which posted a sales rease of 39%, to $7.3 million, during first quarter of fiscal 1995. It plans to $1.5 million into new catheter man- turing capacity, eliminating the need utsource production. The move will e the fast-growing company $80,000 month. The supplier, says Chief Fi- cial Officer Mark W. Winn, "has been king about 40% margins." Like many . executives, Winn is betting the d times will keep rolling long enough nake today's moves pay off.

By Kevin Kelly in Milwaukee, with hard A. Melcher in Chicago, David ising in Atlanta, Zachary Schiller in veland, and bureau reports



IT'S A JUNGLE OUT THERE: *Disney faces a huge Florida push by Universal*

TAYLOR FABRICIUS/GAMMA LIAISON

THE MAGIC KINGDOM

REANIMATING DISNEY WORLD

To hike attendance, the theme park targets an older crowd

The Tower of Terror: It's Disney World's stomach-rearranging new ride, a simulated elevator free fall. But is it a metaphor for the resort, too? With its mainstay family audience flat, Florida tourism soft, and rivals sapping business, Disney World's attendance is off sharply. It's scrambling to lure new visitors, substantially boosting spending on ads and marketing this year—and, too, on future attractions—to lure teens and childless adults.

The new push represents a startling admission by Walt Disney Co. that kids alone won't pay its theme-park bills anymore. Attendance at Disney World dropped to 28.9 million last year from 33.7 million in 1990, according to the *Orlando Sentinel*, which recently reported the closely guarded figures. Disney won't comment on the data but admits that the number of overseas visitors—7.9 million last year—could drop by as much as 15% to 20% this year.

HEAVY ADVERTISING. That—plus problems at Disneyland and EuroDisney—is why operating profits at Disney's theme parks dropped to $684 million in the fiscal year ended on Sept. 30, from $803 million in 1990. Overall, Disney's fourth-quarter net income of $226 million exceeded expectations. But the challenge still is getting new Mouseketeers through the park doors. In '87, the *Sentinel* reported, 2.8 million U.S. visitors made their first trip to Disney World. In 1993, that number had dropped to 1.4 million. "The nonfamily market is bigger than the family market," says Judson C. Green, president of Walt Disney World Co. "We have something that appeals to everyone, and we're going to do a better job of communicating that."

In addition to heavy advertising, Disney is deploying sales reps throughout the country rather than concentrating them in Orlando and a few key markets. And it's stepping up new construction. Since 1990, Disney World has added seven new resort hotels and 10 new major attractions. Now, there are cruise ships, two new hotels, and a sports-training complex in the works, and a fourth park—perhaps with an animal theme—could appear by decade's end. Also coming is the Disney Institute, which will offer "learning" vacations in 1996.

Total investment: Green says $2 billion is in the ballpark, though he won't be specific. But Disney's rivals in South Florida are spending big, too. Universal Studios Florida, the Orlando joint venture of MCA Inc. and the Rank Organisation that tends to appeal to older audiences, has seen attendance grow every year since it opened in '91, says Ron Bension, chairman of MCA Recreational Services Group. And Universal is planning its own multibillion-dollar expansion, to open in 1999. It will feature a second theme park, including an attraction based on *Jurassic Park*, plus five resort hotels with 4,300 rooms and golf and tennis facilities.

The upshot: The theme-park business is no longer just child's play. And Orlando, whose fortunes rise and fall with its resorts, is catching on. This year's slogan from the Convention & Visitors Bureau reads: "Orlando: You never outgrow it." Not if Disney has its way.

By Gail DeGeorge in Miami, with Ronald Grover in Los Angeles

SMOOTH TAKEOFF: *United's Californ*
shuttle is an unqualified success

AIRLINES

UNITED: SO MANY CUTS, SO LITTLE RELIEF

Spiraling nonlabor costs are keeping it from its destination

Employee ownership. It was going to remake United Airlines Inc., keeping it competitive with such feisty low-cost carriers as Southwest Airlines Co. To make the strategy work, employees took pay cuts averaging 15% shortly after the buyout was finalized last July. And as promised, the company launched its new low-fare shuttle in October. But one thing hasn't gone according to plan: The labor-cost cuts are being eaten up by hikes in other expenses. In mid-November, United executives warned analysts that costs are heading up again.

Can the nation's biggest airline ever turn itself into a nimble, lower-cost operation? United says it's suffering from temporary glitches. But skeptics wonder if the airline really is dealing with its central concerns. "They have fundamental cost problems that wage cuts alone will not address," says aviation consultant Michael J. Boyd. "Within 18 months, we'll be back talking about the cost problems that are running amok at United Airlines."

HELL HUB. For now, United says its costs are likely to hit 8.93¢ per available seat-mile next year—up 3% from United's projections for 1994 costs and 7% higher than what United projected during the buyout. "You have to be disappointed," says Raymond E. Neidl, an airline analyst at Furman Selz Inc. Indeed, the new projections prompted NatWest Securities Corp. analyst Michael W. Derchin to cut his 1995 earnings-per-share estimate for United from $18.50 to $9.

In some ways, the cost increases aren't surprising. The airline's flight attendants, who never agreed to join the buyout, are scheduled to receive 4% pay raises in December and another 4% in 1995. The disastrous new Denver International Airport, one of United's hubs, will add $124 million in expenses a year—far more than expected—when it finally opens in February, 16 months behind schedule. And United management has decided to boost its advertising budget to get the word out about its new Shuttle by United service. Also heading skyward: costs for food and b
erages, travel-agent commissions, a
computer-reservation systems.

Granted, United's forecasts are fai
conservative. The airline anticipate
9% rise in fuel prices next year, for
ample, while Paul P. Karos, an airl
analyst with CS First Boston, proje
only a 3.5% rise. "Nobody knows. Th
might be right," Karos says. Chief
nancial Officer Douglas A. Hacker s
United's fuel-price scenario represe
a full one-third increase in expected u
costs for 1995.

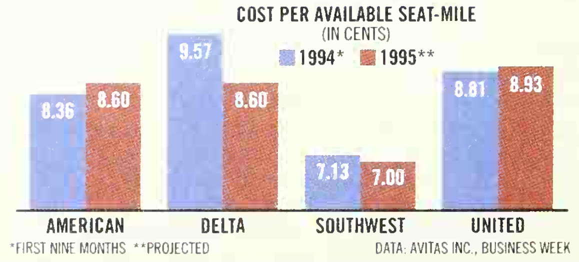
The problem: Rival carriers are m
ing the competitive target even low
Delta Air Lines Inc. says it's on track
lower its costs per available seat-m
to 8.6¢ by June, 1995, from 9.57¢ t
year. And on Nov. 17, Southwest a
nounced an unprecedented 10-year c
tract with its pilots' union that provid
productivity-related bonuses and sto
options instead of wage hikes during t
first five years. The agreement cou
put Southwest's low operating costs o
of reach for United and other major c
riers, says Smith Barney Inc. airline a
alyst Vivian Lee.

"PICTURE-PERFECT." The news isn't
gloomy. United's shuttle, which ope
ates 260 flights a day, mostly in Califo
nia, has lowered the carrier's short-ha
costs to 7.5¢ per available seat-mil
closer to Southwest's benchmark 7.1
The shuttle is filling more than 70%
its seats and boasts an on-time perfo
mance record of 96%. Southwest, whi
is fighting back with fare cuts and a
vertising, admits that its unfilled sea
have risen by several percentage poin
in the shuttle's markets, though it sa
they were up even before the shuttle
launch. "This has been a picture-perfe
startup," says United CEO Gerald Gree
wald, a former Chrysler Corp. exec w
became the airline's captain in July.

United is still tackling costs on oth
fronts as well. Employee task forces a
looking at ways to reduce fu
consumption and sick days.
don't feel like there's any co
under our control that we're d
ing a bad job of controlling,
says CFO Hacker. He says ma
agement is being blamed fo
problems it can't immediatel
fix. Yet it may be those unfor
seen glitches that keep Unite
from soaring to the heights i
vestors had hoped for.

By Susan Chandle
in Chicag

LOSING ALTITUDE? Even after the employee buyout, United Airlines' costs keep rising



*FIRST NINE MONTHS **PROJECTED

DATA: AVITAS INC., BUSINESS WEEK

It suggests both Fortune 500 and Indianapolis 500.

Calfnap-grained leather-trimmed seats. Cavernous space thanks to its innovative cab-forward design. A premium 120-watt Chrysler/Infinity Spatial Imaging™ Sound System with no fewer than 11 speakers. And, of course, driver and front passenger air bags.† Why, with all that, you'd think we made this car exclusively for the corporate elite. Enter a 214 horsepower, 24-valve, 3.5 liter V6 engine. Road-touring suspension and low-speed traction control. Plus a wide track for superior handling. And you'd be apt to think racing elite. Chrysler LHS. Whatever circles you drive in, you'll be comfortable in both. For more information, call 1-800-4-A-CHRYSLER.

CHRYSLER

Chrysler LHS

form follows function

Fortune 500 is a registered trademark of Time Inc. Indianapolis 500 is a registered trademark of IMS Corp. †Always wear your seat belt.

ENTERTAINMENT

SONY'S HEARTACHES IN HOLLYWOOD

A case study in how not to break into the movies

Give 'em this much: The folks at Sony Pictures still know how to throw a party. On Nov. 16, the Japanese company's film executives gathered for the gala opening of their lavish Lincoln Square theater in New York City. Magic Johnson, Christie Brinkley, and other stars maneuvered past trays of caviar as they toured Sony's $40 million monument to the movies. A few hours later, Sony Corp. disclosed it was writing off $2.7 billion from its 1989 acquisition of Columbia Pictures.

With a bevy of new players heading for the coast, Sony's debacle is a case study in how not to break into show business. Here, from the School of Hollywood knocks, are the key lessons for prospective investors.

LESSON 1: *Don't put dreamers in charge of the bank account.*

As a film producer, Peter Guber's credits include *Batman* and *Rain Man*. But as chairman of Sony Pictures Entertainment Inc., his profligate spending cost Sony hundreds of millions of dollars. While Guber's strategy netted the studio some high-profile projects, such as Steven Spielberg's *Hook*, profits lagged. And later, when big budget projects such as *Last Action Hero* flopped, Sony's high costs and low grosses were a double whammy. One problem: Guber's boss, Sony U.S. CEO Michael P. Schulhof, didn't rein him in.

Viacom Inc. did it right. Although the company spent a rich $10 billion to buy Paramount Communications Inc., it chose Jonathan Dolgen, a hard-nosed cost-cutter with stints at Twentieth Century Fox Film Corp. and Sony, to run the Paramount studio. "It's ultimately a management decision," says Viacom President Frank J. Biondi Jr. "You can't just throw money at things."

LESSON 2: *Don't spend a fortune on bricks and mortar.*

Sony put upwards of $100 million into upgrading its Culver City lot with state-of-the-art production facilities and a lavish administration building. In an industry where talent travels and studio space is easily leased, such elaborate edifices are no longer vital.

Turner Broadcasting System Inc. had a better approach. It acquired two studios, New Line Cinema Corp. and Castle Rock Entertainment, neither of which owns a lot. The lack of facilities hasn't prevented New Line, which made the summer hit *The Mask*, from grabbing a bigger share of the 1994 box office than Columbia. For Turner, which needs a steady supply of films for its cable networks, that's all that matters: "We don't need to own a lot," says Turner Entertainment President Scott M. Sassa. "We need as many copyrights as possible."

LESSON 3: *Don't assume you have to buy a studio to be a player.*

Sure, Viacom and Turner have opted to be 100% owners. But both companies have a history in entertainment.

Other would-be players, such as telephone companies, are finding they can gain access to programming simply by making the right connections. Bell Atlantic, Nynex, and Pacific Telesis Group announced an alliance with talent agent Michael Ovitz to create a new video network. Ovitz will help develop projects, and the Baby Bells will deliver them over their telephone wires.

The partners may eventually o small stakes in specific programs or e production companies. But they will a air movies and TV shows from other p ducers. As a result, the three Baby B are on the hook for a relatively pal $100 million each. Says Bell Atla President James G. Cullen: "We h to avoid falling off a cliff, like oth have on this journey."

LESSON 4: *Prepare for hard times.* *assume they'll get worse.*

Sony is hardly the only casualt Hollywood: Coca-Cola Co., Transam ica Corp., and other players foun tough to navigate the tricky current a business driven by hits and mercu personalities.

Consider Japan's Matsushita Elect Industrial Co., which seemed to av most of Sony's pitfalls in its 1990 acq sition of MCA Inc. The studio rang record profits with 1993's box-offi champ, *Jurassic Park*. But now, M sushita faces a rebellion from MC headstrong chiefs, Lew R. Wasserm and Sidney J. Sheinberg, over the pa ent company's refusal to finance a cos ly expansion. Matsushita has hired s peragent Ovitz and investment bank Herbert A. Allen to recommend wa to break the impasse.

Given Sheinberg's ties to Spielber Matsushita can't easily afford to l MCA's bosses go. So some observers b the company will compromise, perha by giving Sheinberg and Wasserma more leeway to expand. Of course, that what got Sony into trouble. Nobod ever claimed logic was a key element i Hollywood's lesson plan.

By Mark Landler in New York an Ronald Grover in Los Angeles, wi David Greising in Atlanta

NNA BINDER/IMPACT VISUALS

Just hours afte it opened its $40 million theater in New York, Sony disclosed a $2. billion write-of for Columbia Pictures

THE LOBBY AT SONY'S 12-SCREEN COMPLEX

Here it is.

Absolutely everything you need for your next big meeting.

teleconferencing] Pick up any telephone in The Westin and you can simulta-
converse with people in up to 15 different locations around the world. Which means you
en have to leave your room to conduct your next big meeting, much less turn off the TV.
oud to offer AT&T In-room Long Distance Service for your AT&T Calling Card, AT&T
l Card and operator-assisted calls: for reservations call your travel consultant or (800) 228-3000.

AT&T
In-Room
Long
Distance
Service

AT&T

Helping you
along the way.℠

The Westin
Hotel,
Copley Plac

Boston

The Westin
Hotel

Chicago

The Westin
Canal Place

New Orleans

The Westin
St. Francis

San Fran

WESTIN
HOTELS & RESORT

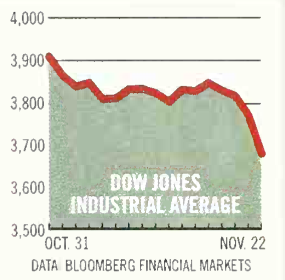
In Business This Week

EDITED BY KEITH H. HAMMONDS

KEMPER'S CHIEF NEEDS A NEW DEAL

THE COLLAPSE ON NOV. 20 of Conseco's proposed $2.7 billion deal to acquire Kemper puts David Mathis on the hot seat. Kemper's chairman fought off General Electric's unsolicited $60-a-share bid this spring, taking Conseco's offer of $67 instead. Now, Kemper's stock has dipped to about $40, and Mathis has hung a for-sale sign, vowing to "maximize shareholder value." It won't be easy: Tough market conditions have hurt Kemper's mutual-fund and brokerage businesses. Mathis faces investors at Kemper's annual meeting on Dec. 23. His plan to become CEO of Kemper National Insurance in March could be delayed.

CLOSING BELL



DATA: BLOOMBERG FINANCIAL MARKETS

CORRECTION TIME?

An hour before close on Nov. 22, stocks entered a swan dive that, by day's end, had shaved 91 points from the Dow Jones industrial average. That brings November's loss to 230 points, or 6%. Reasons for the slide are familiar: fear of higher rates, power struggles in Washington, and weak overseas markets. It was also clear that institutional investors are making massive shifts into higher-yielding assets. While Treasury bills stand at 5.5%, stock dividends remain below 3%. Says Wall Street pro Robert Stovall: "Those yields make awfully keen competition for stocks."

HAYES BREAKS A LONG SILENCE

DENNIS HAYES WROTE THE book on computer modems: By the mid-1980s, his privately held and ultrasecretive Hayes Microcomputer Products dominated its market, raking in better than $150 million annually. Hayes rarely discussed his company's performance—until Nov. 15, when it filed for Chapter 11 bankruptcy protection. What happened? Hayes was slow to respond to clones and low-priced rivals. Then, production problems choked output, leaving the company, based in Norcross, Ga., inventory-laden and cash-strapped. "As late as [Nov. 14] I thought we would be able to obtain short-term financing to avoid this," he admits. But an appeal to Hayes's bank fell flat.

POLISHING UP SAFETY AT USAIR

CAN A RETIRED GENERAL burnish USAir's tattered image? On Nov. 21, the airline announced the appointment of Robert Oaks, a former commander-in-chief of the U. S. Air Force in Europe, to oversee safety procedures. It also hired PRC Aviation of Tucson to audit flight operations. The moves follow USAir crashes in July and September, in which 169 people died. The carrier estimates it lost $40 million in bookings in that quarter, and reported a $363 million loss in the first nine months of 1994.

HEADLINER

STARS OF STAGE, SCREEN, AND TOYS 'R' US

"They're cool," says Gryffyd Maruska, 6. "They do karate." And, as Gryffyd's parents will tell you, Mighty Morphin Power Rangers are as hot as it gets, thanks to mighty marketing. There's a TV show, a live tour, and a summer movie. In the end, "this could go down as the biggest toy phenomenon we've ever experienced," says Roger Goddu, general merchandising manager for Toys 'R' Us.

Who's cashing in? Mostly Haim Saban, an Egyptian-born entrepreneur who discovered the Power Rangers on Japanese TV 10 years ago and holds exclusive marketing rights outside the Pacif Rim. His Saban Entertainment stands to rake in som $80 million in licensing fees plus more from News Corp.'s Fox Broadcasting, which air the *Mighty Morphin Power Rangers* show.

Most toy fad fizzle after thre years, so Saban i striking while the iron is hot, signing some 300 licensees worldwide at Disneyesque rates. "Whatever [licensees] are paying, it's not enough," he says. How long can the mania last? Longer than parents might like: In Japan, Power Ranger-type toys have been around 15 years.

By Nanette Byrne

AN ATTACK ON BIG MAC IN BEIJING

BEIJING CITY OFFICIALS WANT their Big Macs to go. According to published reports, McDonald's lucrative outlet two blocks from Tiananmen Square will be forced out to make way for a commercial, office, and residential development. That move would violate a 20-year lease McDonald's obtained in April, 1992. And it could send a chill through many foreign operations in China. McDonald's says it has no plans to vacate the site, and has received no notice from city officials. Yet bulldozers already have cleared most of the block around its outlet.

HAAGEN-DAZS MAKES A FAT PLEDGE

THE SAD TRUTH: YOUR FROZEN yogurt may not be so low-fat. Hence the Nov. 21 vote by the Federal Trade Commission to settle charges that butterfat-monger Häagen-Dazs produced misleading ads. The FTC said consumers could have been deceived by a 1993 campaign claiming, amo other things, that Häage Dazs frozen yogurt bars h just one gram of fat. T agency says some flavors h 12 grams. Häagen-Dazs sa its ads clearly referred on to its yogurt-and-sorbet co binations. "We would soon close shop than mislead co sumers," says a compar spokesman. Without admi ting or denying the FTC charges, Häagen-Dazs agre to make only truthful clain in the future.

ET CETERA . . .

- Bankers Trust countersue Procter & Gamble, seekin $22 million in damage
- American Express' bar will pay $50 million to sett money-laundering charge
- Former Novell chairma Raymond Noorda quit th board earlier than expecte
- Zirconium close-out: Lacl ing investors, Fingerhut car celled its Shopping Networl

TOP TO BOTTOM: PHOTOGRAPH BY MIGUEL FAIRBANKS, CHART BY LISA KNOUSE BRAIMAN/BW

©1994 Merrill Lynch, Pierce, Fenner & Smith Inc. Member SIPC.

SURE, YOU'VE GOT A FINANCIAL PLAN. WORK LIKE A DOG AND HOPE FOR THE BEST.

SOME PLAN!

And that's a shame. Because planning can help you get the things you want.

When it's done right—with a Merrill Lynch financial plan and a Merrill Lynch Financial Consultant.

The difference is planning.
Your Financial Consultant will help you create a financial plan that will make a difference. Help you pay for your kids' education. Enjoy a comfortable retirement. Save on taxes. Even afford those little luxuries that make life more livable.

Take control of your future.
A plan from Merrill Lynch isn't just about stocks and bonds. It helps you take control of your future by taking into account your whole financial life—everything from your mortgage to your insurance. Merrill Lynch has more ways to make your plan work for you than any other firm. So we can help all those different parts of your financial life work together.

For more information, call 1-800-637-7455, ext. 8384.

Because there's a big difference between planning for the future and hoping everything will turn out all right.

The difference is planning.

The difference is Merrill Lynch.

Merrill Lynch
A tradition of trust.

If you can
picture it,
you can
scan it.

The New
HP ScanJet Scanne

Just click. That's all. If you can do th
HP ScanJet scanners will do the re
Photos, illustrations, text: all eas
incorporated into your documen
The new HP ScanJet 3p is a graysc
scanner, offering 1200-dpi enhanc
resolution (300-dpi optical) and n
software that makes everything au-
matic. The HP ScanJet IIcx boast
24-bit color at 1600-dpi enhanced
resolution (400-dpi optical) and n
includes Calera WordScan OCR so
ware. What's more, if you purchase
HP ScanJet IIcx between Novembe
and February 28, you'll get a $150 reb
when you send in a coupon availab
from your dealer. For more informat
or for the name of your local deale
call 1-800-SCANJET, Ext. 8825.

Black & White – $599

$150 REBATE

Color – $1,179

The easiest thing
you'll do all day.

HEWLETT®
PACKARD

[illegible] In Canada call 1-800-387-3867, Dept. 152. ©1994 Hewlett-Packard Company PE12424

ashington Outlook

ED BY OWEN ULLMANN

EET JOHN KASICH, 'ROOT CANAL' REPUBLICAN FOR THE '90s

epresentative John R. Kasich can barely sit still. Despite an exhausting day of meetings, the 42-year-old Ohio Republican is bubbling over with grand budget-cutting nes. None will win him any friends. "I have some ideas nd that will drive my colleagues crazy," he says.

incoming chairman of the House Budget Committee, ch gets to do the deficit dirty work. A self-described ly-sider and deficit hawk," he aims to build a coalition for s version of old-time GOP "root canal" fiscal policy. The lem: He'll have to work with Republicans who have n more ardor for cutting taxes than spending.

KASICH: *Only Social Security is safe*

MARTIN SIMON/SABA

me of his "crazy" ideas include lim- Medicare benefits for well-off sen- privatizing the air traffic control em, which could hike airfares; and shing the Commerce Dept., which kill export-incentive programs. The Kasich ducks the details for now, ne has backed all three cuts—and —in the past.

Y TAX BATTLE. Republicans have making runs at these programs the Reagan years. They've survived use all have powerful constituencies. time, House Republicans have made onclad pledge to come up with a plan by spring to cut tax- eef up the military, chop domestic spending, and balance budget early in the next century. That translates into $1 trillion in spending reductions. "We're talking about zingly tough choices," says Martha Phillips, executive di- r of the Concord Coalition, a private group that lobbies eficit reduction.

e toughest fight may involve trimming the $150 billion care program, which eats up 10% of federal spending. ming House Ways & Means Committee Chairman Bill er (R-Tex.) opposes any efforts to cut Medicare, un- it's part of health-care reform (page 109). But Kasich says that curbing Medicare and other benefits for the wealthy "is a principle we're examining." His sole exception: Social Security.

The tax struggle will also get nasty. Kasich buys into the $200 billion in tax breaks promised by the Contract With America, but he parts company with Republican lawmakers who want even larger tax cuts. He favors "dynamic" estimating, which predicts that some tax cuts will generate higher revenue by boosting economic activity. Still, Kasich insists that many tax breaks are revenue losers and must be paid for with spending cuts. For example, a proposed $500-per-child credit for working families would cost the Treasury $107 billion over five years.

POLITICAL COVER. For now, Kasich has divided his GOP committee members into task forces that "will go through the government piece by piece" seeking spending cuts. Kasich figures it will be March before a blueprint is put together. That means President Clinton, who submits his budget first, may feel compelled to meet demands for spending and tax reductions—or risk having the GOP declare his budget dead on arrival.

Kasich has two things working in favor of serious spending cuts. One is a proposed constitutional amendment mandating a balanced budget, which Congress expects to pass in January. Some Republicans would like to see the amendment require a balanced budget in five years; Kasich wants seven years. Either way, it gives political cover for tough cuts. He also has a potent ally in his close friend, incoming House Speaker Newt Gingrich (R-Ga.), though even he may not want to go as far as his budget chairman.

The bottom line: If Kasich can hold some big feet to the fire, he may succeed where other budget-cutters have failed.

By Howard Gleckman and Paul Magnusson

CAPITAL WRAPUP

RDER WAR

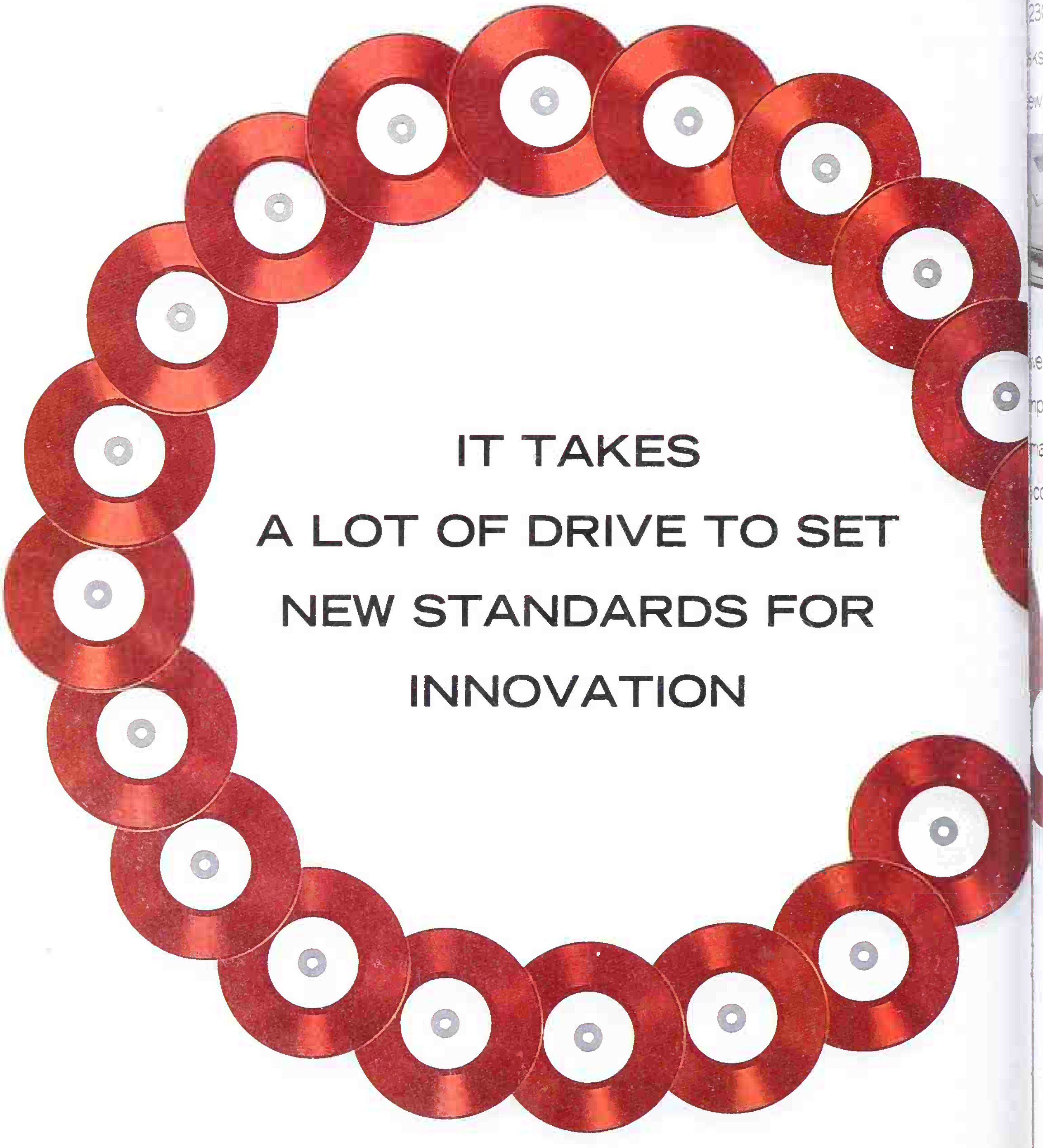
Iexican authorities are incensed at at they see as racist overtones in ifornia's recently passed Proposition , which cuts off state benefits to ille- , aliens. In fact, they're encouraging unofficial boycott of Golden State ducts. Some trade experts expect a % drop in imports from California in fourth quarter of 1994. That's fur- r bad news for a shrinking U.S. de surplus with Mexico. It was $5 ion in 1992 and will likely fall to $2 ion this year.

MORE BARK THAN BITE

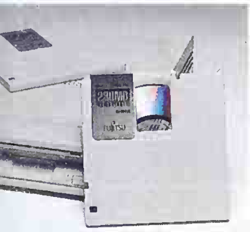
► The incoming chairman of the Senate Foreign Relations Committee, Jesse A. Helms (R-N.C.), has been making headlines with his sharp attacks on President Clinton, GATT, and the Middle East peace talks, but Republican moderates hope to rein in the archconservative. Senator Mitch McConnell (R-Ky.), for example, is hinting that as head of the appropriations foreign operations subcommittee, he will wield the real clout over foreign policy.

REED WHO?

► There's talk at the Federal Communications Commission that Chairman Reed E. Hundt wants to be Commerce Secretary if Ronald H. Brown joins President Clinton's reelection campaign. But Hundt—who went to Yale Law School with the Prez—may need to raise his visibility. At a recent White House reception, after shaking hands with one of Hundt's fellow commissioners, Clinton was heard asking: "Now who do I have over there as the chair?"


IT TAKES
A LOT OF DRIVE TO SET
NEW STANDARDS FOR
INNOVATION

The programs your personal computer runs — and the data files it generates — are gluttons for storage space. ∞ So we created a new standard in data storage: 3-1/2 inch magneto-optical disk drives with 230MB capacity that store as much as 160 conventional floppy ks. ∞ It's not the first time we've established a world standard in w technology. And, with our $3 billion annual investment in R&D, we don't expect it to be the last. ∞ We helped establish the ATM standard for multimedia communications. For America's first information superhighway, we delivered all-bandwidth ATM switching systems for handling voice, data and video. And ere the first to offer a comprehensive set of ICs for ATM. ∞ Our nputer breakthroughs include some of the world's fastest and nallest — from supercomputers to pen-based, hand-held mobile computers. And credit-card-sized PCMCIA devices for memory and peripherals. ∞ Like you, we've learned that today's creative environment offers two choices: lead or follow. With our drive, we're not looking back.



FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

LATIN AMERICA

WHY WAIT FOR NAFTA?

Latin economies are integrating, with or without U.S. help

If there's a textbook example of how free trade works, it's Santiago, Chile. Just 12 years ago, unemployment soared past 22%, and soup kitchens spread across the city as surging imports put hundreds of Chilean companies out of business. But the government stuck to its market-opening strategy, convinced Chile would become more competitive. Today, hundreds of new office complexes, apartment buildings, and luxury hotels shape the skyline. At the gleaming new airport, foreign executives stream in every day to do business with one of Latin America's biggest economic success stories.

Something's missing, though. After years of dangling the carrot of membership in the North American Free Trade Agreement as a reward for Chile's painful restructuring, Washington is waffling. Chile's entry would anchor the southern tip of the free-trade bloc from Alaska to Tierra del Fuego envisioned by former President George Bush. It would also spur other countries to hasten their own reforms in order to get on the NAFTA bandwagon. The place to showcase a U.S. commitment to Chile would be the Summit of the Americas, the Dec. 9-11 meeting of President Clinton and 33 other hemispheric leaders in Miami (page 54).

LOOKING SOUTH. But after the Democratic Party's whipping in recent elections, the Clinton Administration may not have the clout to deliver what Latin America most wants: free access to the giant NAFTA market. Even before the elections, eroding political support for free trade forced Clinton to drop his request for extension of crucial "fast track" negotiating authority. Now the crunch in Congress over ratification of the expanded General Agreement on Tariffs & Trade may leave legislators with little tolerance for further free-trade moves. Chilean Finance Minister Eduardo Aninat says he fears the summit may turn out to be merely a social gathering with "presidents drinking and talking."

So Latin America is preparing to go its own course, with or without Washington. Many Latin countries besides Chile have been getting their economic acts together, singly and jointly, for the first time in decades. Privatizations of state-run companies and services are attracting not only U.S. and European investors but fast-growing Latin American multinationals and deep-pocketed Chilean pension funds (table).

Moreover, Latin countries are banding together in "subregional" pacts such as Mercosur, which joins Brazil, Argentina, Uruguay, and Paraguay in a free-trade bloc with 200 million consumers and a combined gross domestic product of $550 billion. Everything from Chilean business software to frozen poultry packaged by Brazil's Sadia is crossing frontiers. In a region long divided by national rivalries and protectionist walls, "all of these economic links are evidence of the old disputes being quietly—or noisily—put to bed," says John Hannah, chief executive of Chile's giant Escondida copper mine.

> Privatization is attracting not only foreign multinationals but new Latin players

Economic integration is happening, whether or not the U.S. and its NAFTA partners, Mexico and Canada, open their doors. Latin intraregional trade has more than tripled over the past decade, from $7 billion in 1983 to about $26 billion this year. Mercosur will abolish internal duties on most products on Jan. 1. At the same time, it will move beyond free trade to form a European-style customs union with a common external tariff averaging 14%, down from 35% in Brazil's case when the group was formed

in 1991. Internal Mercosur trade w
reach an estimated $12 billion this ye

Mercosur's dynamism has stirred i
terest among other Latin countries, i
cluding Chile, in forging links. It is ev
more attractive now that Brazil, Lat
America's biggest economy, is dampi
down chronic inflation and revving
its industries. Chile, which just join
the Asia-Pacific Economic Cooperati
group at its meeting in Indonesia,
hedging its NAFTA bet even more by n
gotiating associate membership in Me
cosur. "We won't play all our cards
the [Miami] summit," Aninat say
"We're working on Mercosur with
without NAFTA." For Chile's manufa
turers, with a small domestic consum
base of 14 million, Mercosur's market
now crucial: Last year, it took 41%
Chile's manufactured exports, compar
with 31% that went to NAFTA countrie

If the U.S. fails to pull Chile into NA
TA, Mercosur seems likely to become t
core of a larger trade group stretchi
across South America's vast Southe
Cone. Bolivia, currently negotiating
$3 billion pipeline project to supply g
to São Paulo, seems certain to be draw
into Mercosur's orbit, although it is no
inally part of the Andean Pact, a tra
group that includes Venezuela, Colombi
Ecuador, and Peru. Peruvian Preside
Alberto Fujimori expects that the A
dean Pact and Mercosur will eventual
join together. Faced with doubts abo
U.S. policy, "to look to the north is di
ficult," says Venezuelan Ambassador
Brazil Alfredo Toro Hardy. "We have
look south—it is the only option."

EXPORT GROWTH

Brazil's Sadia sells poultry to Argentina

Latin America: The Ties That Bind

A sampling of cross-border investments

INVESTOR/ COUNTRY	BUSINESS	TARGET COUNTRY	AMOUNT MILLIONS
DOMOS MEXICO	Telephones	Cuba	$1,400
ENDESA, CHILGENER, CHILECTRA CHILE	Electric power and distribution	Argentina	856
CEMEX MEXICO	Cement	Venezuela	300
BANAMEX-ACCIVAL MEXICO	Banks	Argentina	190
USIMINAS, CVRD BRAZIL; **ACEROS DEL PACIFICO** CHILE	Steel	Argentina	152
EMBOTELLADORA ANDINA CHILE	Soft drinks	Brazil	120
PEREZ COMPANC ARGENTINA	Oil production	Venezuela	103
CMP CHILE with U.S. Partner	Paper products	Argentina, Uruguay	100
MEXPETROL MEXICO	Refining	Cuba	100
FEMSA MEXICO	Soft drinks	Argentina	100
10 PENSION-MANAGEMENT FIRMS CHILE	Pension funds	Argentina, Peru, Colombia	91
BRAHMA BRAZIL	Beer & malt	Venezuela, Argentina	90

DATA: BUSINESS WEEK

All of which has big im- :ations for U.S. compa- s, which have invested billion in the Southern ne, vs. $15 billion in xico. "Before we have a nispheric trade agree- nt, we're going to see some of these de blocs get together," says Rui da sta, Hewlett-Packard Co.'s Miami- sed managing director for Latin nerica. To take advantage, HP is con- ering expanding its Brazilian sub- embly plant, which employs 900, to et Mercosur local-content require- nts so that it can export to other bloc mbers.

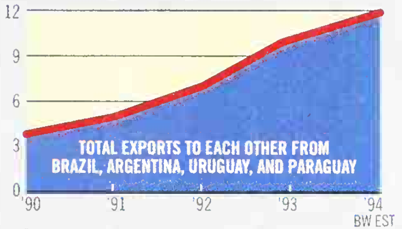
ONVERGENCE." In theory, subregional de ties should serve as stepping- nes toward hemispheric free trade her than closing anyone out. That's :ause blocs such as Mercosur and the dean Pact have been lowering, not sing, their barriers to trade with the t of the world. Except for Chile, in .shington's view, Latin American intries should eventually join NAFTA groups, not individually. But the ger this is delayed, the less influence U.S. will have in the regional inte- tion process.

That's fine with many Brazilians. ey see their country as a globally npetitive exporter, with a $10 billion de surplus this year, and as a major yer on the world stage as well as in tin America—not a mere appendage NAFTA. Mercosur, led by Brazil, can engthen Brazil's global role.

President-elect Fernando Henrique Cardoso, a former professor at universities in the U.S., Britain, and France, is the most cosmopolitan leader Brazil has ever had but isn't likely to abandon this deep-rooted Brazilian worldview. What Brazil wants is "not annexation to NAFTA but convergence," says Roberto Abdenur, secretary-general of Brazil's Foreign Ministry. "With Bolivia and Chile, we will be in a stronger negotiating position with the U.S. or NAFTA."

What's driving Latin Americans to look for broader horizons is that their own companies and financial institutions have outgrown their national borders. Long confined to local markets by protectionism and political rivalries, they are now exporting capital and management as well as products throughout the region. In this integration drive, "our governments are far behind the private sector," says Guatemalan Economy Minister Eduardo González Castillo.

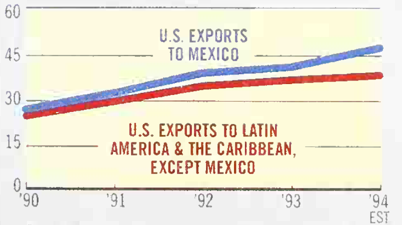
TRADE BOOMS WITHIN MERCOSUR...



▲ BILLIONS OF DOLLARS

DATA: BRAZILIAN AND ARGENTINE GOVERNMENTS

...AND BETWEEN THE U.S. AND LATIN AMERICA



▲ BILLIONS OF DOLLARS

DATA: DRI, BW EST

Chile, flush with domestic savings, is leading the pack. Its privatized pension funds are funneling $150 million into financial markets every month, and Chilean companies have tapped into this money pool to finance $1.7 billion worth of investment abroad in everything from Argentine electric utilities to Peruvian supermarkets—as well as pension-management companies in Argentina, Peru, and Colombia. Last June, Coca-Cola Co. bottler Embotelladora Andina, looking for room to expand, plunked down $120 million for ailing Brazilian bottler Rio de Janeiro Refrescos. Jaime Lavados, director of ProChile, the government's export-promotion agency, compares Andina's purchase to Coke's move into China—"a very important sign of confidence."

REVVING UP. In some cases, foreign multinationals are spurring Latin Americans to think more regionally. For Argentine footwear and textile manufacturer Alpargatas, the Mercosur market is the key to a pair of deals with U.S. sneaker maker Nike Inc. Alpargatas, which has had a license to make and market Nike products in Argentina since 1987, has recently expanded that arrangement in Argentina and Uruguay. A separate deal gives it a five-year exclusive license to distribute Nike products in Brazil—50% made in Argentina, others made in Brazil by subcontractors or imported from the Far East. "Because Mercosur is a single market, Nike wants to have a single relationship to deal with it," says Alpargatas Finance Director Alan R. Clutterbuck.

Latin America's biggest corporate push for cross-border integration is the growing network of auto parts and assembly plants, mostly foreign-owned, in Brazil and Argentina, which together will turn out 1.9 million vehicles this year. For several years, Autolatina, a Volkswagen-Ford joint venture, has been shuttling vehicles and parts between plants in both countries. General Motors Corp.'s Brazilian subsidiary built a $100 million plant in Argentina this year to make pickups, mainly for the Brazilian market. And Fiat, with a big Brazilian subsidiary, is negotiating to boost its 20% stake in Sevel, the Argentine Fiat assembler controlled by local entrepreneur Francisco Macri. Fiat do Brasil shipped $200 million worth of assembly kits and other products to Argentina last year. Now the aim is to combine the Brazilian and Argentine operations, designated by Fiat as a center for production of its new world car.

BEER BATTLE. Establishing cross-border manufacturing activities does raise levels of competition. That can be disruptive but also beneficial. When Brazilian brewer Brahma opened a plant in Chile last year, local competitor Cervecerías Unidas feared it might be swamped by the Brazilian colossus. But the resulting advertising war boosted overall beer consumption, and both companies enjoyed expanded sales.

While the U.S. dithers about freer trade, Latin America is accepting it as essential to spurring growth. And it is looking beyond its own region to Asia and Europe for the opportunities it seeks. Chile joined the Asia-Pacific grouping, but Mercosur planned to start talks on Nov. 24 with the European Union, its biggest customer, on an EU proposal for free trade between the two blocs. So Latin America's economic opening will continue. Except that the U.S., which once saw itself as the natural leader, may not be in the driver's seat.

By Geri Smith with Susan Jackson in Santiago, with Paula L. Green in Buenos Aires and Bill Hinchberger in São Paulo

---

COMMENTARY

By John Pearson and Gail DeGeorge

HOW THE AMERICAS CAN MAKE THE MOST OF THE SUMMIT

All over town, the city of Miami has been planting palm trees, dressing up for the Dec. 9-11 Summit of the Americas. The meeting will bring together leaders of 34 countries in the hemisphere—all but Cuba's Fidel Castro—in the biggest gathering of government chiefs ever in the U.S. The Clinton Administration scheduled the summit last December in the glow of Congress' approval of the North American Free Trade Agreement, hoping to spur further moves toward free trade. But President Clinton has lost his "fast track" bargaining authority and faces a Republican-controlled Congress. As a result, prospects have dimmed for expanding NAFTA even to Chile, the No. 1 candidate for membership.

OPPORTUNITY

Miami's port lives off trade with Latin America

But the diminished expectations do not mean the summit can't make any progress toward freer trade and investment flows. The first step is to recognize that promoting a monolithic NAFTA, stretching from Alaska to Tierra del Fuego, is not a workable approach, at least for now.

Instead, the Americans should recognize and take advantage of "a more complex web of trade relationships," says Ambler H. Moss Jr., who heads the University of Miami's North-South Center. Altogether, there are 23 subregional free-trade accords such as Mercosur in the hemisphere's Southern Cone and Caricom in the Caribbean. Included in that count is a network of bilateral trade agreements such as Mexico's with Chile, Costa Rica, and Bolivia.

What's different about these arrangements, in contrast to the protectionist blocs assembled in earlier decades, is that they have been lowering barriers to trade with the rest of the world as well as internally. What's important is to make sure that the rules these pacts adopt, from customs procedures to intellectual-property protection, are compatible. That will keep the way open for their eventual merger into broader free-trade arrangements.

FOLLOW-UP. So beyond affirming a commitment to free trade, the summit should establish practical follow-up mechanisms for making sure the subregional groupings are in sync. To maintain the momentum after the leaders go home, the summit must launch working groups, including business representatives, to continue to push for concrete steps to achieve those goals. It's crucial that business leaders from throughout the hemisphere be at the table to discuss, say, a common capital-movements code to encourage investments.

The U.S. has a big stake in the summit's success—as Miami, a center for trade with Latin America, well understands. In retrospect, the notion of linking the economies of the Americas under the umbrella of a hemispheric NAFTA may have been too utopian. But free markets and free trade are taking root throughout the hemisphere, in varied forms. Like the palm trees on Miami's streets, they can flourish if carefully tended.

SONY

Gotta reach people all over town?
Done.

Even in a city of 8 million, you can reach just about anyone, anywhere, no problem. It's called the ony Magic Link™ communicator, and it makes messaging intuitive, intelligent and easy to use. From scheduling a meeting for you to picking the best way—AT&T PersonaLink® Services, fax, e-mail, pager—to invite them. It changes the way you communicate. To find out how, simply call 1-800-55-MAGIC, see the Magic Link kiosk at participating Sony dealers, or visit the Sony Magic Link Information Center on America Online®

Dear Steve,

I would like to meet with you on Monday, December 5, in my office to discuss the Marketing Plan. Can you make it? Press 'yes' or 'no' to let me know

Sincerely,

Frank

yes no

AT&T

to: Steve Fisher
from: Frank Shuford
about: meeting Mon 12/5

tap for details

Kelly,
The plane's leaving on time (surprise, surprise) I'll be in at 3:00 to go over your (terrific) ideas. Let me know if that's ok.
Frank

F·A·X
fax

to: Kelly Tobin
from: Frank Shuford
about: Meeting

Dear Patrick,

Hey, I know you're tied up on that project, but you gotta come up for air sometime! Like maybe for the hockey game of the century--tonight, 8pm, two tix, center ice, on the glass? Get back to me, okay?

Frank

SkyTel
pager

to: Patrick Vogt
from: Frank Shuford
about: Time-out

994 Sony Electronics Inc. Reproduction in whole or in part without written mission is prohibited. All rights reserved. Sony and Magic Link are trademarks Sony. PersonaLink is a service mark of AT&T. SkyTel is a registered service mark SkyTel Corp. America Online is a registered trademark of America Online, Inc. &T PersonaLink Services require an additional monthly charge. SkyTel paging is option available at additional charge.

'I WANT TO SURVIVE...BUT I DON'T WANT TO KOWTOW'

Gutsy Hong Kong media mogul Jimmy Lai doesn't flinch at taking on the Chinese

By now, most Hong Kong tycoons have made their peace with China. With the transition to Chinese rule less than three years away, they have cut huge business deals on the mainland while refraining from criticizing Beijing's aging cadres in public. Not so Jimmy Lai. Decked in his hallmark jeans and suspenders, Lai flaunts his antipathy to communism: In his successful magazine, *Next*, he even described Chinese Premier Li Peng as "a turtle's egg with a zero IQ."

Now the budding media mogul intends to broadcast his independent voice even louder. He's busy planning the June, 1995, launch of *Apple*, a newspaper with an easy-to-read format and a generous dollop of investigative and political reporting. It's a risky move, especially since Lai has already angered plenty of influential people. But the 45-year-old, who made a fortune by founding the fashion retailer Giordano Holdings Ltd., smells a moneymaking opportunity. While other Hong Kong newspapers "go into self-censorship" as 1997 approaches, he says, "they're going to create a vacuum for us to go in."

Much more than Lai's fortunes ride on his new venture. In Hong Kong, Lai has set himself up as one of the communist regime's most vocal critics. After the 1997 takeover, Beijing's treatment of people like Lai will indicate how committed the Chinese are to upholding press freedom in Hong Kong. Moreover, if China cracks down on Lai, it may also endanger the city's role as Asia's information capital.

1994年11月18日
8
劉錫明鬧臭倪震
經理人搞雜誌
深圳
生劏野味
殘酷實錄
本期印數
160,000本
Cybersex
壹週刊
明星出光碟
無辜辜做淫戲
征三千八百里
壹週刊
NEXT
四國亂軍殺入樂壇
吳剛發功

One of Lai's most powerful vehicles may be *Apple*, which he hopes will appeal to a young audience raised on TV. Modeled partly on *USA Today*, it will be "more light, more visual, more convenient, more reader-friendly," he says. Lai already has a winning, youth-oriented formula in *Next*, the flagship publication of his Next Media Group, which generates $65 million in revenues. *Next* combines sensationalist stories on lifestyle and entertainment with hard-edged coverage of Hong

Kong gangsters and China's rule
Lai's candid style has paid off. "Jim
Lai is gutsy and courageous, but h
also a very shrewd and competent bu
nessman," says John Schidlovsky, dir
tor of the Freedom Forum Asian Cent
a branch of the Arlington (Va.) med
foundation. The numbers bear this o
servation out: Circulation of *Next* h
jumped from 130,000 last year to 188,0
now, making it the largest weekly ma
azine in Hong Kong. Lai also expec
profits to grow from $12.8 million th
year to about $21 million in 1995.

Lai has been honing his business ski
for more than 30 years. Born in Guan
dong province, he fled across the bord
to Hong Kong at age 12, starting off as
child laborer in a glove-knitting facto
He rose through the apparel indust
and in 1981 created Giordano, the Asi
answer to The Gap. Giordano now rak
in $300 million annually selling T-shir
and jeans in more than 250 boutique

After the flap last summer over his i
sult of Li, however, L
gave up his voting righ
and stepped down a
chairman, although h
still owns a 36% stake i
the retailer.

That has given La
more time to concentrat
on his passion: publishin

Lai once cal

His interest in the busines
dates from 1989, when th
Tiananmen massacre galva
nized him into entering th
media world. Despite the kill
ings, he concluded that Chin
would have to keep opening t
the outside world, allowing informatio
to flow in.

Since starting *Next*, Lai has made
point of being outspoken—and has paid
price. After he exposed extortion rings a
Hong Kong parking garages, *Next'*
newsroom was trashed, a Molotov cock

AI PLANS TO TAKE
EXT GROUP PUBLIC

THE LIFE OF LAI

AGE
45, born in Guangdong, China

BUSINESS
Chairman, Next Media Group, publisher of three Hong Kong magazines

EXPERIENCE
Made millions as founder of retail chain Giordano Holdings Ltd.

PLANS
Establish *Apple,* an independent new daily newspaper geared to the young generation

VIEWS
Believes a free flow of information will hasten the demise of communism

was thrown in Lai's front yard, and lows were smashed at some Giorda- tores. His July "open letter," in which denounced Li Peng for defending the anmen crackdown, prompted retali- n as well: A Giordano store in Beijing shut down twice (though Giordano utives say it was because the fran- ee's license wasn't yet approved). na Resources, a Chinese company held 10% of Giordano's stock, sold n its stake to less than 1%.

n a substantive setback to his media itions, Lai says the furor over the rticle scared Wardley Corporate Fi- ce Ltd. into dropping a public stock ring planned for Next Group. Ward- spokesperson says it is "general pol- not to comment on such matters. Lai have trouble finding other merchant ks eager to list the company. "Given politically sensitive environment, e are risks involved," says Constance ng, media analyst for Smith New rt Far East. "He has so many ene- s—and a lot of lawsuits pending."

ne of the biggest involves T. T. Tsui, ong Kong tycoon, who has sued Lai a story on his marriage. A Chinese ernment office also is suing for libel r a story alleging that funds raised a charity failed to reach the organizations involved. Lai remains confident he will prevail in those and other cases: "We haven't lost a lawsuit yet."

SHAKEN. Like Wardley, Giordano executives also want to distance themselves from the company founder. "Whatever he believes in is not what Giordano believes in," says Terry S. Ng, the company's director of business development. "We have no interest in political activism." For business reasons, that approach makes sense. Although Giordano is successfully expanding throughout Asia, China is its most enticing market.

Lai admits to being shaken by the furor he created over his criticism of Li. "It's the first debacle in my learning curve," he says. Ever the optimist, he figures he still has funds to go ahead with the publication of *Apple*. After the paper's launch, he plans to take Next Group public in September. By then, he hopes that the flap over his insult of Li will be just a memory. Moreover, he says that the new newspaper will be so successful that he will be able to interest underwriters.

When it comes to China, Lai says he will try to be more "circumspect" in his publications without losing his investigative flair. There's good reason to be careful. "The nearer they are to death, the more insecure they are—so they strengthen their reaction to any criticism," he says of the communist leaders.

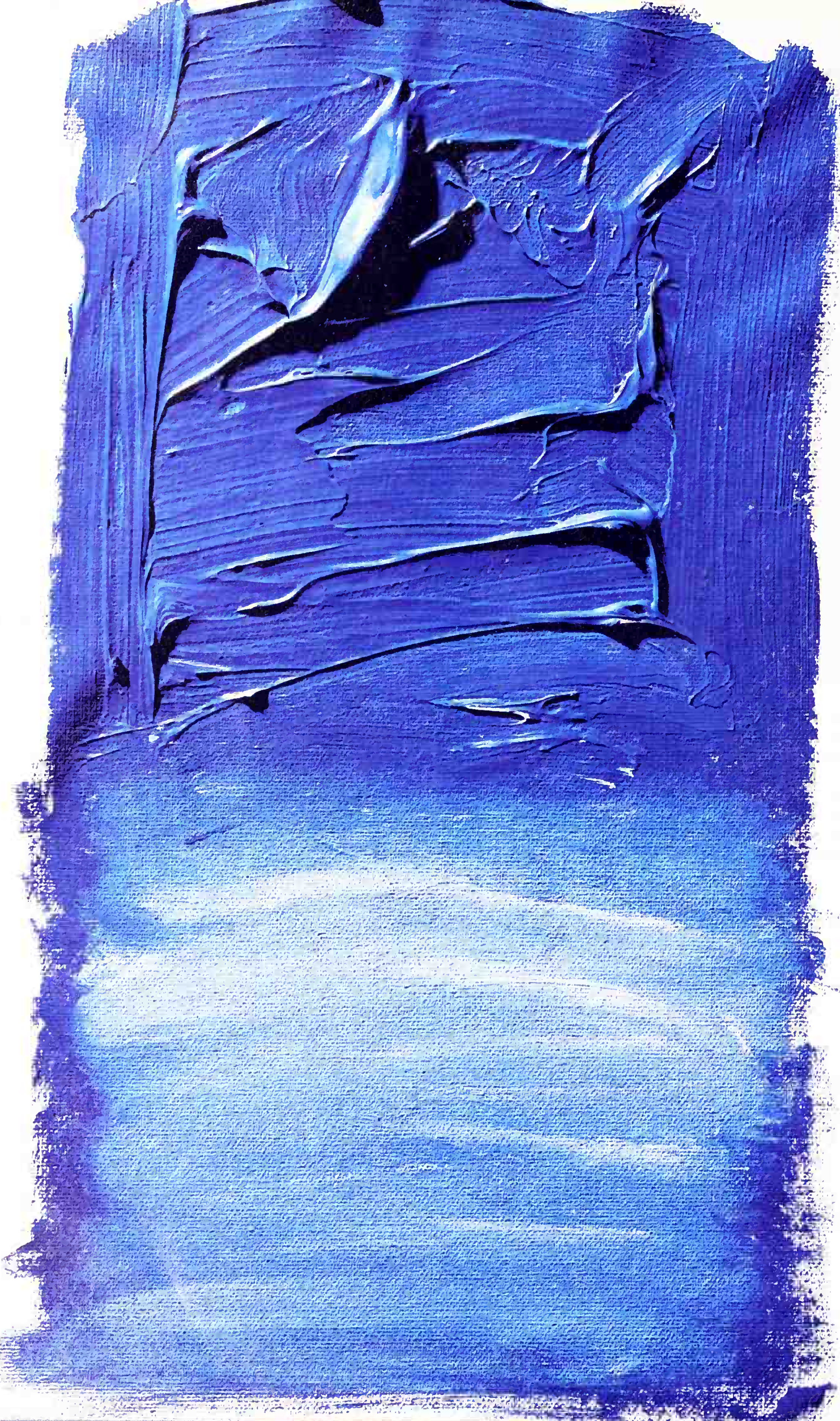
And Lai intends to be a force in Hong Kong beyond 1997. "I love this place," says Lai, who does have the protection of a British passport. "I want to survive, and I don't want to go to prison. But I don't want to kowtow." His big hope is that after 1997, Beijing will quickly learn that it can't tinker with the media if it wants Hong Kong to prosper. "Once they stop the free flow of information, they stop the normal function of the market," he says. Jimmy Lai will soon discover whether Beijing sees things that way.

By Joyce Barnathan, with Miguella Lam, in Hong Kong

ier Li Peng "a turtle's egg with a zero IQ"

壹
週
244
豪門爭產
叔姪大反臉
兩宗疑幻疑真強姦案

(TOP) PHOTOGRAPH BY GREG GIRARD/CONTACT



Now more is less.

Introducing the new System/390 Parallel Enterprise Server.

Lots of companies talk about the price of hardware and software. But as anyone who has to pay for computers knows, price is only the beginning. There's systems management, maintenance, training, upgrades and more. All of which can get very expensive if everyone on the system has to do their own. With the new System/390® Parallel Enterprise Server™, hardware and software costs are lower. But more important, operating costs are dramatically reduced. So the *total cost* of computing continues to decline. Plus, you get advanced microprocessor technology while maintaining the data integrity, availability and security of a mainframe. There are even flexible financing plans available. Pretty good way to get more for less. For more information call your IBM representative or **1 800 IBM-3333** and ask for **STAR 83**.* We believe the more you know about where large-scale computing is going, the more you'll agree there *is* a difference in computers and the companies that make them.

IBM

*In Canada call 1 800 465-1234, ext. 323. IBM and System/390 are registered trademarks and System/390 Parallel Enterprise Server is a trademark of International Business Machines Corporation. © 1994 IBM Corp.

Revolutionizing an industry happens once in a lifetime. Okay, maybe twice.

Canon
COLOR LASER COPIER 800

When the world asked for color, Canon responded with the revolutionary Color Laser Copier. Now Canon is answering today's color needs with a visionary new generation of color solutions, the Canon Color Laser Copier 800 and 700.

This new breed of copiers produces images so sharp, so vivid, they're virtually indistinguishable from the original. And Canon's new copiers are highly productive, too.

They make a swift seven full-color copies per minute on a variety of materials including card stock. Auto-feed OHP transparencies efficiently by cassette. Make multi-page documents effortlessly with the optional Recirculating Document Feeder and Sorter. And the Color Laser Copier 800 is the first color copier ever to offer *Auto Duplexing* for automatic two-sided copies.

You can also transform these new color copiers into ultrafast, full-color, plain paper printers with optional print controllers and Intelligent Processing Units (IPUs), so you can make brilliant color output directly from your computer or network.

For a free *Color Solutions Guide* that will tell you more about the new Canon Color Laser Copier 800 and 700, as well as the rest of our color copier line, call 1-800-OK-CANON. When the rest say you can't, Canon says you can.

NOW
YOU
CAN

Canon

©1994 Canon U.S.A., Inc.

STANLEY REED

VHY EUROPE IS ROLLING UP HE RED CARPET FOR CLINTON

aving returned from Asia with a promising free-trade agreement, Bill Clinton will try to show that he can do a respectable job of managing Europe, too. With the Bosn conflict in danger of escalating and NATO jets launching e biggest air strikes yet, Clinton is preparing to fly to Bupest for a European security summit on Dec. 5.

Clinton may get a lot less cooperation in Europe than he did Asia. The ties that have bound the U.S. and Europe since orld War II are fraying—as the current outcry on the Conent over America's approach to Bosnia shows. U.S. relans with Russia are also under pressure. If Clinton can't stop e unraveling, he could find it almost imssible to forge a consensus on such ises as expanding NATO's membership to stern Europe and the future of Haiti/Iraq-le police actions. Existing arrangements ch as the U.N. sanctions on Iraq could scrapped.

SKING LIVES? Relations between Europe d the U.S. were sure to drift after the d war's end, but the Bosnian conflict has celerated the process. The Europeans feel reatened by the war and are searching a *realpolitik* way to end the fighting. contrast, the U.S. has been inconsistent best, oscillating between ignoring the r and calling for unachievable solutions ch as forcing the Serbs to give back territory to the Musled Bosnian government.

The Europeans charge that this approach has encouraged e Bosnian government to step up the fighting, widening e conflict and putting thousands of European peacekeepers Bosnia at risk. They also say it will alienate the Russians, o are sympathetic to the Serbs. But following their big vember victories, the Republicans in Congress are likely become even more hawkish on supporting Bosnia—ineasing the risks.

BOSNIA: *U.S. policies spark anger*

Congress has already caused a serious row with Europe by forcing Clinton to order U.S. Navy ships in the Adriatic Sea to cease enforcing the U.N.-mandated embargo of arms for Bosnia. While having little practical effect, this move had enormous symbolic value in Europe. European commentators and politicians condemned the U.S. for breaking its commitments to the U.N. and NATO. "We are worried and disappointed by the decision," said British Defense Minister Malcolm Rifkind.

The U.S. move at least temporarily drove the Europeans and the Russians into the same camp. In Paris, French Foreign Minister Alain Juppé, British Foreign Secretary Douglas Hurd, and their Russian counterpart, Andrey V. Kozyrev, voiced concern about U.S. policy on Bosnia. In Moscow, Russian analysts were amazed at American behavior. "It surprises me, negatively, that the U.S. could move unilaterally against its own allies," says Vladimir P. Lukin, former Russian ambassador to the U.S.

This reaction means the U.S. may find itself isolated when pressure builds next year to lift the trade embargo on Iraq. The Russians very much want to get Iraq, a former close ally, back in the oil market—if only so Baghdad can pay the huge debts it owes Moscow. The French also favor such a course. "Why should the the Russians abide by U.N. sanctions on Iraq, if the U.S. won't abide by the U.N. resolutions on Bosnia?" asks a senior European diplomat.

The contretemps over Bosnia could be a foretaste of things to come. The Republican Congress is likely to take tough cold-war lines on a number of foreign policy issues. All of which means that U.S. relations with Europe and Russia could face some rough going.

With Peter Galuszka in Moscow, Bill Javetski in Paris, and Karen Lowry Miller in Bonn

GLOBAL WRAPUP

EFORM JAPANESE-STYLE

Five years and seven governments fter Japan first began grappling with olitical reform, the nation's Diet has dopted a sweeping plan aimed at leaning up politics. The first major reistricting since 1925 replaces multieat constituencies in the Diet's powerul Lower House with single-seat ones.

Under the old system, candidates rom the same party often ran against ach other, competing less on issues han on how much money they could pend. This led to corruption scandals that brought down several governments. The theory is that in the new system, money will be less of a factor because each party will field only one candidate per district. The new plan goes into effect on Dec. 25, but it may not be used until 1997 when elections must be held.

HERE COMES JACQUES DELORS

▶ Jacques Delors seems ready to launch a bid for France's presidency—perhaps on a Dec. 11 TV show. French Socialists from President François Mitterrand on down are backing the retiring head of the European Commission as their only credible candidate. The moderate, religious Delors has clean hands in an era of almost daily revelations of corruption.

The scandals initially mainly tainted the Socialists, but now they are hitting the right as well—hurting the candidacy of Prime Minister Edouard Balladur. He and Delors are now even in polls. The conservatives are pushing to hold France's first primaries in January, so as to choose between Balladur and his Gaullist rival Jacques Chirac and avoid a split in April's voting.

Some say it's a wake-up call fo
We see it more as a whac

No one actually dictated that full-size sedans had to have apathetic acceleration, or handle like they had been shot full of novocaine. It just kind of happened. Well, we thought it was time that the words "sport" and "sedan" became reacquainted. So we dropped a Corvette-derived, LT1 engine into our biggest 4-door. Then we outfitted it with monstrous

For a brochure call 1-800-950-2438. Chevrolet, the Chevrolet Emblem, Corvette and Impala are reg

e world of 4-door sedans.
n the side of the head.

7-inch tires on custom wheels, and anti-lock disc brakes to match. Quick-ratio steer-
ng. And a special suspension with de Carbon shocks and anti-roll bars just like the
oys in blue use to patrol the highways of this great land. The result is the 1995 Chevy
npala SS: 260 horsepower worth of Genuine Chevrolet. Rise and shine, fellows.

IMPALA SS GENUINE CHEVROLET™

s and Chevy is a trademark of the GM Corp. ©1994 GM Corp. All Rights Reserved. Buckle up, America!

UNIONS

WILL YOKICH BREATHE FIRE INTO THE UAW?

The combative head of the GM unit may take over soon

Styrofoam coffee cup in one hand, chocolate doughnut in the other, Stephen P. Yokich leaned into a cold wind in front of the St. Clair Shores (Mich.) City Hall and exhorted arriving voters to reelect his daughter, Tracey, a two-term state representative. Yokich, an outspoken, 59-year-old vice president of the United Auto Workers union, had taken two vacation days to round up last-minute votes for Tracey's ultimately successful bid. "It's a long day," he said, hunching his shoulders against a strong gust.

Such tireless politicking is more than fatherly devotion. It's a way of life that has catapulted Yokich to the top ranks of organized labor. The blustery negotiator, who has headed the union's General Motors Corp. department since 1989, was nominated in early November to succeed President Owen F. Bieber when he retires in June. Yokich's tough-talking style makes him popular with members, and his approval is all but assured at the UAW's convention next spring.

"WARD HEELER." With Yokich at the helm, the UAW is likely to become a more openly combative organization. This is the man, after all, who this year alone has called five local strikes at GM to oppose its downsizing. Behind Yokich's tough public persona, however, is a shrewd politician who quietly has allowed GM to cut thousands of jobs in violation of the union's contract. "He's a good ward heeler as well as a good strategist," says Peter J. Pestillo, Ford Motor Co.'s executive vice-president for corporate relations.

Yokich will need those skills like never before as he tries to reverse the union's skid. Membership has plunged by 50% since its 1979 peak, to just 760,000. The decline halted in the past year as Ford and Chrysler Corp. added workers to meet surging demand. But the gains are largely offset by losses at GM, which continues to shed workers to adjust to its smaller market share.

One of Yokich's biggest challenges will be to allow GM to shrink enough to make it competitive with rivals but to keep the pace slow enough to stave off revolt among restive workers. He'll also inherit divisive relations at strike-torn Caterpillar Inc., as well as a need to pump up the neglected organizing drives that bring in new members.

So far, Yokich's sharp political instincts have turned the potentially disastrous situation at GM into a win, at least for himself. In the late 1980s, a UAW splinter group called New Directions was gaining power by resisting cooperation with GM. Yokich neutraliz the dissent by taking a combative sta against cooperation and authorizing cal strikes that let off steam and slow GM's rush to shed workers.

Most recently he authorized a wa out on Sept. 27 at a Flint (Mich.) fac- ry whose local is headed by Dave Y taw, a prominent New Directions lead When GM compromised and agreed hire 500 new workers instead of r ning so much overtime, Yettaw los platform for complaints against Yoki "If you take all the stones away fr him, what's he going to throw?" sa Tom Fricano, a UAW regional directo

DEEP ROOTS. Although Yokich's toug guy posturing has kept members hap in reality he has let GM off easy. T company has cut its UAW workforce some 90,000 jobs since 1989. Yokich h ignored the fact that some of this h been in violation of th union's contract, which r quires GM to hire one work for every two that leave. Y kich also concedes that so of GM's struggling parts o erations can't compete wi nonunion factories that pay third of GM's $45-an-hour l bor cost.

Such political savoir-fai has deep roots. Yokich gre up in a staunchly UAW hous hold. His father was a uni steward at an independe toolmaker in suburban D troit, and his mother worke on a GM assembly line. Y kich followed in his father footsteps and by 1961 ha also become a steward Local 155. He climbed th ranks and in 1980 was name vice-president in charge the union's agricultural implement department. Ther he presided over a bitte 205-day strike at Cat tha gave him a reputation as firebrand.

While Yokich's relation with company officials hav matured, his sometimes abrasive temperament still raise hackles in the union. Current and forme UAW officials describe him as a sometimes tyrannical manager who strong arms people that stand in his wa "Hardly anybody likes the SOB," say Norm Acord, a former union staffe "He's a little bully." Yokich also is know for berating other union officials in public. "One time he said I crawled out fro under a rock, which I didn't appreciate,

HE HAS KEEN POLITICAL INSTINCTS

YOKICH'S CHALLENGES

REPAIR DAMAGE FROM CATERPILLAR STRIKE United Auto Workers President-elect Stephen Yokich must repair the damage to the UAW's bargaining power from the two-year standoff.

MANAGE GM DOWNSIZING Yokich must find a way to cushion the impact of GM's plans to shed some 20,000 workers.

UNIONIZE TRANSPLANTS With Japanese carmakers expanding U.S. operations and Mercedes-Benz and BMW opening plants, Yokich must reverse the UAW's string of organizing failures.

s Yettaw. Those who anger Yokich
y be shunted into dead-end jobs, of-
at what officials say he calls the
unny Farm," a UAW/GM human re-
rce center in suburban Detroit.

'okich will need the temper of a saint
solve the union's two-year struggle
h Cat. Union members have been
hout a negotiated contract since 1992,
en Cat refused to accept a pattern
l reached at Deere & Co. They're
v 5 months into their second walk-
with no compromise in sight. UAW
retary-Treasurer Bill Casstevens,
o's in charge of Cat members, is be-
forced to retire by Yokich and other
v leaders. Yokich isn't saying who he
nts to replace Casstevens. But he's
ling the pressure to do something.
okich isn't going to be gauged by how
ny strikes he has but by how he set-
this black eye the union has with
erpillar," says Yettaw.

He may have a shiner of his own to
se. The Labor Dept. is looking into
rges that Yokich steered lucrative
on business to a friend's eye-care
iness in return for financial favors.
e *Detroit Free Press* recently report-
that Avery Sterling Jr., whose Ster-
Vision Shoppes Inc. provides eye
e to GM and Ford workers, donated
)00 to the 1990 election campaign of
kich's daughter. A Labor spokesman
lined to comment on the existence
n investigation. Yokich says the idea
t he did anything wrong is "just cra-
' And while some union officials wor-
hat he may have violated UAW ethics
es, even political rivals don't think
minal charges are likely.

OD GAME. Long-term, the UAW's
gest worry is preserving its clout in
os. Although it still represents al-
st all of the 385,000 hourly workers at
Big Three, foreign carmakers and
ir suppliers employ 109,000 workers
he U.S.—92% of them nonunion. And
number will grow as Mercedes-Benz
l BMW ramp up new plants. Yokich
s he plans another big organizing
h at the U.S. factories of Japanese
makers, where pressures to lift prof-
may make workers more receptive to
union. However, the UAW flopped in
last major effort in the late 1980s,
en it made a run at Nissan Motor
's plant in Smyrna, Tenn.

t's unclear whether Yokich will be-
ne one of the labor movement's great
ders. Even some top UAW officials
nder if he has the vision and flexibil-
to lead the union successfully into
next century. He talks a good game:
a fast-changing society, a union that
sn't change isn't going to survive." In
ew months he'll have a chance to
ve he can play it.

By David Woodruff in Detroit

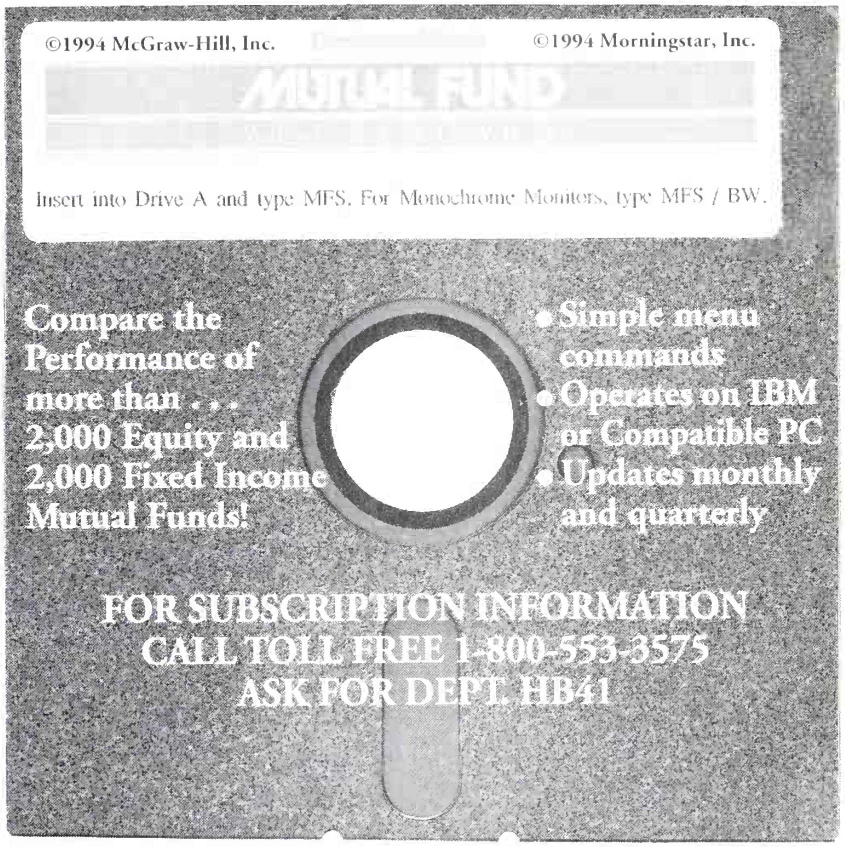
TOURNEAU
CORPORATE BUSINESS GIFTS & AWARDS

Authorized sales for all of the world's famous fine Swiss watches, writing instruments, clocks and personal accessories. Gifts from $20 to $200,000!

Quantity price considerations. From one to one hundred and more. For catalog, call 1-800-424-3113.

TOURNEAU CORNER®

Corporate Sales Division, 440 Park Ave, New York, NY 10022



©1994 McGraw-Hill, Inc. ©1994 Morningstar, Inc.

Insert into Drive A and type MFS. For Monochrome Monitors, type MFS / BW.

Compare the Performance of more than . . . 2,000 Equity and 2,000 Fixed Income Mutual Funds!

- Simple menu commands
- Operates on IBM or Compatible PC
- Updates monthly and quarterly

FOR SUBSCRIPTION INFORMATION
CALL TOLL FREE 1-800-553-3575
ASK FOR DEPT. HB41

ABOUT FACE: *Tecnol is the to*
mask supplier to U.S. hospit

STRATEGIES

WHO'S AFRAID OF J&J AND 3M?

Not Tecnol. It's a lesson in how a small company can win

It is every small company's nightmare: develop an innovative product for a niche that bigger companies have ignored—and then, just when the profits start flowing, a rich and powerful industry Goliath swoops in and snatches away the market. That's what happened to U. S. Surgical Corp. when Johnson & Johnson targeted its market for minimally-invasive surgical instruments two years ago. U. S. Surgical is still struggling to recover.

But it doesn't have to be that way. Consider tiny Tecnol Medical Products Inc., a Fort Worth-based supplier of medical face masks. Tecnol is going up against not one giant but two: J&J and 3M Co. The scorecard so far: David 1, Goliaths 0.

Back in the early 1980s, Tecnol was earning a tidy living churning out cheap hospital supplies. But the market was crowded, and company founders Vance M. Hubbard and Kirk Brunson went looking for a more profitable product. By 1984, they found their niche: medical face masks.

Face masks were then sold as low-priced commodities, but Tecnol seized on a wave of fear over the transmission of the AIDS virus and other diseases. Tecnol transformed the once ordinary product into a lucrative line of "specialty"
masks that shield health-c
workers from infection. Now,
tle-known Tecnol has muscled p
J&J and 3M to become the t
mask supplier to U. S. hospit

The strategy has proved luc
tive. Surgical masks now acco
for 53% of the company's revenu
Half those sales come from sp
cialty masks, which sport gr
margins of about 65%, compar
with 40% for low-end commod
masks. Since 1989, profits a
sales have risen at compound a
nual rates of 34% and 23%, r
spectively. Analyst Frederick
Wise of Bear, Stearns & Co. e
pects Tecnol's earnings to rise 24
to $16.9 million, this year, on a 4
increase in sales, to $123 milli

Tecnol's experience is a less
to other small companies in how to co
pete against rivals with more resourc
and more marketing clout. For even
J&J and 3M fight back, Tecnol is strengt
ening its lead—and so far, it has avoid
U. S. Surgical's fate. With 60% of the $
million U. S. hospital market, Tecn
dwarfs 3M's 21% share and J&J's 10%.

Choosing the right market is one k
to Tecnol's success. "We know how
pick our fights," says Hubbard. Wh
Tecnol began selling masks, J&J and 3
dominated, but since the tiny market re
resented small change for the giants, th
failed to foresee rapidly changing healt
care needs. "We found they were asle
at the switch," says Hubbard. Both 3
and J&J declined comment.

STAYING POWER. Tecnol first gained
foothold by modifying ordinary mask
offering various sizes and lightweig
masks that made breathing easier. Th
it built market share with ever-more s
phisticated products. One model now fe
tures filters that protect doctors fro
dangerous micron-sized particles emi
ted during laser surgery.

Such continual innovation is anoth
key to Tecnol's staying power. Aft
watching the upstart's profits in the l
crative niche soar, J&J and 3M finall

Battling the Big Boys

Tiny Tecnol's strategy for beating the industry giants

PICKING ITS FIGHTS CAREFULLY

Tecnol chose a niche—surgical masks—that's small stuff to big competitors J&J and 3M

IMPROVING MANUFACTURING

Sophisticated production technology developed in-house makes Tecnol the low-cost competitor

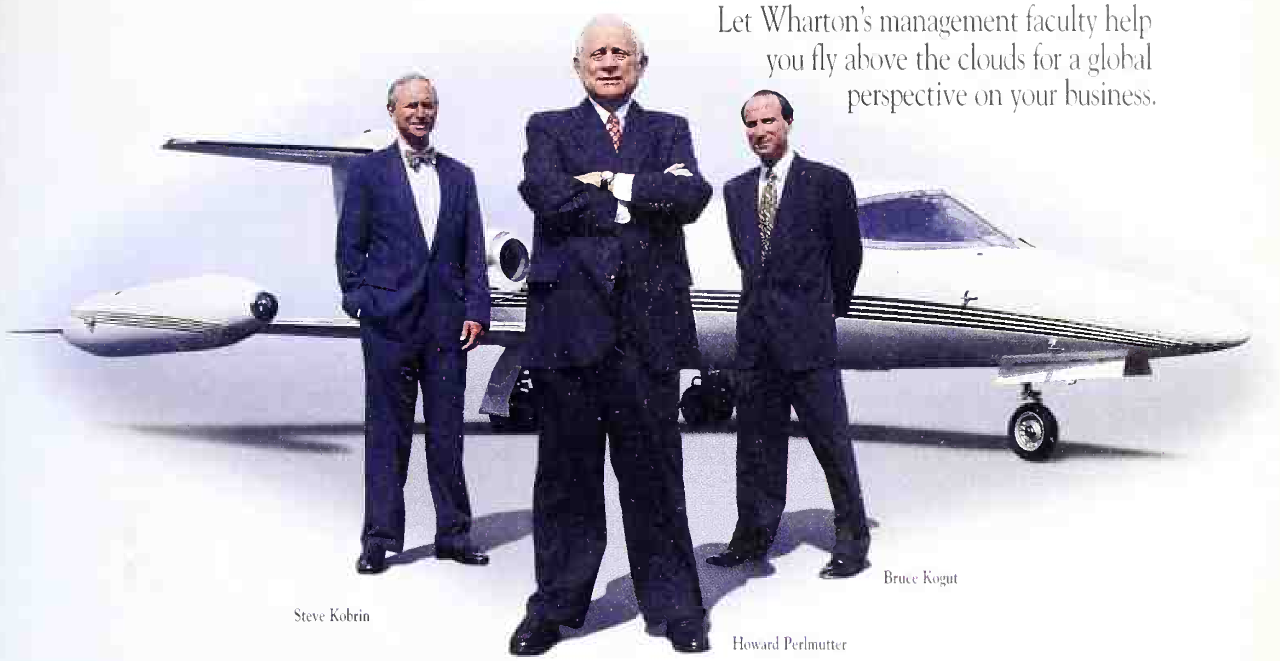
ADDING NEW PRODUCTS

Spending heavily on R&D, Tecnol brings out a dozen new products a year and leads in innovation

BUYING SMALLER RIVALS

Aggressive acquisitions help Tecnol to strengthen and expand its product offerings

FLYING LESSONS, WHARTON STYLE.



Let Wharton's management faculty help you fly above the clouds for a global perspective on your business.

Steve Kobrin

Howard Perlmutter

Bruce Kogut

Need a flight plan for managing in Europe, the Pacific Rim or emerging economies around the world? Look to Wharton's faculty for innovative thinking. From Howard Perlmutter's groundbreaking concept of "the global civilization and multinational corporation" to the Lauder Institute's dual MA/MBA degree program for international management studies - Wharton has been on the leading edge from the beginning.

As the oldest business school in the world, Wharton has been at the frontier in finance, marketing, strategy, management and international business. Piloted by a faculty of unparalleled depth and breadth, the School is helping many organizations see the broad mosaic of business worldwide more clearly.

This rich tradition of innovation is the foundation for our executive education programs which incorporate a unique blend of scholarly excellence and real-world pragmatism. These insightful, dynamic courses offer business people new perspectives and a chance to refocus priorities.

Are you running low on ideas to keep your business on course? Come to Wharton Executive Education. Then put what you learn to work and fly circles around the competition.

☐ **Liberating Leadership: Leveraging the Power of a Diverse Workforce**
April 23 - 28, 1995 • October 1 - 6, 1995

☐ **The Wharton Forum on Accelerating Organizational Change**
A collaboration of business leaders and faculty designed to explore practical solutions to problems associated with organization-wide change. Forum members meet twice annually. Dates are determined in accordance with member companies' needs.

☐ **Finance and Accounting for the Non-Financial Manager**
January 15 - 20, 1995 • March 12 - 17, 1995 • May 21 - 26, 1995

☐ **Managing People: Effectiveness Through Individual and Group Dynamics**
January 15 - 18, 1995 • April 9 - 12, 1995

☐ **International Forum**
April 19 - 23, 1995 (Asia) • May 30 - June 3, 1995 (China) • September 6 - 10, 1995 (USA)

Call today for a complete catalog listing over thirty different courses in finance, strategy, marketing, and management: **1-800-255-EXEC, ext. 1353.**

Wharton

The Wharton School
of the University of Pennsylvania

WHARTON EXECUTIVE EDUCATION

Aresty Institute of Executive Education • 255 South 38th Street • Philadelphia, PA 19104-6359
1-800-255-EXEC ext. 1353 • (215) 898-1776 ext. 1353 • FAX Attn: Dept. 1353 (215) 386-4304

woke up. Both have updated their product lines, rolling out new specialty masks over the last three years. But Tecnol's heavy spending on R&D and new-product development has allowed it to keep beating them to market with new products. "Tecnol has truly been the innovator in this category," says John Burks, senior director of strategic relationships for Voluntary Hospitals Association (VHA) Inc., the nation's largest nonprofit health-care network.

SLIPPAGE. Tecnol's manufacturing expertise also helps. Historically, face-mask manufacturing has been labor-intensive because it requires hand-sewing, but Tecnol engineered its own high-speed, automated equipment. The result: Not only can Tecnol manufacture faster than rivals, but it also is the industry's low-cost supplier. That has helped win clients such as VHA and Premier Health Alliance, a 225-hospital alliance based in Westchester, Ill. Last year, Premier dropped a long-standing contract with J&J in favor of a $10 million deal with Tecnol. "Tecnol has a good product, large product depth, and they passed along substantial cost savings over J&J," says Kevin Weeks, director of operating room programs.

But Tecnol can't afford to stand still. Analyst David W. Tice, president of Behind the Numbers Inc., a Dallas stock-research service, warns that growing competition and pressures to trim health-care costs are crimping margins. Tecnol's gross profit margins are still a healthy 48.5%, but that's down from 51.3% a year ago. Tice says Tecnol risks being squeezed much as U. S. Surgical was. "We expect there to be significantly more competitive pressure in coming years," he says. "J&J and 3M have been through many competitive battles before, and they know how to play hardball." Tecnol's stock, which hit a high of 19 in mid-1993, now trades at around 16. Hubbard denies Tecnol is feeling heat from rivals. He blames the margin slippage on recent acquisitions of a lower-margined mask maker and a sports-medicine company.

To keep growth on track, Hubbard is expanding in Europe, while acquisitions have moved Tecnol into hospital-room apparel and orthopedic devices. And it's rapidly developing new products—10 to 12 a year—to stay ahead. Still, Hubbard is keeping one eye over his shoulder. But it's not J&J and 3M that cause him to fret. "The guys I worry about are the small entrepreneurs. Those are the guys out there innovating," he says. Hubbard knows better than anyone what a little innovation can do for a company.

By Stephanie Anderson Forest in Fort Worth

CAN U.S. SURGICAL MAKE A FULL RECOVERY?

Who's on first? That's the question being asked in the $800 million market for the instruments used in minimally invasive surgery. U. S. Surgical Corp. invented the industry in 1989 and still claims to be No. 1. But now Ethicon Endo Surgery Inc., a unit of giant Johnson & Johnson, says it has seized the lead.

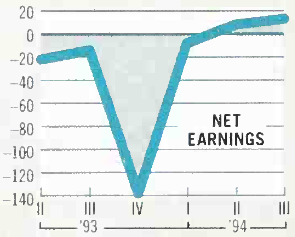
CEO HIRSCH: *No. 1?*

U. S. Surgical's feisty Chief Executive Leon C. Hirsch declined to talk to BUSINESS WEEK, but he has disputed J&J's contention. "We are close to parity, but they are still No. 2," Hirsch recently told Wall Street analysts. That there's even debate shows how far the Norwalk (Conn.)-based U. S. Surgical has fallen.

In many ways, U. S. Surgical is the classic small growth company. It built a better mousetrap—then got complacent as customers beat a path to its competitor's door. Sales went from $291 million in 1988 to $1.2 billion in 1992 on the strength of its new technology for endoscopic surgery, which allows doctors to perform operations with only a small incision. But when J&J entered the market in 1992 with a fierce price war, U. S. Surgical plummeted. From earnings of $138 million in 1992, U. S. Surgical fell to a loss of $138 million in 1993—and by early 1994, it faced a liquidity crisis.

A NEW GAME. Now Hirsch is proclaiming a turnaround. After being forced to renegotiate much of its debt and issuing a $200 million private equity placement early this year, U. S. Surgical has cleaned up its balance sheet. And over the past year, the company has undergone a massive retrenchment, cutting the workforce 20%, to 6,200, slashing its dividend, and chopping research spending by one-third. After losing another $8 million in 1994's first quarter, the company has posted two consecutive quarters in the black.

U.S. SURGICAL STEMS THE BLEEDING



▲ MILLIONS OF DOLLARS

DATA: COMPANY REPORTS

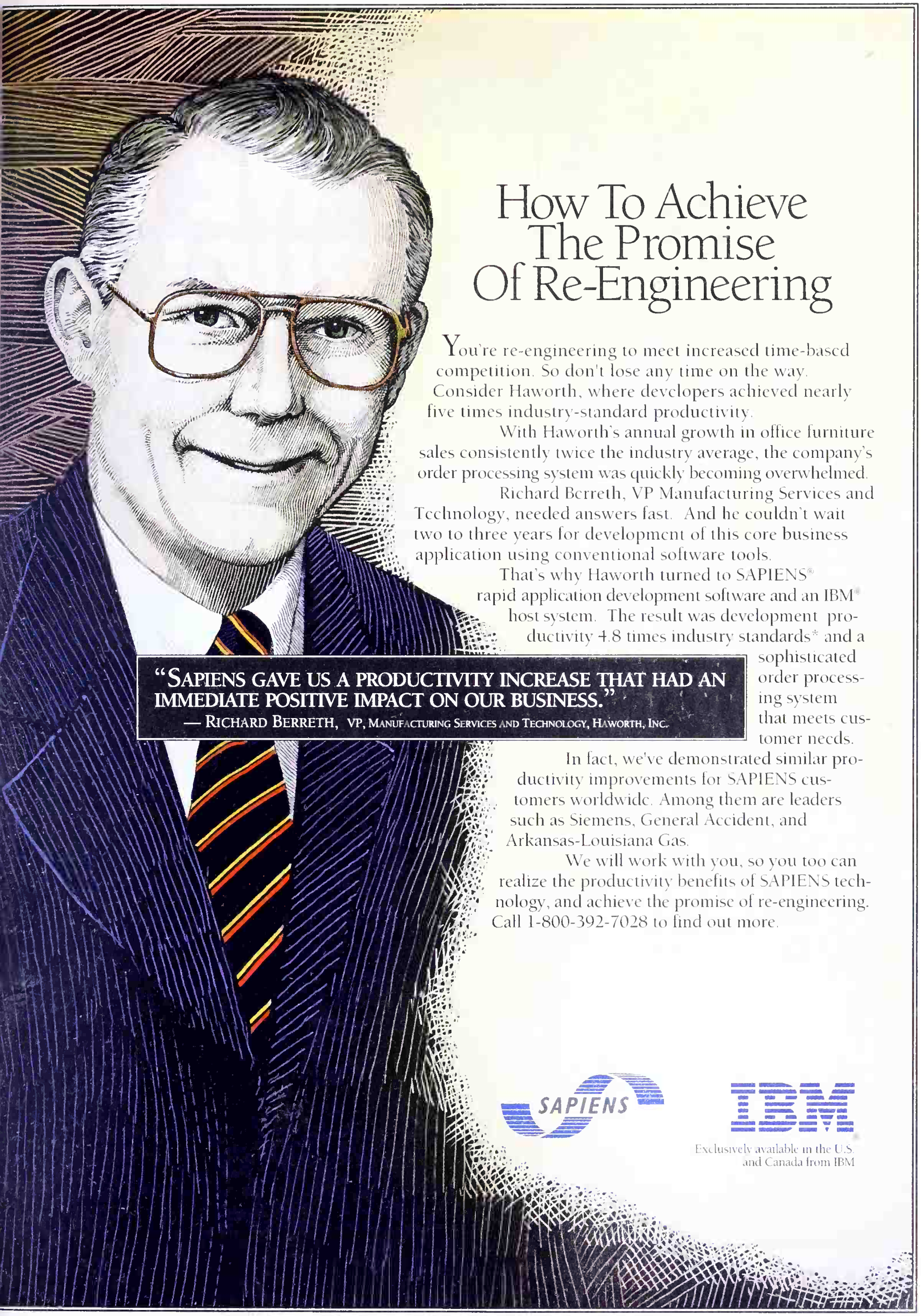
U. S. Surgical is also learning to play by a new set of rules. Once, it sold directly to surgeons. Today, hospitals use purchasing groups to negotiate hefty discounts—and they're forcing the company to sell through distributors who keep a hold on inventories. And with J&J's Ethicon in a fight for share, customers can drive hard bargains. "We have seen U. S. Surgical willing to hold prices," says Alicia Smith, senior vice-president of purchasing at Shared Services in Atlanta. Last year, Smith says U. S. Surgical offered a five-year contract with no price increases.

But the company still faces questions about its long-term independence. With the hospital business undergoing consolidation, price pressures are building. While Hirsch has stopped U. S. Surgical's market-share free fall, it's not winning back ground from Ethicon. Revenue is off 13% for the first nine months of the year. Most of the earnings improvement in the third quarter came from reduced expenses. "Going forward, they are going to have to find a way to increase revenues," says Piper, Jaffray Cos. analyst Thomas J. Gunderson.

To boost sales, U. S. Surgical is counting on products now being introduced, such as an optical instrument that will improve surgeons' ability to see into the abdominal cavity. It also wants to broaden the use of its products into new areas, such as bladder and lung surgery, where endoscopy is not yet common.

Such prescriptions worked when U. S. Surgical had the market to itself. With J&J around, the prognosis isn't as clear.

By Tim Smart in New Haven



How To Achieve The Promise Of Re-Engineering

You're re-engineering to meet increased time-based competition. So don't lose any time on the way. Consider Haworth, where developers achieved nearly five times industry-standard productivity.

With Haworth's annual growth in office furniture sales consistently twice the industry average, the company's order processing system was quickly becoming overwhelmed.

Richard Berreth, VP Manufacturing Services and Technology, needed answers fast. And he couldn't wait two to three years for development of this core business application using conventional software tools.

That's why Haworth turned to SAPIENS® rapid application development software and an IBM® host system. The result was development productivity 4.8 times industry standards* and a sophisticated order processing system that meets customer needs.

> "SAPIENS GAVE US A PRODUCTIVITY INCREASE THAT HAD AN IMMEDIATE POSITIVE IMPACT ON OUR BUSINESS."
> — RICHARD BERRETH, VP, MANUFACTURING SERVICES AND TECHNOLOGY, HAWORTH, INC.

In fact, we've demonstrated similar productivity improvements for SAPIENS customers worldwide. Among them are leaders such as Siemens, General Accident, and Arkansas-Louisiana Gas.

We will work with you, so you too can realize the productivity benefits of SAPIENS technology, and achieve the promise of re-engineering. Call 1-800-392-7028 to find out more.

SAPIENS

IBM

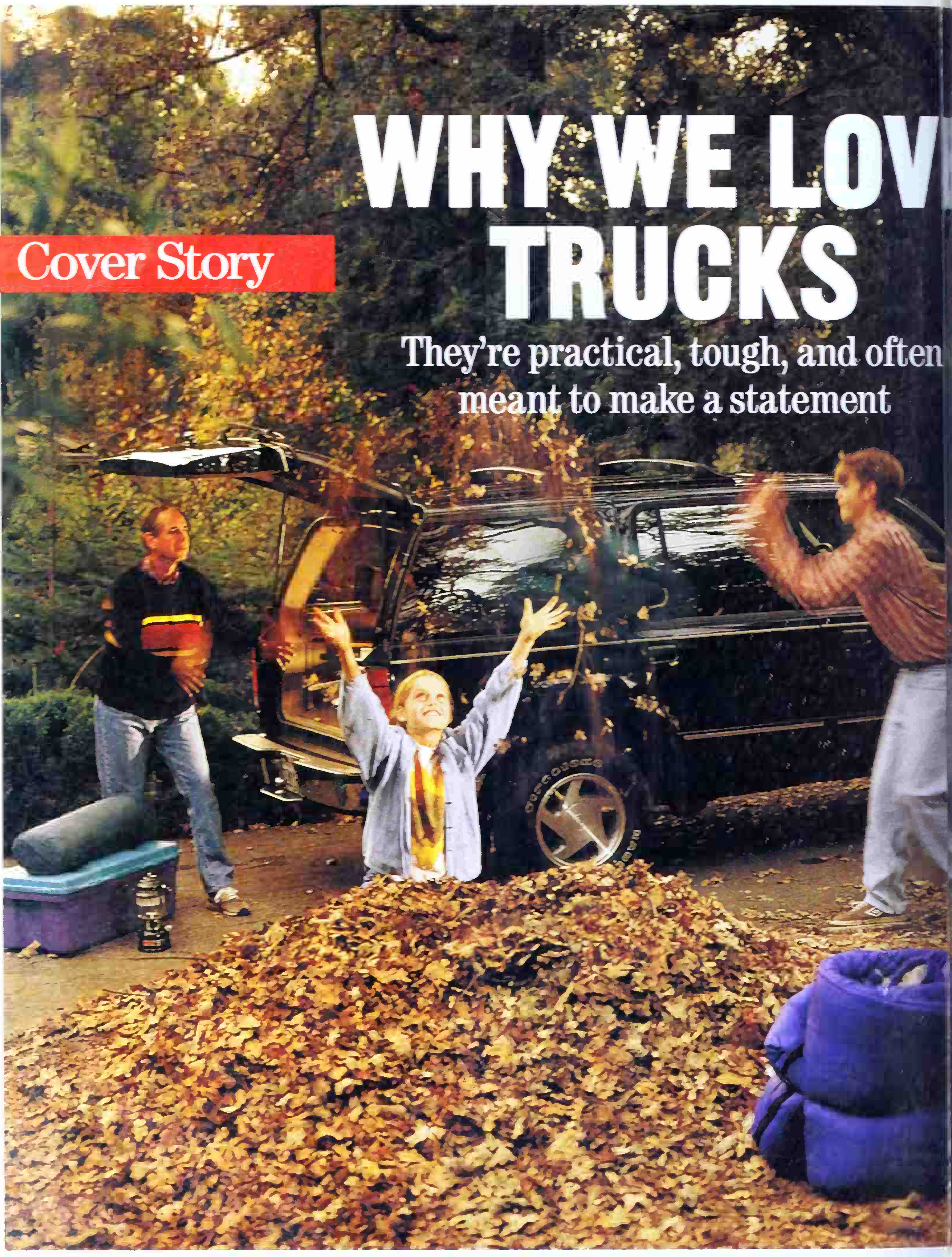
Exclusively available in the U.S. and Canada from IBM

[illegible]
SAPIENS is a registered trademark of [illegible]

Cover Story

WHY WE LOV TRUCKS

They're practical, tough, and often meant to make a statement



In 1975, trucks, vans, and 4 x 4s accounted for 21%

TRUCKIN': *The Kevin and Bonnie O'Donnell family of Orinda, Calif., with their Ford Explorer (left); the Michael Matulas of New York City and their Jeep Cherokee; Helen M. Petros of Westfield, Mass., and her Ford Ranger pickup*

Amid the crush of chauffeured limousines and fancy foreign sedans pulling up to last winter's black-tie Crystal Charity Ball in Dallas, financier Richard Rainwater arrived in style: behind the wheel of his monster truck. Jacked three feet above the pavement, replete with big mag wheels and spotlights, his black 1991 Chevy short-body pickup may not be a conventional mode of transport for a multimillionaire's night on the town—even in Texas. And certainly not the most convenient: Wife Darla Moore, decked out in a slinky, red-satin evening gown, had to "hike her dress up around her thighs to get in and out of it," admits Rainwater.

Jeep
NEW YO
B94

But for the financier, time spent truckin' is time well spent. "The reaction I get from virtually everybody who sees it—whether business associates or teenagers at the service station—is: 'Boy, I bet that's a lot of fun to drive.' And it is!" says Rainwater, who amassed an $800 million fortune advising the Bass brothers in the 1980s and through his big stake in Columbia/HCA Healthcare Corp. "I don't drive it to be different. I drive it because I enjoy driving it. The truck is now evolving into this thing that it wasn't before."

COWBOY CADILLAC. And the Americans you'll find in trucks aren't the same ones you found before, either. Do trucks make you think of red necks, white socks, and Blue Ribbon beer? Forget it. These days, the driver behind the wheel of that Cowboy Cadillac is likely to be a rich executive such as Rainwater, who can drive anything he wants, or a mom such as Clotilde Farrell of Katonah, N. Y.—with four children, two dogs, and a cat to haul to ski weekends and beach parties.

Why? Trucks aren't just the Spartan, workaday pickups prominent for most of this century. These days, trucks include compact pickups such as the Chevy S-10, minivans such as Chrysler Corp.'s seminal Dodge Caravan, and compact sport-utility vehicles such as the hot-selling Ford Explorer. All are defined as trucks by federal regula-

light vehicles sold; now they're approaching 40%

Cover Story

"DOGMOBILE": *Pat Thebo took measurements for dog cages when she shopped for her Voyager*

tors, based on their chassis, weight, and towing capacity. Burly practicality is often secondary; creature comfort is in. At the same time, changes in American demographics, culture, and society have combined with baby-boomer yearnings for self-expression to transform many trucks into badges of affluence.

In fact, it's getting hard to tell the truckers from the movers and shakers. Hollywood heavyweight Arnold Schwarzenegger, author Tom Clancy, and Representative Richard K. Armey (R-Tex.) have one thing in common: their trucks. Even those in the traditional limo-and-driver crowd in Corporate America have the itch to get their hands on a really big wheel: Gap CEO Millard S. Drexler, GE Capital CEO Gary C. Wendt, and Celestial Seasonings CEO Morris J. "Mo" Siegel, for instance, all own trucks. And Storage Technology CEO Ryal R. Poppa is so hooked that he owns three: a Jeep Wrangler, Jeep Cherokee, and Ford pickup (page 80).

Yet what's most telling about America's rush to trucks is just how widespread it is. From Manhattan yuppies, whose vehicles spend more time in garages than on the road, to mothers in California's San Fernando Valley, who use their minivans as veritable kidmobiles, all seem to be pursuing a mixture of utility and image that only trucks satisfy. The upshot: Americans' love affair with the automobile is fast being supplanted by its passion for trucks.

Recent sales reveal just how torrid this relationship has become. So far this year, light-truck sales have risen at double the pace of cars: 13.7% vs. 6.1%. In October alone, truck sales soared 19%, while cars edged up a scant 3%. That means trucks today account for almost 40% of all U. S. vehicle sales, up from less than 25% in 1983. And barring a major jolt, such as a spike in oil prices, underlying social trends should keep truck sales as durable as their rugged chassis for years to come. Both Ford Motor Co. and General Motors Corp. predict that trucks' market share will eventually rise to 50%.

GOLD MINE. That's particularly good news for Detroit. Not only do U. S. auto companies hold the lion's share of the truck market, but it's unlikely Japan will challenge that dominance anytime soon (page 81). Moreover, trucks are a gold mine. Detroit pulls in gross profits of $5,000 to $6,000 on its minivans and $7,000 and up for its compact sport-utilities, depending on the model, estimates Stephen J. Girsky, auto analyst at PaineWebber Inc. And profits on GM's massive Chevy Suburban can run to an eye-popping $10,000—topping all but a very few select luxury cars. On a midsize family sedan, in contrast, carmakers are lucky to get profits as high as $4,000.

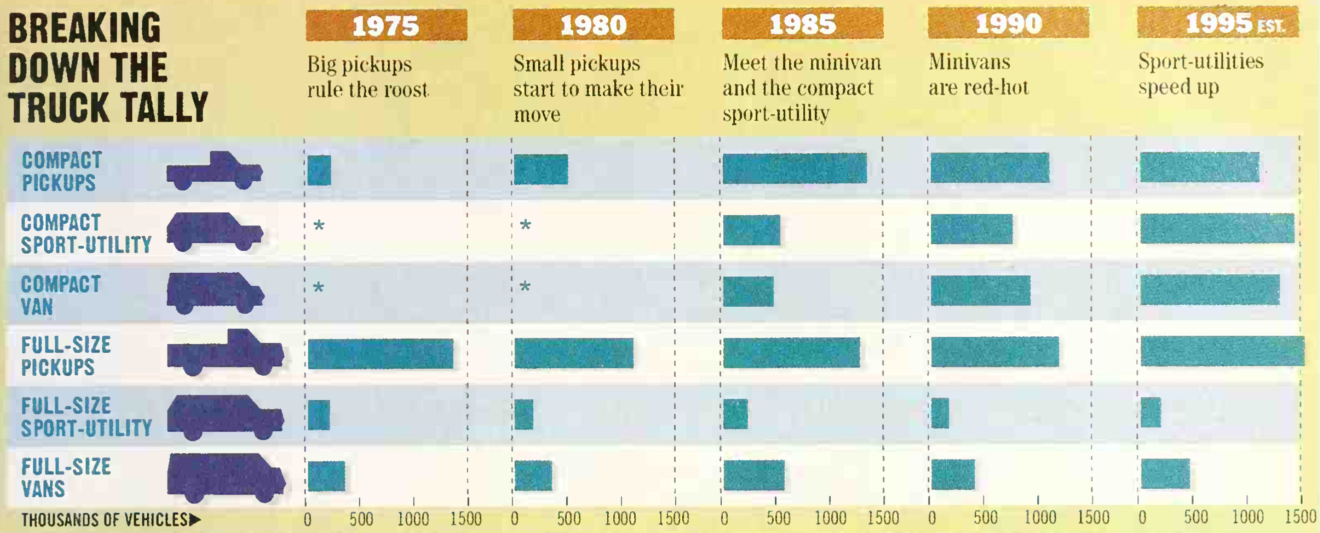
Paradoxically, some credit for the truck surge goes to the oil-price shock of the early 1980s. After Detroit responded with fleets of downsized, four-cylinder, front-wheel-drive cars incapable of towing heavy loads, America's 12.5 million (then) registered owners of boats suddenly found their family sedans lacking in oomph. The same went for owners of campers, horse trailers, and anything else that

New Entries For A Hot Segment

Once trucks were only rarely redesigned. But now, the U.S. truck market is boiling, and makers are rushing to introduce new offerings to a hungry public:

FORD WINDSTAR Ford is challenging Chrysler's long-dominant minivans with its first high-volume, front-wheel drive model, designed to handle like a car. Base price: $20,130

BREAKING DOWN THE TRUCK TALLY



Compact pickups include the Ford Ranger. Compact sport-utilities cover everything from the military-style Jeep Wrangler to the Ford Explorer and Range Rover. Compact vans are minivans such as the Dodge Caravan. Full-size pickups include the GMC Sierra. Full-size sport-utilities are mammoth models such as the Chevy Suburban. Full-size vans are commercial vans such as the Ford Econoline.

*SEGMENT SALES WERE NEGLIGIBLE

DATA: DRI/McGRAW–HILL, *WARD'S AUTOMOTIVE REPORTS*

needed to be hitched to a bumper. The solution: Buy a truck.

Today's truck mania is also a rebellion against both the cramped, underpowered econoboxes of the 1980s and the interchangeable ovoid family sedans that Japan and Detroit have cranked out in recent years. Many people couldn't tell a Ford Contour from a Chrysler Cirrus or a Mazda 626 from a Toyota Camry. But a hulking Chevy Suburban isn't apt to be mistaken for anything else.

Most important, truck sales are zooming because buyers are trying, through their purchases, to trumpet that they are—variously—practical, flexible, nonconformist, or environmentally conscious. That last one may be a glaring misrepresentation, notes Gerald Celente, founder of Trends Research Institute in Rhinebeck, N. Y., since trucks get notably worse gas mileage than cars. So what? A 1994 Jeep Cherokee "reflects me and my lifestyle choices," explains 25-year-old Laura M. Maresca, who received the sport-utility from her father as a present when she graduated from University of Denver law school last spring. "I like comfort, but at the same time, I don't stay in town over the weekends. I go to the mountains. Most of the people I know my age lean more to Cherokees and [Toyota] 4Runners than to traditional status cars."

Indeed, for Maresca as for generations before her, vehicles are not just transportation appliances. "We wear them like clothes," says Michael T. Marsden, dean of the college of arts and sciences at Northern Michigan University in Marquette and a student of car culture. In switching from cars to trucks, the baby boomers who led the crossover market changed the fashion rules. The phenomenon isn't really new. Consider blue jeans, once exclusively apparel for working men out West. In the 1960s, boomers adopted jeans as a generational symbol, transforming them into everyman's dress. And by the 1970s, jeans had evolved into trendy designer fashions, sporting names such as Calvin Klein and Gloria Vanderbilt—and prices to match.

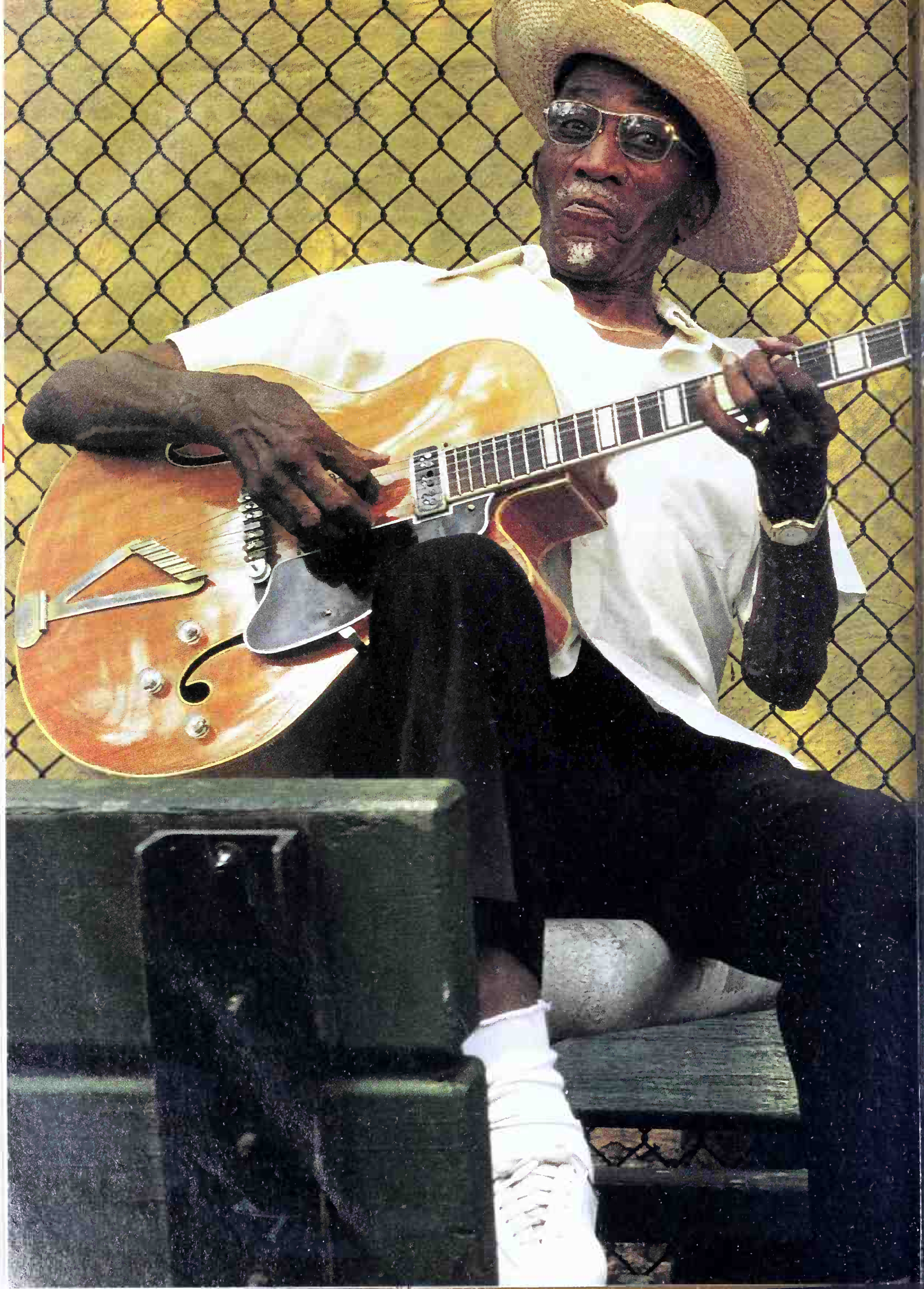
Likewise, boomers have helped redefine trucks from a blue-collar need to a mass-market want. A 1986 Ford study showed that 70% of Ranger buyers never used their pickups for business purposes. And in the 1990s, truckmakers are lining up their own designer labels through tie-ins with trendy outdoor sporting-goods concerns: the Nautica Edition Mercury Villager, the Orvis Edition Jeep Grand Cherokee.

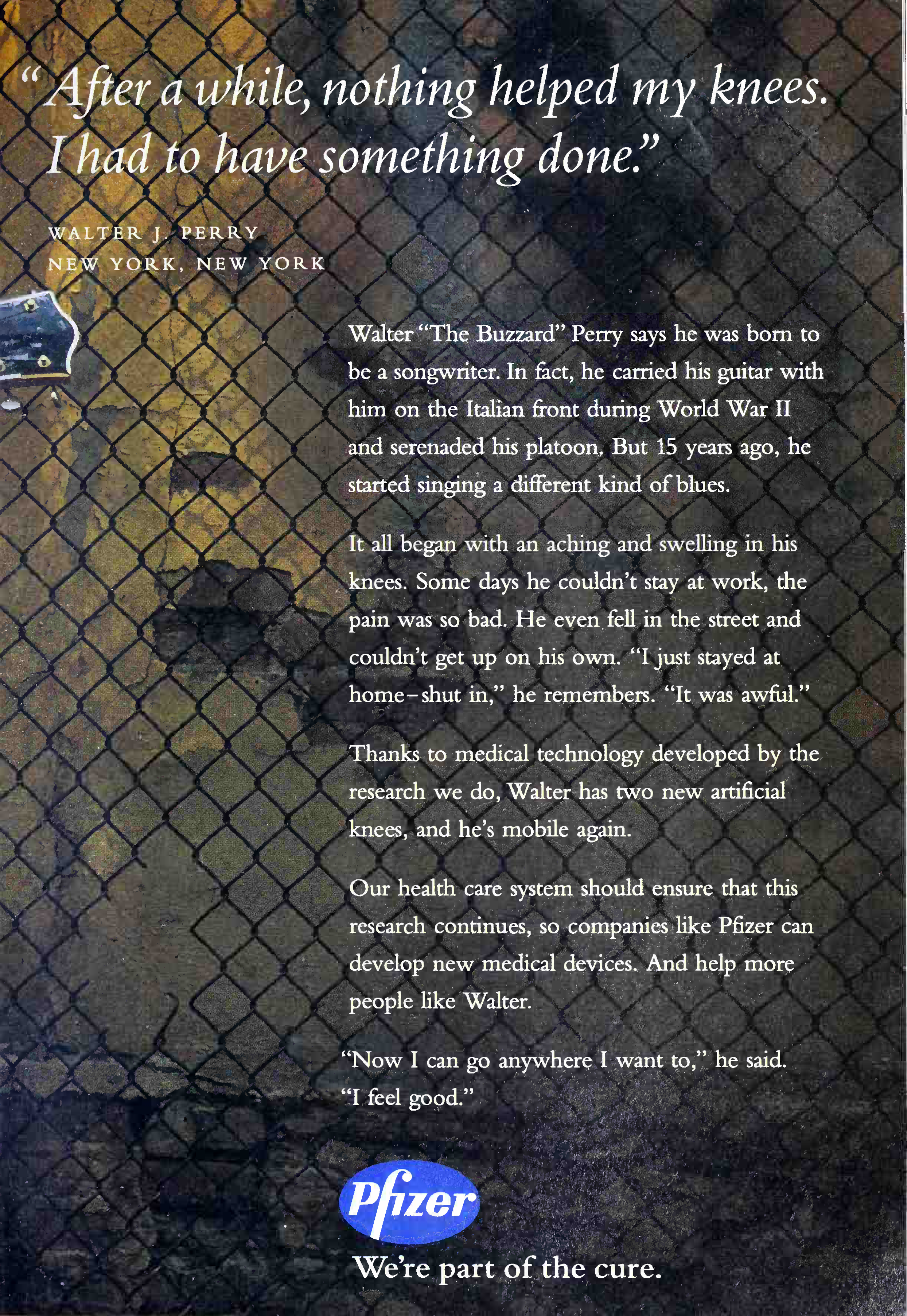
TAMER TIMES. Boomers' soaring purchases of trucks in the 1980s paralleled yuppies' rising interest in country-and-Western music. Both "appealed to people who were looking for something authentic and American in values," says Professor Stuart W. Leslie, who observes U. S. auto culture at Johns Hopkins University. In both cases, the product was transformed. Just as country music was tamed and suburbanized, trucks were purged of their redneck overtones.

Along the way, they attracted new kinds of buyers. Big-pickup buyers, on average, are about 20% college educated

DODGE RAM PICKUP Chrysler's Ram pickup charged into a segment virtually owned by Ford and GM and quickly grabbed 14.5% of the market. Base price: $12,938

CHEVROLET BLAZER The 1995 Chevy Blazer boasts increased interior room, features such as two cellular-phone outlets, and a choice of five suspensions. Base price: $18,630





"After a while, nothing helped my knees. I had to have something done."

WALTER J. PERRY
NEW YORK, NEW YORK

Walter "The Buzzard" Perry says he was born to be a songwriter. In fact, he carried his guitar with him on the Italian front during World War II and serenaded his platoon. But 15 years ago, he started singing a different kind of blues.

It all began with an aching and swelling in his knees. Some days he couldn't stay at work, the pain was so bad. He even fell in the street and couldn't get up on his own. "I just stayed at home–shut in," he remembers. "It was awful."

Thanks to medical technology developed by the research we do, Walter has two new artificial knees, and he's mobile again.

Our health care system should ensure that this research continues, so companies like Pfizer can develop new medical devices. And help more people like Walter.

"Now I can go anywhere I want to," he said. "I feel good."

Pfizer

We're part of the cure.

AMERICA'S ROMANCE WITH TRUCKS: HISTORY OF A COURTSHIP

1946 Willys-Overland introduces the CJ, a decommissioned military Jeep, later known as the Wrangler.

1961 Volkswagen introduces the first compact pickup truck in America.

1962 When Germany taxes imported U.S. poultry, the U.S. retaliates with the "chicken-war tariff" of 25% on imported two-door pickup trucks. Still in force today, it acts as a roadblock on Japanese truck imports.

DODGE. THE FASTEST GROWING TRUCK COMPANY IN AMERICA.

1970s U.S. population shifts away from car-favoring mid-Atlantic states to truck-favoring states in the Rocky Mountains and around Texas. Rise of women in workforce promotes two-vehicle families, with the second "car" often a truck.

Cover Story

and make about $50,000 in annual household income. By co trast, almost 50% of large and small sport-utility buyers ar college educated, and they make about $65,000 annually. An while half of all big pickups are sold in 10 mostly Southern an Western states, sales of minivans and sport-utilities are broadly spread across America.

Fueling this appeal has been truck ads' liberal use of Ol West symbols to evoke a time-honored theme of freedom freedom to roam, freedom to overcome natural barriers, c freedom to cram a entire Little Leagu team into your min van. "It's the frontie the concept of taming the land. We still believe we can tam the world through these machines," says Marsden. Agree John Wright, a cultural historian at Henry Ford Museum i Dearborn, Mich.: "The image of freedom [in automotive advertising] used to come through with cars, and now it come through more with trucks."

Even the evolution of vehicle names explains trucks' appea In the 1950s, Detroit lured status-hungry drivers with images of the playgrounds of the upper crust: Monaco, Monte Carlo, and Bel Air. In the exuberant, youthful 1960s, car name evoked raw animal power: Mustang, Barracuda, and Skyhawk. Today, the names of luxury cars have become as techno-esoteric and impersonal as modern life: Q45, STS, 750iL XJ6. By contrast, the names of sport-utility vehicles summon heady images of adventure and the American frontier Explorer, Blazer, Yukon, Laredo, Cherokee, Pathfinder. Eve the ever practical minivans carry swashbuckling nameplate such as Voyager, Caravan, and Odyssey.

Of course, it's not just the names that are different. Truck are bigger than cars, more powerful, and they often com with four-wheel drive. But here, too, the attraction is ofte more psychological than practical. Trucks give drivers a feeling of mastery over an uncertain, threatening world. "Yo turn that key, and you feel you're in total control of the environment," explains Marsden. "It doesn't matter what natur throws at people. They can go anywhere, do anything."

Truth is, most truck buyers don't go anywhere or do muc with their trucks that they couldn't in a car. They just love the idea they could if needed. It's not that buyers don't appreciate the practical aspects of trucks. Farrell, for instance, feels better when it's the Suburban that her daughter, a high-school junior, is driving. "I never worry about her safety," she says. "If somebody hits her, unless it's a Mack truck, she's going to be in better shape than the other guy." And when New York hair stylist Michael Matula traded in his Volvo for a 1995 Jeep Cherokee, he knew he didn't need it for Manhattan. He wanted four-wheel drive for family drives to the Jersey shore, or for his wife's visits to her mother in the snow-bound Poconos.

Still, it's the fantasy element of trucks that sometimes provides their strongest appeal. Just ask Bradley G. Bonner, an 18-year-old high school student in Houston. Sure, his big black Chevy Z71 4X4 pickup, with 38-inch tires and a body jacked up nearly six feet off the ground, lets him carry the dirt bikes he races and take his buddies "muddin'" off-road. But the real turn-on? The truck, explains Bonner, "helps you pick up girls. I've even had girls follow me home."

PLUSH INSIDE. Today, however, truck fantasies don't apply just to men. Noticing large numbers of women buyers in their showrooms—women buy more than 40% of all Explorers—truck makers have been pitching their wares more to women. Every single TV commercial for the 1995 GMC Jimmy features a female driver, including one proclaiming how the Jimmy's lower step-in height preserves a woman's dignity. And while Jeep made two commercials for 1994 with voice-overs reading a "personals" ad for an outdoorsy type who owns a Jeep, it aired only the one with a woman's voice.

/hile the proliferation of more car-like, plush interiors softer rides made trucks more acceptable to all drivers, e features were aimed specifically at women: After a fe- e employee broke a high heel while testing a Mercury ager prototype, Ford added extra carpets to cover the ks for the minivan's sliding rear seats.

ut manufacturers are also discovering that women are vn to trucks by some of the same psychic imagery that has ; appealed to men. Maureen P. Ouimette, 27, a West ngfield (Mass.) pharmacist, says that since she traded low-slung Toyota Paseo for a 1994 Ford Explorer, she s different on the road. Her new driving attitude: "Hey, re not going to intimidate me with your big truck any- e." And when Sarah Bune of Waccabuc, N. Y., gets in her 3 Chevy Suburban, "I turn on the country-and-Western ion and think: 'Thelma and Louise have nothing on me.' "

rucks have more than image going for them. For years, tively low prices for pickups have provided some high- ne fuel for truck growth. Because trucks were not subject ne same federal regulations as cars, truck makers have not to load them up with as much costly emissions and safe- equipment. So in 1982, a shopper looking for a first car d pay $5,660 for a stripped-down Chevette—a compact se- of dubious quality and no sex appeal—or $5,858 for a de- lable Nissan pickup. That helped produce a fundamental shift in attitudes toward trucks. Says Vincent Barabba, the 60-year-old general manager of GM's Strategic Decision Center: "Someone in my generation never thought of owning a truck. But the whole baby-boom generation came in looking at trucks."

RUCKS RULE THE ROAD

Five of the 10 top-selling vehicles in the U.S. are trucks

MODEL	UNIT SALES, YTD 1994
FORD F-SERIES PICKUP	**502,919**
CHEVY C/K PICKUP	**454,517**
FORD TAURUS	316,041
HONDA ACCORD	313,851
FORD RANGER	**297,938**
FORD ESCORT	285,984
TOYOTA CAMRY	276,073
SATURN	242,665
FORD EXPLORER	**240,992**
DODGE CARAVAN	**239,655**

DATA: *WARD'S AUTOMOTIVE REPORTS*

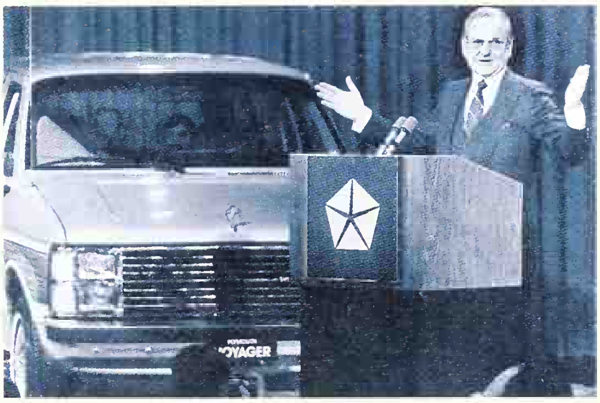
That generational difference may explain why U. S. auto makers almost missed the boat on trucks. "Over the years, we in the industry have tended to treat this histor- nift in the market as a fad that would go away," admits d CEO Alexander J. Trotman. Ford scrapped plans to de- p a minivan in the mid-1970s, for fear of cannibalizing s of its full-size station wagons. Today, minivan sales out- station wagons 3 to 1—and most minivans are made by ysler, the only one of the Big Three willing to gamble on concept in 1983. Even GM's GMC Truck Div., which had no sales to lose, was held back. In the 1980s, GMC attracted sover buyers with its aggressive "It's not just a truck more" and "A truck you can live with" ads featuring trucks pscale places. Then, GMC marketers suggested an ad cam- n brashly headlined "How to live without a passenger ' GM's corporate brass vetoed the idea as too subversive.

ven the former corporate owners of Jeep, the trailblazer assenger trucks, hadn't a clue. When American Motors p.—spooked by tumbling sales for its gas-guzzling Grand oneer during the 1979 oil crisis—launched a smaller, more -efficient sport-utility to be known as the Jeep Chero- , "nobody imagined the explosion," says David Van Peur- , then as now at Jeep's ad agency.

ut after the Cherokee's launch in late 1982, sales soon

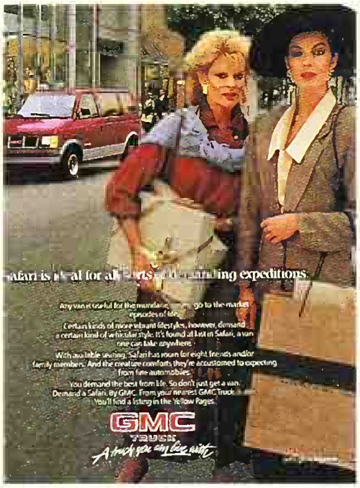
1981 Trucks carry fewer government regulations than cars–and lower price tags. Compact pickup sales soar.

1982-83 In response to the oil crisis, Detroit builds downsized, front-wheel-drive cars–with almost no towing capability. Boat- and trailer-owners turn to trucks.



1983 Chrysler introduces the minivan. Suburban baby boomers flock to it, turning away from their parents' station wagons.

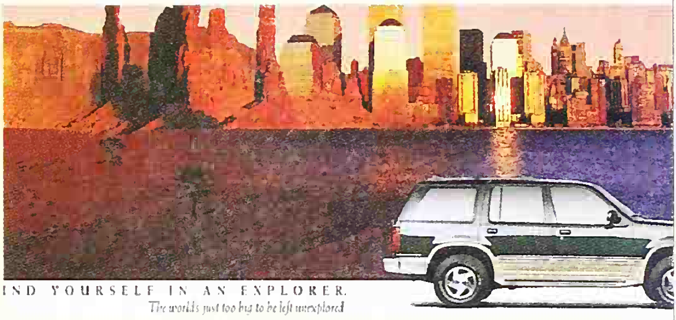
MID-1980s GMC Truck encourages car owners to switch to trucks, with ad campaigns like "A truck you can live with" and "It's not just a truck anymore."


GMC
TRUCK
A truck you can live with

1986 Gasoline costs 88¢ a gallon, less than some brands of bottled water, and the lowest price since 1978. Who cares if trucks get lousy gas mileage?

1987 Coveting Jeep, Chrysler buys AMC.

1993 With sport-utilities replacing luxury cars, Mercedes-Benz announces plans to build a sport-utility in a new $300 million plant in Tuscaloosa, Ala.


IND YOURSELF IN AN EXPLORER.
The world's just too big to be left unexplored

1994 For the third year in a row, 5 of the top 10 selling vehicles in America are trucks.

SOURCE: WARDS' AUTOMOTIVE REPORTS; AMERICAN AUTOMOBILE ASSN. BW

STARTING AT JUST $1199,* COMPAQ AERO presents a type of freedom you can't afford to live without. Imagine a 170MB hard drive and 486 processor – the power you get from a desktop – all packed into a sleek, 3.5-lb. package. You'll never be tempted to leave it behind. (The possibilities are quite staggering.) To enter this new world, visit your Compaq retailer or locate the nearest Compaq reseller by calling 1-800-345-1518. Or call Compaq DirectPlus at 1-800-888-8450. You'll find the price of freedom has never been so, well, reasonable.

Some models now include an external floppy drive. (Giving you the freedom to carry it – or not.)

An optional convenience base, $99, lets you plug in peripherals. (When it's time to go – unplug the Aero instead of everything else.)

COMPAQ

IT'S ABOUT LIFE BEYOND W

BOUT A NEW WAY OF DOING THINGS. IT'S ABOUT $1,200.
COMPAQ
CONTURA
AERO 4/25
GRSSHPPR.PCX
File Edit View Text Pick Options Help
SUBORDER CAELIFERA
Acrididae
fig 1734
fig 1735
fig 1736
intel inside

mpaq Computer Corporation. All Rights Reserved. Compaq is a registered trademark. Contura Aero is a trademark and Compaq DirectPlus is a service
mpaq Computer Corporation. *Prices shown are Compaq DirectPlus catalog prices. Reseller and Retailer pricing may vary. The Intel Inside logo is
trademark of the Intel Corporation.

surpassed expectations: 51,400 in 12 months. Strangely, car shoppers, not traditional truckers, were the main buyers. And sales first jumped not in Colorado or Vermont but in Manhattan. When AMC experimented by adding luxury touches such as leather seats and power antennas to the Cherokee Limited, sales climbed even more. "It was like the market was reaching out for a crossover vehicle, something acceptable at the ranch or the country club," says Martin E. Levine, then AMC's director of sas.

Stumped, Jeep marketers hired Grant McCracken, at e time a cultural anthropologist at Guelph University in Guel, Ont., to study Cherokee buyers. He interviewed scores f them about their vehicles, values, and lives. "The Jeep maged to be several things for them at once. It was uptown d downtown simultaneously," recalls McCracken. In contras o the conspicuous consumption of a Cadillac, Jeep represen d "the effortless, old-money look of the Eastern Seaboard. I a word, people had gentrified the Jeep." After reviewing study, Jeep ditched ads extolling ruggedness in favor of e gant ads of the Jeep in pristine natural settings.

The launch of Chrysler's minivans was not so tortur. Desperate for a hit, Chairman Lee A. Iacocca simply f lowed his gut feeling that buyers were ready for the hig functional haulers—just the thing for people such as d lover Pat Thebo, of Royal Oak, Mich., who took along t measurements for two standard golden retriever dog cag when she shopped for her Plymouth Grand Voyager.

IN STYLES AND STAGES. Minivans also proved to be just t thing for attracting repeat buyers. Along with full-size pi ups, they enjoy the highest owner-loyalty rates in the indu try: more than 70% of their buyers return for another. By co parison, the Honda Accord's owner-loyalty rate of 40% double what most cars can claim. Why is there such devotio For one thing, buyers of minivans, pickups, or sport-utiliti quickly get used to carrying more—and, often, messier gear when they travel. So the next time they shop for a v hicle, switching back to a car would mean giving up some that lifestyle. "It's a much bigger decision to get out of one these vehicles," argues David P. Bostwick, Chrysler's dire tor of corporate market research. "The crossover goes on one way."

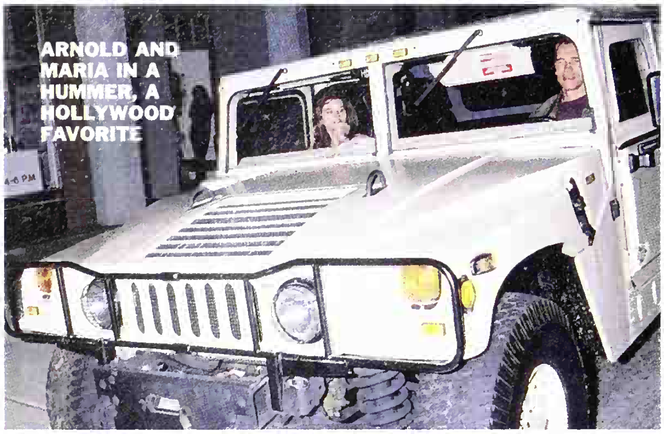
Others aren't so sure. True, sport-utilities are lifestyle v hicles, but minivans are lifestage vehicles, contends Che rolet truck marketing manager Kurt L. Ritter. Minivans m be perfect for families with children at home, but as soon the kids are gone, so is the minivan, he figures. But Bos wick disagrees, citing the loyalty rates as proof that miniv buyers keep coming back for more. The truth is that for ma minivan owners, going back to a family sedan is like selling t house and moving back to an apartment after the kids ha left: Some may do it, others won't.

That gets to the big question: Will truck sales keep risin Much depends on future government regulations. Safety a emissions rules for cars and trucks will become nearly ide tical by 1998, eliminating part of trucks' cost advantag Worse, auto companies worry that Washington could up t ante on fuel economy. Any hike in the truck standard wou be costly to meet, since consumers still expect truck engin to be capable of hauling more weight than car engine

On the other hand, even a pricier truck might remain t smartest investment a car buyer can make. Thanks to stron demand and rugged durability, trucks have phenomenal resa values. An October study for BUSINESS WEEK by CCC Inform tion Services Inc. of Chicago showed that a 1992 Mercede 300E was still worth a solid 77% of its original price—a bo fo performance for a car. But the Ford F-150 Styleside pic up held 80% of its original price, a Ford Explorer XLT 85%, an a Chevy Suburban Silverado a stunning 90%.

So what if trucks have healthy resale values? That's a do lars-and-cents argument, and most truck buyers aren't wear ing green eyeshades. They're wearing ski goggles, hikin boots, fishing vests, or Scoutmaster uniforms. As long a trucks meet Americans' needs better than cars, America wi keep on truckin'.

By James B. Treece in Detroit, with Stephanie Anderso Forest in Fort Worth, Gregory Sandler in Northampto Mass., Kate Murphy in Houston, and bureau reports



ARNOLD AND MARIA IN A HUMMER, A HOLLYWOOD FAVORITE

ALBERT ORTEGA/RON GALELLA LTD

Trucks Of The Rich & Famous

LES ALBERTHAL *Chairman, President & CEO, EDS*	CHEVY SUBURBAN AND CHEVY CLUB-CAB PICKUP
ANDRE AGASSI *Tennis pro*	HUMMER
TIM ALLEN *Comedian*	GMC TYPHOON
DICK ARMEY *Congressman (R-Tex.)*	FORD F–150 PICKUP
TOM CLANCY *Author*	HUMMER
KEVIN COSTNER *Actor*	RANGE ROVER AND CHEVY SUBURBAN
DORIS DAY *Actress and singer*	JEEP WAGONEER
MICKEY DREXLER *CEO, Gap*	FORD EXPLORER
ROBERT J. FRANKENBERG *CEO, Novell*	JEEP CHEROKEE
HEAVY D *Rapper*	RANGE ROVER
MICHAEL JORDAN *Basketball and baseball player*	CHEVY BLAZER
JERRY JUNKINS *CEO, Texas Instruments*	FORD EXPLORER
MARTINA NAVRATILOVA *Retired tennis pro*	FORD EXPLORER
RYAL R. POPPA *CEO, Storage Technology*	JEEP CHEROKEE, JEEP WRANGLER, AND FORD PICKUP
RICHARD RAINWATER *Financier*	MONSTER CHEVY PICKUP
STEVE REINEMUND *President, Frito-Lay*	CHEVY SUBURBAN
ARNOLD SCHWARZENEGGER *Actor*	HUMMER
GARY WENDT *President & CEO, GE Capital*	JEEP GRAND CHEROKEE

DATA: BUSINESS WEEK

WHY THE TRUCK LEFT JAPAN BEHIND

DYSSEY: *Honda's first foray into minivans, on sale in January, has nifty features but low power and a high price*

Honda Motor Co.'s first-ever minivan, the 1995 Odyssey, has some nifty features, including four wing-out doors on the sides—just ke a car—and a rear seat that folds own flat into the floor. But it also as only a 140-horsepower, four-cyl-nder engine, barely adequate for a eople-hauler, and will cost a steep 28,000 when it goes on sale in early anuary.

It looks like another wrong turn y the Japanese in the U.S. truck arket. Although Japanese carmak-rs have shown a phenomenal ability ver the past 20 years to understand hat Americans want in a car, when comes to trucks, they just don't et it. Set aside the successful re-ake of smallish Isuzu Motors Ltd. nto a truck-only company in the .S., and what's left? The Japanese ave yet to launch a high-volume, ompetitive minivan. Japan's small ickups have been elbowed aside by etroit's models. And Japanese port-utilities have remained minor layers in a major market. Indeed, ith 30% of the U.S. car market but nly 14% of the faster-growing truck eld, normally savvy Japan appears tuck in first gear.

How did Japan miss the historic arket shift from cars to trucks? lany wrongly blame the "chicken-var tariff," the 25% charge the U.S. ut on imported pickup trucks in 962 to retaliate against German tax-s on U.S. poultry. But there are no ariffs on four-door sport-utilities nd minivans—bubbling truck markets where the Japanese have also gone flat.

Instead, Japan's truck troubles are the result of a rare misreading of the U.S. market, manufacturing woes back home, and plain bad timing. In retrospect, it's understandable that the Japanese would be baffled by U.S. truck buyers. There was simply no comparable breed in jam-packed Japan: no big pickup owners, no trailer-towing families needing a massive Chevy Suburban. Moreover, while Toyota Motor Corp. meticulously researched the habits of luxury-car owners before launching its Lexus Div. in 1989, Japanese carmakers never tried to learn what made U.S. truck buyers tick.

BRUTES. Detroit's long reputation for developing trucks with brute strength and time-defying durability has also hurt Japan. "If you're Honda, bringing out a new sport-utility, you better talk about ruggedness, because you're not associated with that," says David Van Peursem, the managing partner at ad agency Bozell who oversees the Jeep account.

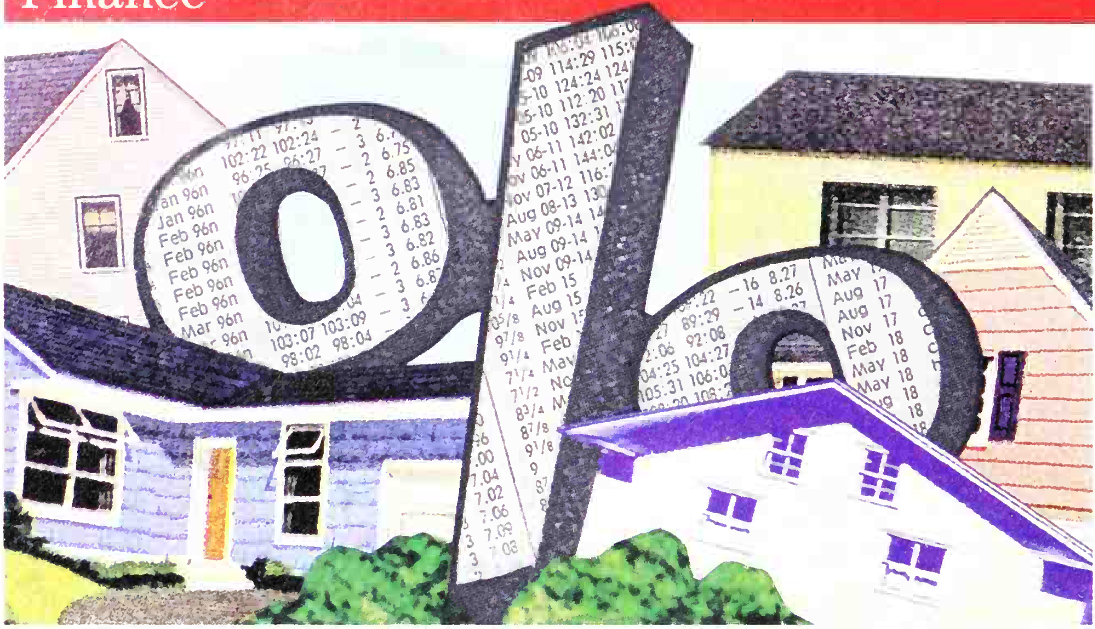
Even worse, the Japanese in the late 1980s chose luxury cars for expansion over trucks. Bad move. Japanese luxury cars debuted along with both the 10% luxury tax on expensive autos and America's U-turn from the conspicuous-consumption '80s to the value-conscious '90s. After an initial spurt, sales plateaued: Luxury sales this year are up only 5%, slightly below the overall car market, and profits have nose-dived.

Bleeding red ink at home, Japanese auto companies now don't have the cash flow to move into trucks. For one thing, Japanese carmakers' elegant and sophisticated engines are not appropriate for trucks, for which customers want inexpensive, large, and powerful engines suited for towing. And most of Japan's 4 million units of idle carmaking capacity isn't set up for trucks' larger wheelbases and higher rooflines. When Honda decided to build the Odyssey, for example, it sent an engineer out with a tape measure to see which factories could handle the minivan's dimensions. To make a full-scale assault on the truck market, "it would be billions of dollars for the Japanese," says Chrysler President Robert A. Lutz.

So Japanese auto makers are wary of going full-pedal into trucks. Admits Richard E. Colliver, senior vice-president of American Honda Motor Co.: "The price of admission to develop a vehicle and to accommodate facilities to build that vehicle are more than Honda is willing to spend at the moment."

For now, Japanese truck plans are modest: a few more high-end sport-utilities and a reworking of Toyota's Previa minivan. Even so, Detroit is not taking the possibility of a Japanese challenge lightly. Says Lutz: "Over time, can they nibble at it? Of course, but only if we rest on our oars." U.S. truck makers vow that won't happen.

By James B. Treece in Detroit



MORTGAGE BANKING

WHAT A DIFFERENCE A YEAR MAKES

A cyclical slump and richer rivals rattle mortgage bankers

It takes a strong stomach to be a mortgage banker these days. In a business that's notoriously cyclical, the current downturn is shockingly severe. Interest rates this year have risen further—and faster—than almost anyone expected. As a result, demand for mortgage loans has plunged: the Mortgage Bankers Assn. estimates that the pace of lending today is down 45% from the first quarter.

Mortgage banking's woes, though, go far beyond cyclical downturns. High interest rates, coupled with wider uses of technology, are sparking a far-ranging restructuring and consolidation of the industry. Mortgage banking as a standalone business is shrinking as commercial banks gobble up many of the major players and independent mortgage banking companies find it harder to make it on their own. Indeed, mortgage banking will never again be as open to entrepreneurs with more guts than capital. "Everyone's forecast is for continued consolidation," says Gerald L. Baker, chairman and CEO of Fleet Mortgage Group Inc., a unit of Providence-based Fleet Financial Group Inc. "The name of the game has got to be improved efficiency and improved marketing."

Mortgage bankers have their hands full simply dealing with current problems. The Mortgage Bankers Assn. sees mortgage lending falling to $605 billion in 1995, down from $1.01 trillion in 1993 (chart). Mortgage refinancing, which reached a feverish $556 billion in 1993, could plummet to $67 billion next year.

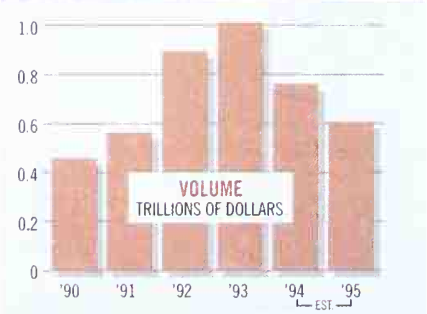
The pain from the drop in activity is just beginning to be felt, though. Employment in the industry, which reached 258,000 in the fi quarter of 1994 down just 9%, 234,000. David reah, the Mortga Bankers Assn.'s ch economist, expe employment to fall at least as much ag over the next yea and that's not cou ing the many tho sands of part-time temporary worke losing their jobs.

None of this has terred commerci banks from expand further into the ind try. Chemical Ban Chase Manhatta Bank of America, a Norwest Corp. have all made acqui- tions this year, aiming for dominant m ket share when rates start to fall and mand for mortgages picks up again.

MORE PRESSURE. Some observers fe the banks are a little too eager. "T banks paid very full prices," says Jon than E. Gray, an analyst at Sanford Bernstein & Co. The new owners a working to trim the fat: Chase, for on expects its purchase of American Re- dential Mortgage Corp., which it a quired in September, to result in a $ million loss included in its fourth-qua ter results, partly to cover restructu ing. Robert D. Hunter, senior executi vice-president, says he does not expe American Residential to turn a pro for Chase before 1996 but adds, " bought it as a strategic play" to boo Chase's ability to make smaller mor gage loans.

Mortgage banks owned by comme cial banks are likely to put more pre sure on the independents. Because their capital resources, they—and thrif as well—have more flexibility than ind pendents. For instance, with intere rates rising, the captive mortgage ban and the thrifts are able to offer curren ly popular adjustable-rate mortgag (ARMs) at below-market rates. Becau the rates are low, they can charge hig fees or points. And they can hold th mortgages on their books until rates d cline. Independent mortgage banks a at a disadvantage. Lacking the capital their big rivals, they have to sell o their loans immediately. But that mak it hard for them to offer cut-rate ARM which they would have to sell below fa value. If they offer market-rate ARM they have to charge fewer points—an make less profit.

FREE FALL Mortgage lending volume is dropping sharply



DATA: MORTGAGE BANKERS ASSN.

ILLUSTRATION BY VICTORIA KANN/CHART BY ALAN BASEDEN/BW

he news isn't all bad for mortgage
kers. Because of the dearth of ac-
y, they and other lenders are caught
n a heated market-share battle. To
business, many institutions are
ching on credit quality. "As origina-
s have dried up, people have been
ng to expand and have adjusted
r underwriting standards [down-
l]," says Thomas G. Gillis, an analyst
andard & Poor's. But because mort-
banks don't retain their loans, any
up in delinquencies when the econ-
slows again will mainly hurt com-
cial banks and thrifts.

any mortgage banks hold on to
s to service the mortgages, though.
se rights are becoming more valu-
, since they generate a steady
am of income that gets more reli-
as interest rates rise and mortgage
ancings slow down.

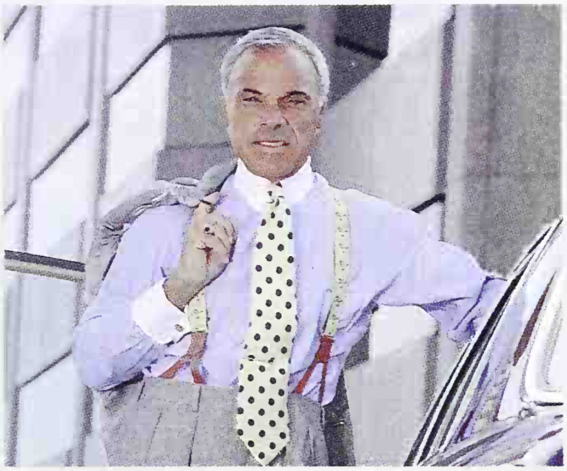
AKEOUT? Both mortgage servicing
mortgage lending are becoming
e technology-driven, which benefits
big players. Using technology for
rd-keeping and for processing mil-
of monthly payments creates sub-
tial economies of scale. "I think we'll
a lot of consolidations on the servic-
side," says James G. Jones, BofA's
p executive vice-president for con-
er lending. Chase's Hunter goes fur-
, predicting that technology will
me more of a factor in mortgage-
ication processing, mortgage ser-
g, and marketing. "There is one is-
Can you be a scale player?" he says.
ard M. Kovacevich, Norwest's pres-
t and CEO, says 38% of the bank's
tgage originations in October were
e by laptop computer. A year ago,
aptops were used.

he growing technological require-
ts of the business will create a ma-
barrier to entry for small, indepen-
mortgage bankers trying to regain
ece of the market when rates turn
n again. Some bankers say the con-
lation among the top players in
tgage banking will resemble the
nges that have taken place in credit
s over the past 10 years. There, the
10 players have about a 50% market
e, up from less than 25%. And if
ll mortgage bankers are unable to
pete on cost, they will find them-
es close to mere brokers—simply
ing along loans and servicing to the
guys. "The classical definition of a
tgage banker might be changing,"
Fleet Mortgage's Baker.

o one expects the mortgage-banking
stry to die out. But the days when
uld sit around waiting for the cy-
o change and put it in clover again
probably gone forever.

y Kelley Holland in New York and
ette Byrnes in Los Angeles

FOR COUNTRYWIDE, THE ROAD IS NARROWING

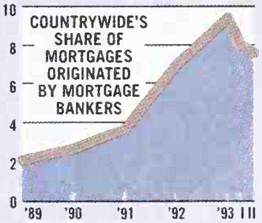


CO-FOUNDER MOZILO: *Weathering the storm*

To see how times have changed for mortgage bankers, look no further than Countrywide Credit Industries Inc. Just a year ago, the Pasadena (Calif.)-based company was flying high. It was the biggest originator of home mortgages in the country, riding a wave of mortgage refinancing that pushed its lending volume from $12 billion in 1991 to $52 billion in 1993.

Now, in a stunning turnabout, Countrywide is sagging badly. It faces a 32% drop in earnings, down from $179 million to $122 million for the year ending Feb. 28, 1995, according to Zacks Investment Research. Smith Barney Inc. analyst Thomas O'Donnell expects Countrywide's share of the overall mortgage market to fall from 5% in 1993 to 4% in 1994, even as the market itself shrinks over 30%.

SLIPPERY SLOPE



DATA: MORTGAGE BANKERS ASSOC. OF AMERICA, COMPANY REPORTS, HOUSING AND URBAN DEVELOPMENT DEPT.

REFI WOES. Countrywide's woes, including a 27% drop in its stock, don't seem to faze Vice-Chairman and CEO Angelo R. Mozilo, who cofounded Countrywide in 1969 along with chairman David S. Loeb. Mozilo, a Brooklyn (N.Y.) native and a high school boxer known for sartorial flash and a year-round tan, is Countrywide's primary spokesman, leaving Loeb to handle the company's finances. Mozilo plans to market mutual funds and financial-planning services through a newsletter to Countrywide's 850,000 core customers. He also intends to double to 600 his branch offices, which he predicts will give him 10% of the national market by the year 2000.

Good luck. Countrywide's past reliance on mortgage refinancings has hurt it seriously now that refinancings have slowed. In a move to boost short-term income, Countrywide in August sold rights to service $6 billion in mortgages, rights that could have proved valuable over the long haul. And despite eliminating 30% of its workforce, Countrywide's costs are falling more slowly than loan originations, says Sanford C. Bernstein & Co. analyst Jonathan E. Gray.

PRICE-WAR WOUNDS. Worse, competitors are making major inroads by offering currently popular below-market adjustable-rate loans. Mortgage banks have difficulty matching those terms. Charles R. Rinehart, chief executive of H. F. Ahmanson & Co. in Irwindale, Calif., a leading adjustable-rate lender, says Countrywide will be disappointed if it expects price competition to end soon.

Mozilo argues that rivals' price cutting is temporary. "There are some examples of mortgages as much as five [percentage] points below current market, which is unconscionable," he says. Many analysts do expect Countrywide to weather the current mortgage-banking slump and even generate higher earnings in 1996. But Loeb and Mozilo are about the only people who expect Countrywide to reach its 10% market-share goal. More likely, with the tide against it, the company will have to wait for the next wave of lending activity—or maybe longer—for that dream to come true.

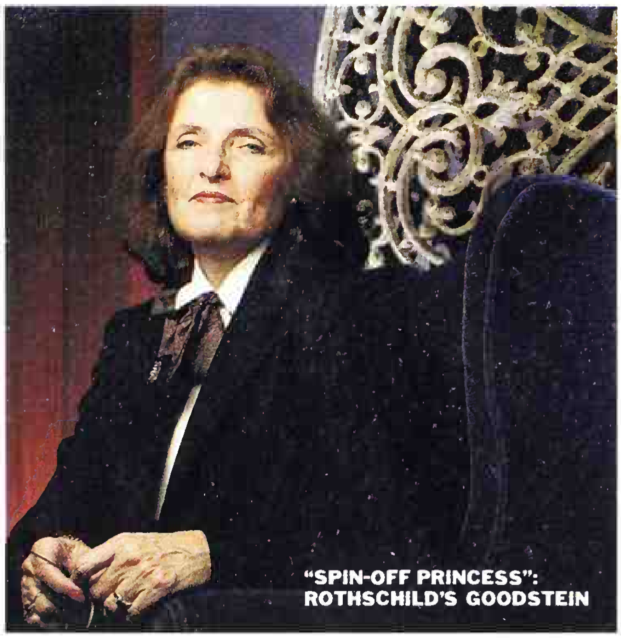
By Nanette Byrnes in Los Angeles

PHOTOGRAPH BY PHILIP SALTONSTALL/ONYX. CHART BY ALAN BASEDEN/BW

CORPORATE FINANCE

WHY DIVORCE IS PAYING OFF ON THE STREET

Spin-offs often make better long-term investments


"SPIN-OFF PRINCESS": ROTHSCHILD'S GOODSTEIN

With merger-and-acquisition activity booming, many investors like to bet on what they hope will be the next big takeover play. But others are discovering that they can earn attractive returns by focusing on companies that are breaking up—through spin-offs, split-offs, and "carve-outs."

Such separations or divorces may actually benefit shareholders in the long run more than corporate marriages, which frequently fail to live up to their early promise. The main reason is that spin-offs tend to be focused, streamlined companies with newly motivated managers. "In the global competition for capital, only the leanest and meanest companies get it [capital] at the best rate," says Rothschild Inc.'s Barbara Goodstein, dubbed the "Spin-off Princess" by Wall Street colleagues because she is apparently the only analyst following this trend full-time.

In each of the past three years, according to Goodstein's data, shares of spun-off companies, on average, have appreciated at least 29 percentage points more than the Standard & Poor's 500-stock index. One prominent star is Alumax Inc., an aluminum company that has surged 50% since its spin-off from what is now Cyprus Amax Minerals Co. in November, 1993. Some spin-offs appreciate handsomely by becoming takeover candidates. Galen Health Care Inc., which was spun off from Humana in February, 1993, was acquired by Columbia/HCA Healthcare Corp. the following September. Total gain to Galen investors to date: 140%.

These attractive returns have been achieved even though shares typically fall right after the deal is completed. One reason: index-fund managers who hold the parent's stock often dump shares of the smaller entity, which usually is not well followed by analysts. That, Goodstein says, presents "a significant buying opportunity." Within a couple of years, the newly liberated managers typically get their act together, causing the shares to take off.

Among her current favorites are Gardner-Denver Industrial Machinery Division Inc., Spacelabs Medical Inc., and Caremark International, despite a federal investigation of alleged Medicare/Medicaid-related violations at the health-care provider. Still, investing in spin-offs isn't a sure thing, she cautions. Some spun-off companies, n cluding Lehman Brothers Inc. ad Biowhittaker Inc., haven't yet pan d out for holders.

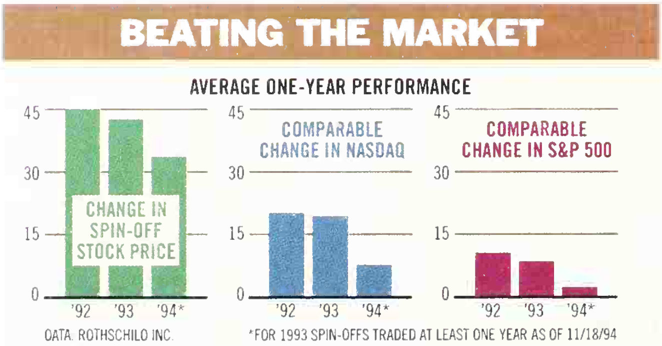
Although Goodstein favors tax-fe spin-offs, in which at least 80% of e shares are distributed to holders, t able spin-offs, where the parent reta control, also grab her attention. W American Cyanamid Co. spun off Cy Industries last year, it kept more tha 20% interest—"a clue," she says, t Cyanamid still valued the company.

Another device that seems to be joying a resurgence is the split-off, fectively a stock buyback in which h ers exchange shares of the parent those of the new company. One adv tage of this technique over the spin- says Robert Willens, managing direc at Lehman Brothers, is that it's less lutive to the parent company's earnin In September, Cooper Industries said would split off its oil-field and industi equipment activities in the second qu ter, 1995. Although Cooper Industr has not yet announced the exchange tio for the transaction, the plan, sa Goodstein, "looks compelling becaus promises to facilitate more accurate v uation of the disparate businesse

CARVING A NICHE. Carve-outs, a type initial offering in which a company ra es capital by taking all or part of a su sidiary public, are also becoming pop lar. The best known was Sears, Roebu & Co.'s carve-out of Allstate Insuran Group, which Sears has said will be sp off completely. However, says Willia C. Nygren, research director at Har Associates, an investment adviser: " their nature, carve-outs don't come o at as large a discount."

Few recent restructurings have ta talized investors like the plan, announc by Tele-Communications Inc. in late N vember, to create four new busine units using one or more of these r structuring devices. One reason for t excitement, says Nygren, is that T Chairman John C. Malone has a tra record of delivering for shareholder Nygren thinks th TCI shares, Harr Associates' singl largest holdin could rise to $35 share from the cu rent $23 level. that happens, would provide fu ther evidence th breaking up is n so hard to do.

By Phillip Zweig in New Yo

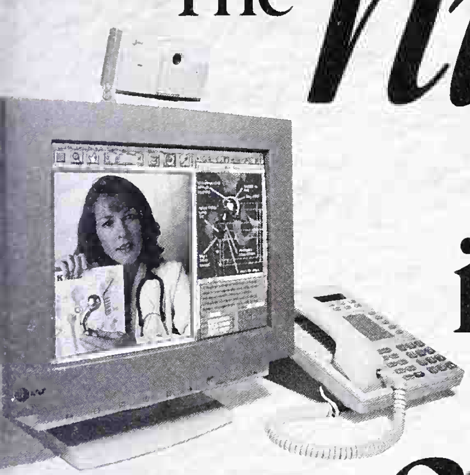


DATA: ROTHSCHILD INC.

*FOR 1993 SPIN-OFFS TRADED AT LEAST ONE YEAR AS OF 11/18/94

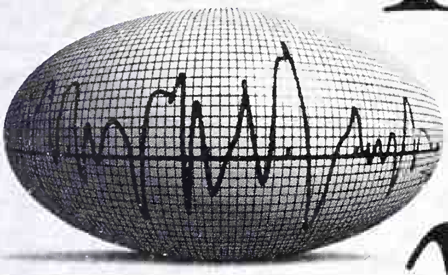
PHOTOGRAPH BY LARRY FORD; CHART BY ALAN BASEDEN/BW

The *highway* is **open.** The *speed* limit will be **up** to *you.*

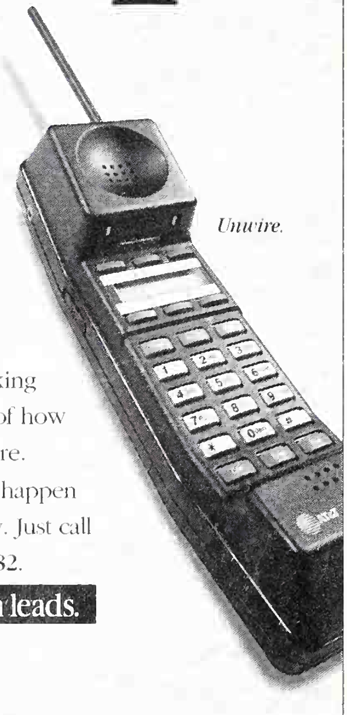


ommunicate with vision.

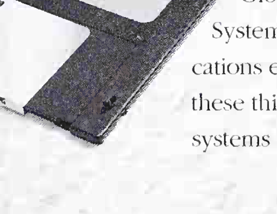
Get integrated.



Dial calls with your voice.



Unwire.



et your computer work the phones.

Where does your business want to go? And what do you want to do?

Want to roll out a better way to work in over 70 countries, without leaving headquarters? Go to a conference, right now, on the other side of the country? Pop up information on your customers, the second you take their calls?

With a little help, *you can.* AT&T Global Business Communications Systems can give you the communications equipment and support to do all these things today. And we can take your systems and make them do things you never imagined. Because the future is about turning what's possible into what's *real.* Working the way you *want* to, instead of how you have to. Anytime, anywhere.

You can make great things happen for your business. Starting now. Just call AT&T at 1 800 325-7466, ext. 382.

AT&T. Where innovation leads.

AT&T

©1994 AT&T

McCOY: *“Rate increases were larger and came faster” than expected*

PHOTOGRAPH BY CLAUDIO EDINGER/GAMMA-LIAISON; CHART BY RAY VELLA/BW

BANKS

BANC ONE FACES A ROCKY ACT TWO

Hurt by securities and derivatives losses, it's limping back to basics

John B. McCoy, the genial chairman of Banc One Corp., is more used to talking about big acquisitions than big write-offs. So it was a chastened McCoy who on Nov. 21 announced a $235 million aftertax charge to reverse a costly investment strategy, cut expenses, and consolidate its far-flung, nearly autonomous, and unwieldy network of 77 subsidiary banks.

For years, Columbus (Ohio)-based Banc One excelled as few others did, inventing new products and shining up its many acquisitions, which it regarded as “a line of business.” It cherished its focus as a premier retail and small-business bank. Under McCoy, the third in his family to run the company, Banc One grew from $8 billion in assets in 1984 to $88 billion today. It has racked up 25 successive years of earnings gains.

RATES SQUEEZE. Over the past several years, though, it amassed an enormous position in securities and derivatives. Those investments were major contributors to earnings when rates were falling, but they have hurt it badly now that rates have reversed course. Largely due to the investments, earnings from operations are expected to fall slightly from the $1.14 billion reported for 1993, and the charges will bring them down further.

McCoy now acknowledges that “the market has signaled to us, stick to your core markets, don't try to guess interest rates.” But his announcement, which includes a $170 million loss on the sale of $5.7 billion in securities, cutting employment by 4,300, and closing up to 100 branches, didn't win over investors. The stock is selling at around 25, off 34% from its 1994 high of 38. McCoy says Banc One will have to prove itself “by putting numbers on the board.”

Banc One's problems go back to its 1989 foray out of the Midwest, when it acquired the failed MCorp banks in Texas. The MBanks had lots of deposits but few loans; those that it had paid variable rates. That left Banc One exposed should rates fall.

To offset this risk, Banc One became a heavy user of interest-rate swaps, which allowed the bank to convert part of its variable-rate income stream to fixed rates. With rates falling, the strategy, combined with
vestments in fixed-rate securiti
worked well. Last year, the compan
investment positions contributed so
$91 million to income. But this ye
while the derivatives worked as expe
ed, “the rate increases were larger a
came faster” than the bank anticipat
says McCoy. Locked into the swaps,
company's gains evaporated, and it
gan losing money on the positions. N
having taken the loss, McCoy says t
bank will keep its interest-rate sen
tivity within a narrow range—thou
some analysts wonder if rising rates w
still hurt profits.

Effectively consolidating the Ba
One empire may be even more difficu
The bank has succeeded so spectacul
ly because it has allowed affiliates
run their own show. Competing throu
a fabled management-information sy
tem that ranked each unit's performan
monthly, they developed numerous n
products and services.

CRUCIAL QUESTION. But in the last ye
or two, McCoy found flaws in the sy
tem. A bevy of local processing syste
were breeding inefficiencies. Expen
ratios were creeping up. Some small a
filiates said they needed more heft
compete effectively. Belatedly, McC
moved to consolidate back-office oper
tions and reduce the number of bar
charters from 77 to 13. There will no
be two check-processing centers
Ohio, instead of 22. McCoy has pro
ised next year's expenses will be lev
with 1994's.

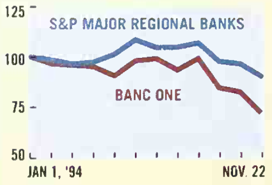
But the plan raises a crucial questio
“Can the banks hit the high-return nu
bers without [Banc One] being the ind
pendently and autonomously manage
[system] it was?” asks Morgan Stanle
& Co. analyst Dennis F. Shea. “The bi
challenge is the culture,” adds one reg
ulator. McCoy frets about it, but argue
that Banc One can pull it off.

With all these questions, perhaps it
no surprise that Wall Street remain
skeptical. With Banc One's strong fra
chise and capital, it could earn its rep
tation back. But if th
bank frequently has de
fied naysayers, notes on
former executive, “tha
was easier to do whe
they were driving a mo
torcycle than a Mac
truck.”

By Zachary Schille
with Kelley Holland,
New York

LAGGARD

Banc One shares have not kept up with other regional banks



▲INDEX: JAN. 1, '94=100

OATA: BLOOMBERG FINANCIAL MARKETS

CITIZEN. HOW THE WORLD TELLS TIME.

TIMING…IS EVERYTHING.

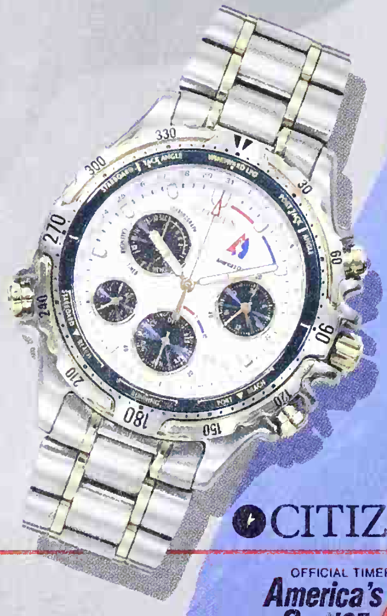
For many, it begins with a small boat, uncertain moves to harness the wind, and the first realization that it's not just your body that reacts to the speed…it's your soul. For some, it turns into the passion of a lifetime. And in 1995, hundreds of these sailors will once again compete in the races for the America's Cup.

170 races over five months, every single race a test of design, experience, and above all, precision…because the only measure used to determine the winner of these races is time. Hours. Minutes. Seconds.

A point which was best illustrated on May 10, 1992: the closest finish ever in the history of the 143-year-old competition. Two hours, 46 minutes and 16 seconds after the race began, you couldn't tell who won by looking at the boats–you had to look at a watch–because what separated the yachts was a mere three seconds! All of which made it even more significant that 1992 was also the year that the Citizen Watch Company was selected to design a revolutionary new timing system for the races.

USA
CITIZEN

In 1995, Citizen won't just be timing the races. Because for the first time, the Citizen Cup will be awarded to the winner of the Defender Series. Citizen Cup in hand, that team will then have earned the honor of competing with the winner of the Louis Vuitton Challenger's Cup for the ultimate prize: the America's Cup.



The 1995 America's Cup Limited Edition Timepiece. Individually numbered in a worldwide collector's series of only 500. Created from light, durable, titanium alloy, it is water-resistant to 100 meters. It is also equipped with a perpetual calendar and yacht timer functions.

CITIZEN®

OFFICIAL TIMER
America's Cup '95

Citizen Watch Company of America, Inc.

Funny how it's the little things that attract people to a particular small business server.

Then again, maybe this is a big thing.

Introducing the

IBM PC Server, for small business.

486DX 66 MHz
or Pentium® 60 MHz

Upgradeable

30-day money-back guarantee

*3-year on-site warranty**

Tested to exacting IBM standards

Industry standard architecture

*Starting under $3,000***

You're about to place your entire business in a box no bigger than a suitcase. That's enough to make anyone pace the floor.

Fortunately for the life of your carpet, IBM now makes a server for small local networks.

This means, of course, that the kind of performance and reliability IBM is famous for, and the kind of support we're famous for (24 hours a day, 7 days a week, 365 days a year†) are now available to you, too.

All at the kind of price (we confess) IBM is not so famous for. A remarkably competitive price, whether you need to network five people or fifty.

And because the IBM PC Server is easily upgradeable, and happily works with most anyone's peripherals, it lets you create the perfect, total business solution.

For more details, talk to your favorite reseller, or, if you need a favorite reseller, just call us at the Personal Systems HelpCenter® at 1 800 772-2227.‡ For information via FAX, call 1 800 IBM-4FAX and ask for document 3078.

IBM®

*es of IBM's statement of limited warranty are available upon request. **Dealer prices may vary. †Via telephone from the Personal Systems HelpCenter.*
anada, call 1 800 465-7999. IBM and HelpCenter are registered trademarks of the International Business Machines Corporation. All other trademarks
registered trademarks are the property of their respective holders. © 1994 IBM Corp.

'TIS THE SEASON FOR IPO FEVER

High-tech and overseas offerings are packing the pipeline

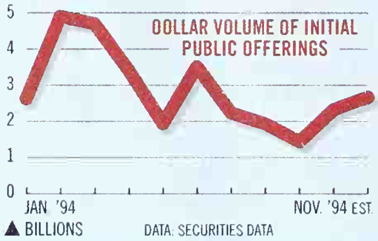
Interest rates are rising. Stocks are in a funk. But one slice of the market is red-hot: initial public offerings. Deals postponed from a slow summer have been reworked and reissued, a large crop of technology offerings has taken off like wildfire, and the IPO pipeline is packed with $5.3 billion worth of deals. A strong fourth quarter will produce the second-best year ever for new issues, with investors pouring in close to $40 billion.

Of course, the rise in U. S. interest rates and a deteriorating stock market could put a damper on the IPO market. Nevertheless, there are powerful forces driving the current upswing. While 1995 is not expected to be another record year, the current IPO revival is likely to provide a good jump start. And if the coming year brings investors a reduction in the capital-gains tax, the market may get an unexpected added boost.

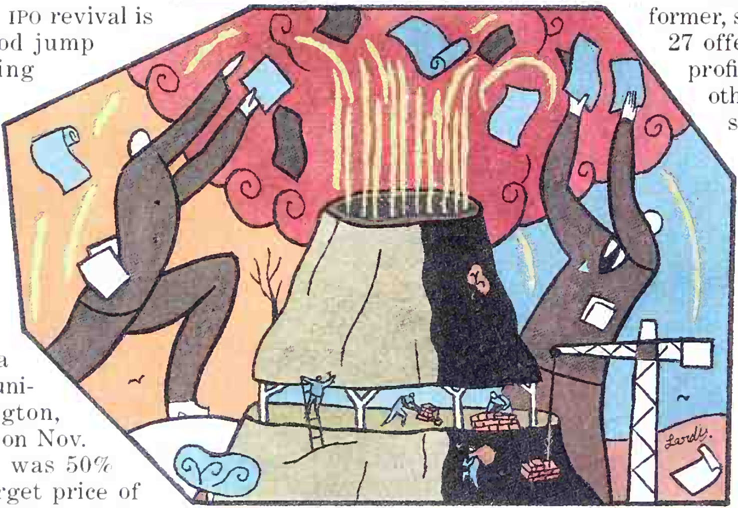
FOREIGN FRENZY. Much of the IPO market's newfound vigor comes from the allure that technology stocks hold for investors. Take Shiva Corp., a small telecommunications outfit in Burlington, Mass., that went public on Nov. 18 at 15 a share. That was 50% more than its initial target price of 10. And the stock rose 110%, to 31½, by the end of the first day. Another strong performer has been Network Peripherals Inc., a networking company that has seen its stock skyrocket 340% since it went public back on June 27. By the end of the year, a total of some 24 technology IPOs, which may amount to as much as $1.1 billion, could hit the market. Analysts think that investors' interest will be strong: "Everybody's still looking for the next Microsoft," says William M. Osborne III, president of IPO investment specialist McKinley Capital Partners Ltd.

The momentum in the IPO market doesn't come just from technology. The privatization frenzy that is sweeping world economies is bringing many new foreign issues into the market. "The international market is booming" and is likely to be a strong underpinning of the IPO market in 1995, says Kathleen S. Smith of Renaissance Capital in Gre
wich, Conn., an IPO consultant t
works with institutions.

NEW LIFE IN NEW ISSUES...



DATA: SECURITIES DATA



...AND THERE'S MORE TO COME

	MILLIONS
BRITISH SKY BROADCASTING Satellite television	$1,300
NABISCO RJR Nabisco food unit	1,000
TELEWEST Telecommunications	615
SOUTHERN PERU COPPER Peruvian copper company	370
BRIDAS Argentine oil & gas company	140

DATA: BUSINESS WEEK

ILLUSTRATION BY PHILLIP LARDY, CHART BY ROB DOYLE/BW

The combination of high-technolo
and international angles is the reas
experts think that Rupert Murdoc
IPO, the satellite-television outfit Bri
Sky Broadcasting, is likely to ge
warm reception from investors. M
doch is looking to raise as much as $
billion from the offering. Another
gerly awaited issue is the launchin
SGS-Thomson, Europe's largest se
conductor company. It hopes to ra
$462 million.

GOOD OMENS. The market is also
ing buoyed by more realistic estima
by underwriters of what new com
nies are really worth. Argentine en
gy company Bridas, for example, h
lowered its expected offering price
the $10-$12 range, down from $16-$
and will try to go public in the ne
few weeks.

Retailers are another group prof
ing from the IPO game. On Nov.
Sports Authority, a spin-off fro
Kmart, jumped 26% from its offeri
price of 19. Baby Superstores, a cha
with 38 outlets, was another hot pe
former, shooting up 136% from its Se
27 offering price of $18. Such hig
profile success stories bode well f
other issuers waiting in the wing
says Richard L. Kauffman, he
of U. S. equity capital marke
at Morgan Stanley & C

Some analysts worry th
high interest rates will qua
the resurgent IPO market
drying up the supply of capit
"As the bond market goes,
goes the equity market," not
Tom Davis, head of equity ca
ital markets at Merrill Lyn
& Co. Some underwriters fe
that a slumping stock mark
will cause institutional inve
tors to lose interest in IPOs ea
lier than usual and focus on s
lecting existing stocks to keep in the
portfolio for next year.

The slowdown in the flow of ne
money into equity mutual funds cou
also hurt new issues. Mutual fun
are often big buyers of IPOs. In som
cases, large fund companies such as
delity Investments have bought 10
of an IPO.

Despite all those worries, the yea
end boomlet in IPOs may have stayin
power. And if the Republicans kee
beating the drum for a cut in the cap
tal-gains tax, it could stick around long
er than almost anyone expects.

By Geoffrey Smith in Bosto

NOW
YOU
CAN
Canon
GP55

Revolutionize the way you work. Print, copy, and fax without leaving your desk. Optimize productivity and performance.

Canon has created a totally new concept in digital office equipment systems that redefines productivity and performance. The Digital Imaging System GP55 Series. It's the culmination of Canon's technological vision that is designed to meet your needs now and in the future. It functions on your network as a 30-ppm, 400 dpi laser printer that can staple, sort, and duplex. It's also a digital copier and can serve as a Group 3 Fax. All this without ever having to leave your desk.

The GP55 Series does it all — with a unique, optional Multi-Device Controller (MDC) that gives you the flexibility to configure function boards to suit your needs. And since the GP55 Series utilizes parallel processing technology, it can perform more than one function at a time. But best of all, the GP55 Series interfaces with standard network protocols and page description languages. So now everyone on your LAN can sit behind their desk and benefit from the power of Total Document Management. Which makes this a true instrument of efficiency and productivity — with the reliability you've come to expect from Canon.

As usual, Canon's advanced technology moves you further ahead. When the rest say you can't, Canon says you can.

For more information, call **1-800 OK CANON.**

1994 Canon U.S.A., Inc.

Canon

Inside Wall Street

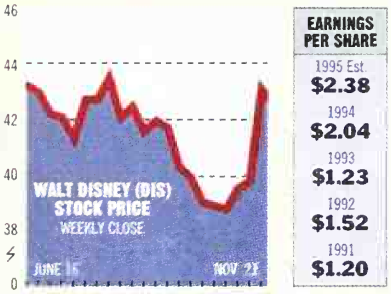
BY GENE G. MARCIAL

COULD THESE CATS POUNCE ON MICKEY?

The usual thinking on the Street is that entertainment colossus Walt Disney is on the prowl for a trophy—a major TV network, say. But what if some party were stalking Disney itself and buying up its shares—to unseat the admittedly well-entrenched Michael Eisner management?

That's exactly what's going on, say several traders and big Disney investors, who whisper that a group led by a Middle Easterner has accumulated more than 5% of the stock. Since early November, trading has been heavy, pushing the shares up from 38 to nearly 44. No 13D form has been filed, however, since the investors have broken up the buying into several overseas groups, so that no one party appears to hold 5%.

DRIVING DISNEY UP THE WALL



▲ DOLLARS

FISCAL YEAR ENDS SEPT. 30

DATA: BLOOMBERG FINANCIAL MARKETS, ZACKS INVESTMENT RESEARCH

ALBERTO MENA/BW

"But make no mistake about one thing," says a major Street trader. This Mideast group, which has acquired real estate holdings and large stakes in a number of banks, department stores, and hotels in the U. S., "has been buying Disney shares like the stock was in a fire sale." This secretive group, which includes high-profile and deep-pocketed American buyout investors, is aiming to gain at least 10% of Disney's 536 million shares outstanding and then make "some kind of an announcement" about their interest and stake in the company.

The ultimate goal, says one investor who subscribes to this story, is to take control of Disney and oust Eisner. Lately, the chairman has been catching flak for the huge income he has drawn in recent years. He also has been blamed for the EuroDisney fiasco and for the unexciting performance of Disney's stock this year.

Disney has repurchased about 1.4 million shares at an average price of 41½ in recent months. The buybacks may accelerate if the Mideast group's activity continues. Management owns little stock. On Nov. 22, the company posted fiscal 1994 earnings of $2.04 a share—slightly more than the Street's mean estimate of $2.01—and well above $1.23 in 1993. Revenues rose to $10.1 billion, up from $8.5 billion. The results reassured investors who had worried about rumors earlier in November that Disney's 1994 revenues and earnings growth may have slowed.

'BUYOUT BAIT' IN BIOTECH

Health-care stock maven Jim McCamant can say "I told you so" about Chiron and Synergen: All year, the editor of *Medical Technology Stock Letter* has argued that biotechs have been so beaten down as to be bargains. Well, Swiss drug-and-chemical giant Ciba-Geigy is buying nearly half of Chiron for a steep $2.1 billion. And Amgen is acquiring Synergen for $262 million.

"There are other Synergens around that are also buyout bait," says McCamant. He's betting on three: Celtrix Pharmaceuticals, Glycomed, and Xoma.

Celtrix (CTRX) is one of the most battered stocks in the group, having fallen in one day in late October by 63%, to 3. The reason was that its eye drug, Betakine, showed disappointing preliminary clinical test results. McCamant, however, remains optimistic about Betakine, which is also being tested for use against multiple sclerosis and ulcers. Most of all, says McCamant, Celtrix has two solid alliances: with biopharmaceutical company Genzyme for most ophthalmic uses of Betakine and with Green Cross of Japan for the development of SomatiKine for treatment of osteoporosis. Either of these partnerships, says McCamant, could lead to a merger.

McCAMANT'S BIOTECH BETS

STOCK	52-WEEK HIGH	52-WEEK LOW	RECENT PRICE	TAKEOVER VALUE
CELTRIX	$11⅞	$2	$2 9/16	$18
GLYCOMED	8¼	1⅞	2½	10
XOMA	6⅝	2¼	3⅛	12

DATA: *MEDICAL TECHNOLOGY STOCK LETTER*, BUSINESS WEEK

Glycomed (GLYC), which has r
searched new drugs based on carboh
drates for treating cardiovascular a
inflammatory diseases, "is definitely
discussions with other companies fo
buyout or merger," says McCamar
Its shares, now at 2, were at 25 in 19
when Genentech began collaborati
with it in research on inflammatory di
eases. Genentech ended that allian
in September. But Glycomed's lab pa
on the same drug with Sankyo of J
pan, signed in July, is pulling in $
million over three years, plus $5 milli
for each compound Glycomed develop
Glycomed is said to be talking to Sa
kyo about a merger.

Xoma (XOMA) is developing produc
to treat infections diseases, immun
system disorders, and other complaint
McCamant thinks a bigger company
watching its clinical tests on variou
products, such as Neuprex for th
treatment of acute lung infections an
hemorrhagic shock.

HOPPING ABOARD AS RVs TAKE OFF

A piece of Americana is back o
track: recreational vehicles—an
they're hot. One sure sign: robust sale
of RV supplies and accessories. Som
smart investors are getting into th
act by buying into Coast Distributio
System (CRV), a small, little-know
wholesale supplier of RV parts. It stock
36,000 items, such as air conditioners
toilets, and awnings. These pros thin
the stock, trading on the Amex at 6¾
share, is way undervalued.

The stock "is worth 15 based on its growth rate," says a New York investment manager who has a 3% stake in the company. He says growth is being boosted by expanding sales in Europe, Latin America, and Australia.

Analyst Ken Salmon of C. L. King & Associates in Albany, N. Y., says business appears to be in line with expectations. "We are more confident that our 1995 estimates can be achieved," he says. Salmon sees 1994 revenues of $180 million and earnings of 70¢ a share, up from $140 million and 53¢ last year. For 1995, Salmon expects sales of $196 million and earnings of 95¢.

One factor that bodes well for RVs, he notes, is the aging of the baby-boom generation: The next 20 years will see a doubling of the number of Americans 45 to 64—the age bracket of most RV buyers.

THE (*if you want to print*

the right *document*

in the right *form*

for the right *person*

t the right *place,*

with the right *information*

you're reading the right ad) COMPANY

hat's because Xerox is the right company to help you turn mere data into meaningful, customzed documents. Our new family of software, hardware and application solutions can give you he capability to customize content, context, color and form; the flexibility to distribute o the point of need, and the ability to do it all for your application and environment. s the pioneers of laser printing we can help you make the right choices in the evolving world f enterprise printing. For a free brochure and video, call ***1-800-ASK-XEROX ext. 975A.***

THE DOCUMENT COMPANY
XEROX

THE
DOCUMENT
COMPANY
XEROX
Worldwide Sponsor

ROX® The Document Company® and the stylized X are trademarks of XEROX CORPORATION 36 USC 380

BASKETBALL

THE NBA'S FAST BREAK OVERSEAS

As baseball and hockey battle, David Stern is racking up points

Clyde Drexler, the Portland Trail Blazers' talented guard, drives downcourt. The arena erupts with the familiar chant: "DE-fense! DE-fense." With a graceful layup, Drexler scores two points against the Los Angeles Clippers. The capacity crowd of 14,239 cheers the score—and Clyde.

Are these fans rooting for both teams? In a way. Almost all are Japanese, and this game is the first nonexhibition, regular-season contest ever played in Japan by the National Basketball Assn. Drexler is a big star here: Tokyo chef Kazua Koidabashi has even shaved the sides of his skull and written "Go Drexler" in red and black marking pen. His courtside seat for this Nov. 5 event in the Yokohama Arena cost $350.

A FIRST: *The NBA in Yokohama*

ANDREW D. BERNSTEIN/NBA PHOTOS

ON FIRE

The flash and dazzle of the '92 Olympics' Dream Team created demand from fans worldwide for more live games

Call 'em the NBA Globetrotters. With revenues topping the $1 billion mark that NBA Commissioner David Stern predicted five years ago and with U. S. arenas filled to an average 92% of capacity all season, basketball is a mature business in the land of its birth. Yes, Toronto's Raptors and the Grizzlies of Vancouver will provide some growth beginning in 1995—as will the expected expansion team in Mexico City a bit later. But Stern is looking farther afield for major revenue increases: to Europe, Latin America, and especially to Asia. So the NBA increasingly is hitting the road to solidify its rep as the only major U. S. sport that so far is truly global. In two years, Stern hopes to have all the NBA's business opportunities—in TV, merchandise, and events—staffed and running at full speed on six continents. In startup markets, he's looking at potential growth of 20% to 35% a year in the short term. But "we're in growth businesses overseas," says Stern. "So, we're not setting dollar targets."

The 1992 Olympic Games were a watershed for the NBA. By sending the Dream Team to Barcelona, the league "moved our international effort ahead 10 years," says Rick Welts, president of NBA Properties Inc., the league's merchandising unit. To Welts, Barcelona was "the most important event in the history of the sport." Drexler's popularity in Japan, for example, comes from having played on the Dream Team.

From Rotterdam to Jakarta, f crave American hoops. The hottest m kets: Australia, Israel, and Japan—w Germany and Britain surging dram cally since 1992. D&F Group Ltd., event-sponsorship agency in Washi ton, D. C., whose clients include Bau & Lomb and Chrysler, gets calls fr local promoters as far away as Ma begging to be hooked up with the N Says Allen Furst, the "F" in D&F: U. S. pro sports, the NBA is No. 1 international expansion and awarene

RESTLESS NIGHTS. Stern's overarch global strategy involves barter-syn cation TV deals that bring basketb into 140 countries at last tally. T league is turning the *NBA Game of Week* and *NBA Action* into worldw boob-tube staples, holding in rese commercial time on each overseas ch nel that it can sell—or trade—to b deal marketers, especially such "glo partners" as Coca-Cola, I McDonald's, and Nike.

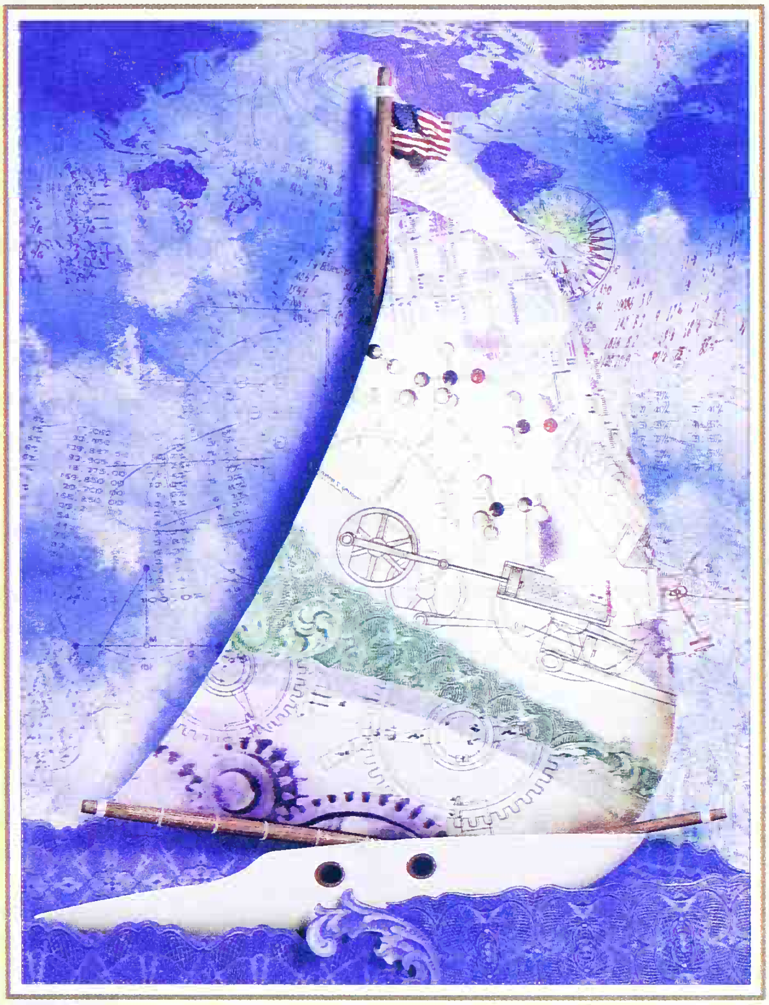
For a few weeks before Japanese season opener, Ste spent some restless nigh With baseball shut down a hockey stalled by a locko speculation by the sports b boisie was that basketba whose players and owners la a current collective-bargain agreement, would also beco mired in a labor-managem dispute. McDonald's Japan w counting on a "Be the Be NBA" promotion in Japan wit Yokohama opening-gam backdrop. But on Oct. 27, Ste and National Basketball Pl ers Assn. honcho Charl Grantham announced a "n strike, no-lockout" accord t guarantees the 1994-95 N season will be played in its e tirety. Meanwhile, the NBA a its players will haggle over shares the league's "undefined revenues"—n about $105 million to $115 million which include all the overseas dou but don't figure in the current division the spoils. While Stern and Grantha say league sponsors don't influence th talks, sources acknowledge that the lik of Coke and Nike would be more th miffed at a cave-in at the NBA gold mi

Everyone talks—or moans—abo how pro sports has become Big Bu ness. But these days, it seems that t NBA is the only league to unabashed acknowledge that truth—and act on accordingly.

By Carl Desens in New York, wi Eileen Drage O'Reilly in Yokoham

THE 1994 BUSINESS WEEK SYMPOSIUM
OF CHIEF EXECUTIVE OFFICERS &
BUSINESS WEEK'S 65TH-ANNIVERSARY CELEBRATION

The Spirit of Enterprise



This is an economic
ruggle that we are in;
e don't need guns,
ut we must have pro-
uctivity, high quality,
ow-cost products to
ompete.” **Jack Welch**,
hairman and CEO of
eneral Electric, made
is declaration of
conomic struggle to
n audience of ready
ombatants–200 of
merica's top chief
xecutive officers at
USINESS WEEK's sev-
nth-annual *Sympo-*
ium of Chief Executive
fficers in Washing-
on, D.C.

To respond quickly
o international market
emands with innovative products and services, CEOs are
nleashing the creative forces of entrepreneurialism–from
xecutive suite to assembly line. “We can't have anyone sit-
ng idly by in the struggle,” says Welch. “We've got to get
verybody in the game because the game is getting rough.”

Getting everybody in the game means abandoning the
on't-talk-back mentality and promulgating a new corporate
deal. “Boundlessness. It's the biggest value in our company
oday; it changed our institution.” Welch defines boundless-
ess as being open to an idea from anywhere, seeing an idea
very time you meet somebody, grabbing it, and spreading it
cross the organization.

CATCH THE SPIRIT

According to Symmetrix Inc.'s Chairman and CEO **George Bennett**, nurturing the boundlessness associated with entrepreneurialism challenges chief executives to contradict traditional management practices. He suggests creating “entrepreneurial units” that operate under a whole new set of rules. “To create radically new businesses, give entrepreneurial units their smart stubborn mavericks; reward their ingenuity with outrageous stock options; insulate them from legal counsel, group heads, and the CFO; exempt them from having to use company resources; and give them a separate identity–their own logo, P&L, housing, and strategy.”

But in exchange for such incredible creative freedom, Bennett stresses the importance of limiting the resources of entrepreneurs. “Much like being hanged in the morning, nothing focuses the entrepreneur on current reality more than the prospect of running out of cash in six months.”

Dr. Ian MacMillan, executive director, Sol C. Snider Entrepreneurial Center, The Wharton School, University of Pennsylvania agrees, and, to safeguard their creativity while

The Spirit of Enterprise

keeping them tethered to the real world he advises that CEOs shift the focus of entrepreneurial efforts from worrying about the probability of failure to lowering the cost of failure.

MacMillan suggests encouraging entrepreneurial units to start with variable costs rather than fixed costs. He adds, "Push people to focus their marketing plan on identifying and securing the first five sales. This will get them off of fantasies about future sales and into the street actually selling the product."

GIVE ME A REASON

"The measurement-and-reward system is key," says **George Conrades**, president and CEO of Bolt, Beranek & Newman (BBN). "We need new incentives, different ways to credit people for the benefits of collaboration and innovation."

Such incentives can come in the form of stock options, bonuses, or as AlliedSignal Inc. Chairman and CEO **Larry Bossidy** suggests, a high profile for entrepreneurs within the corporate ranks. "An entrepreneurial unit is a place for your best people–people willing to undertake risk; they should be promoted, their progress noted, observed, and admired by everyone in the organization."

DuPont Chairman and CEO **Edgar Woolard** advises that companies can instill an entrepreneurial sense in employees by closely tying job security and rewards directly to the success of the business. "If employees are to think like entrepreneurs, they must understand that no job is secure if the business isn't growing."

BRING BACK THE PASSION

Increasingly, chief executives are studying successful start-up companies to rediscover the entrepreneurial spirit and transfer it to their full-grown organizations. The passion of a mom and pop start-up is a familiar one for Hershey Foods Corporation President and COO **Joseph Viviano**. Sixty years ago his father and grandfather started a small pasta company in Kentucky which grew into Delmonico foods, later acquired by Hershey in the late 1960s.

Viviano helped build Hershey's pasta division by purchasing six similar family-owned pasta companies, and retaining the start-up passion he remembered by keeping the families involved. "We were able to keep the intensities of these ex-owners while formalizing their direction and making them more efficient."

United Airlines has gone one step further in instilling a sense of owr
ership, transforming itself from a con
pany of employees to a company c
owners. "My view is that you can te
people all you want that they've got
stake in the company, says Unite
Airlines Chairman and CEO **Geral**
Greenwald, "but they'd rather have
share." He describes the goal of em
ployee ownership as capturing th
mom-and-pop-incorporated/cornei
grocery model of customer service an
multiplying its ethic of ownershi
across the entire company.

ENGINE OF ENTREPRENEURIALISM: THE CUSTOMER

But cumbersome corporate mecha
nisms in traditional corporations hav
prevented people from knowing
understanding, and responding directl
to customer needs. So Unisys Corpora
tion's Chairman & CEO **James Unrul**
has restructured the computer com
pany to allow the customer to driv
the business.

Perhaps more than in any othe
industry, customer service has replace
product features as the key market dif
ferentiator in information technology
It's a trend delegates to the *BUSINES*
*WEEK CEO Symposiu*m confirm; 50%
identify superior service as the most

GEORGE BENNETT

CHAIRMAM & CEO
SYMMETRIX INC.

◀ *"Much like being hanged in the morning, nothing focuses the entrepreneur on current reality more than the prospect of running out of cash in six months."*

"Push people to focus their marketing plan on identifying and securing the first five sales. This will get them off of fantasies about future sales and into the street actually selling the product." ▶

IAN C. MACMILLAN, PH.D

EXECUTIVE DIRECTOR
SOL C. SNIDER ENTREPENEURIAL
CENTER, THE WHARTON SCHOOL

“We've ‘customerized.’ We've organized and empowered cross-disciplinary teams around the client.”

nportant fact in their company's suc-ess, while only 30% still consider iperior product the key, 19% compet-.ve pricing.*

“The concept is captured in a word,” xplains Unruh. “We've ‘customerized.’ /e've organized and empowered ·oss-disciplinary teams around the ient.” The teams are able to pool their ollective experience and expertise to ieet the client's ever-broadening busi-ess needs. “Now we can offer infor-iation management solutions and ervices that more appropriately ad-ress the customer's business mission.”

In a fiercely competitive business, adillac Motor Car Division General Ianager and General Motors Vice-resident **John Grettenberger** says that ow more than ever the customer is ing. “Creating a higher standard is ie essence of Cadillac Motor Car ivision. By answering the demands f an affluent, well informed, and very iscriminating group of customers, adillac has been America's luxury car ader for the past 45 years. Customer ants and needs are constantly evolv-ig, and we take the challenge of nowing our customers and meeting ieir expectations very seriously.”

JAMES UNRUH
CHAIRMAN & CEO
UNISYS CORPORATION

Similarly, Compaq Computer Cor-oration has made focus on the customer an unconditional element of its corporate strategy. In 1991 Compaq reformulated its entire corporate direction based on the single question: What are our customers' expectations? The answer not only changed the company, it changed the business.

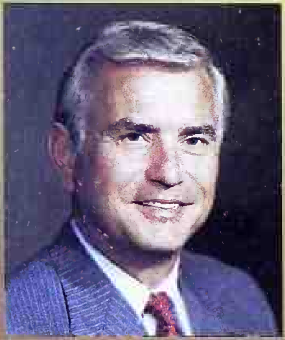
“We decided to break the mold,” says Compaq President and CEO **Eckhard Pfeiffer**. Compaq took a clean-sheet approach and created an entrepreneurial independent business unit that redefined the industry with its breakthrough in design-to-cost manufacturing. “In a single move we altered the pricing landscape forever, undercut every competitor in the industry, and profoundly changed the way top PC-brand companies participate at entry level.”

TOWARD A CUSTOMER-DRIVEN COMPANY

Becoming a truly customer-driven company requires an unending effort to get close and stay close to the customer. Companies like SAS Institute, the world's leading provider of information delivery software, are spending more time than ever talking to the customer. SAS Institute meets and talks with users at executive forums and SAS users group meetings, on customer service lines, through software usability studies, and annual surveys. A very active Internet SAS Users Group meets electronically. The information gleaned guides the company in its R&D efforts.

“Giving our customers a voice in product development means making a significant commitment to R&D so that we can deliver exactly what they want,” says SAS Institute President and CEO **James Goodnight**. “The customer is even involved in product development, testing experimental versions of the software.” SAS video tapes the sessions so that people throughout the Institute can watch and listen as the

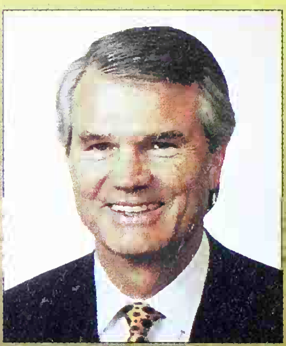
JOHN O. GRETTENBERGER
GENERAL MANAGER
CADILLAC MOTOR CAR DIVSION,
VICE-PRESIDENT, GENERAL MOTORS



“By answering the demands of an affluent, well informed, and very discriminating group of customers, Cadillac has been America's luxury car leader for the past 45 years.”

“In a single move we altered the pricing landscape forever, undercut every competitor in the industry, and profoundly changed the way top PC-brand companies participate at entry level.”

ECKHARD PFEIFFER
PRESIDENT & CEO
COMPAQ COMPUTER
CORPORATION



"Giving our customers a voice in product development means making a significant commitment to R&D so that we can deliver what they want."

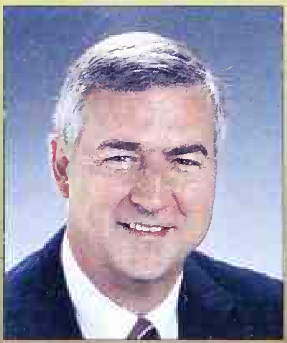
user interacts with the software.

As business focuses on gaining and maintaining customers through improved customer service, companies are finding it no longer makes sense to handle their own storage, transport, and distribution. Time- and cost-efficient alternatives for providing product to global customers can provide the competitive edge, particularly in industries with short product life cycles.

Michael Jenkins, president and CEO, North American Logistics Association says partnership logistics can provide that competitive advantage by giving companies a strategic means to manage the movement and storage of materials or products from any point–from the manufacturing process through customer fulfillment. "Partnership logistics can save a company significant amounts of money, improve product quality, streamline service, and in the process gain a competitive edge."

CEOs attending the *BUSINESS WEEK Chief Executive Forum* attest to the growing popularity of outsourcing logistics needs. Fifty-five percent report they are already outsourcing logistics, while 38.6% have recently devised company-wide logistics strategies for competitive advantage.*

JAMES GOODNIGHT
PRESIDENT & CEO
SAS INTSTITUTE



PARTNERS IN BUILDING ENTREPRENEURIALISM

Business is not alone in enabling corporations to achieve the entrepreneurialism required for global competitiveness. Vice-President of the United States **Al Gore**, is leading the Clinton Administration's National Performance Review, an intensive study to find ways to make the federal government work better and cost less.

"This administration is reforming the management of the federal government and is in an effort to create partnership with business. We see business as our customer. We see ever program, every department, every policy that has an affect on business as a opportunity to improve the quality o service that we deliver."

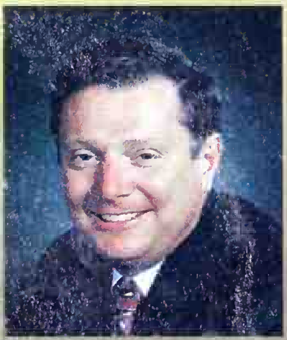
Still, **Sharon Darling**, founder an CEO of the National Center for Famil Literacy, warns that future economi success rests on shifting sands unles the United States addresses what i perhaps its greatest human resource challenge–illiteracy. She urges busines leaders to join in the Center's multi-generational family approach to education to help end the poverty cycle, an create a human resources pool 100% able to contribute to the economy.

"We need to support an innovation like family literacy with the same entrepreneurial spirit that is alive in corporate boardrooms across the country. We need corporate partners: CEOs who see themselves not only as leaders in the business community but as leaders in the community at large."

**In-hall audience polling at the 1994 BUSINESS WEEK Symposium of Chief Executives provided by Quick Tally interactive Systems of Beverly Hills, Calif.*

Martin A. Keohan is a NY-based business writer.

MICHAEL JENKINS
PRESIDENT & CEO
NORTH AMERICAN LOGISTICS ASSOCIATION



"Partnership Logistics can save a company significant amounts of money, improve product quality, streamline service, and, in the process gain a competitive edge."

"We need to support an innovation like family literacy with the same entrepreneurial spirit that is alive in corporate boardrooms across the country."

SHARON DARLING
FOUNDER & CEO
NATIONAL CENTER FOR FAMILY LITERACY

BROUGHT TO YOU BY

BusinessWeek

Beyond news. Intelligence.

Only One Information Source Can Deliver the World by Fax... Anytime...Anywhere... Free and Instantly.

BUSINESS WEEK IS BRINGING YOU THE OPPORTUNITY TO ADVERTISE YOUR COMPANY TO THE 1,000 BUSINESS CALLERS WHO USE THE EXPORT HOTLINE DAILY. FOR AN ANNUAL FEE OF ONLY $50, YOU CAN LIST YOUR COMPANY ON THE LARGEST FAX RETRIEVAL SERVICE IN THE COUNTRY,

THE EXPORT HOTLINE.

CALL OUR 800 NUMBER FOR BUSINESS WEEK READERS AND WE'LL FAX YOU A BROCHURE WITH EVERYTHING YOU NEED TO GET STARTED.

1-800-760-1111

IT'S THAT SIMPLE!

A COMMITMENT TO BUSINESS FROM OUR SPONSORS

AT&T • Business Week • Delta Air Lines • KPMG Peat Marwick • The Journal of Commerce
The National Association of Manufacturers • U.S. Council for International Business

In cooperation with the U.S. Department of Commerce. Developed & Managed by International Strategies, Inc.

COMPUTER SERVICES

IBM SWINGS INTO THE ON-LINE FAST LANE

The company is betting that its nascent Global Network will quickly become "the businessperson's Internet"

On the Information Superhighway, IBM hasn't set any speed records. In the race to create a world of interactive information and entertainment, Time Warner, Bell Atlantic, Tele-Communications, AT&T, and Microsoft have been grabbing the headlines with technology demos, megadeals, and bids to build the next on-line service. Big Blue, which pioneered multimedia information kiosks in the 1980s, built the infrastructure for what is known as the Internet, and has been in the on-line-service business for 10 years, is driving in the slow lane.

Not that IBM has been asleep at the wheel. Chairman Louis V. Gerstner Jr. has declared "network-centric" computing—IBMspeak for the applications, content, and services that are delivered via the Infobahn—a cornerstone of his turnaround plan. Last summer, Gerstner set up a high-level task force that was headed by chief strategist James A. Cannavino and had plenty of brainpower on retainer from Gerstner's alma mater, McKinsey & Co. Its mission was to map out a broad strategy and pull together long-gestating I-way efforts.

SARRAT: *A cornucopia of corporate services*

DAN BRINZAC

The result: two new divisions—the IBM Global Network and Networked Application Services—one to build IBM's own highway from existing IBM networks, the other to create new services for the network. Cannavino estimates that the total market opportunity—from running private networks for customers to interactive TV to electronic commerce—is in the $150 billion to $200 billion range. "It's an enormous market," he says.

"PHENOMENAL THINGS." But can IBM grab it? After all, this is the company that saw the Infobahn taking shape early on but failed to capitalize on that vision. It created, then disbanded, a far-flung operation to develop multimedia products, including those that could be delivered across the emerging broadband networks. And former Chairman John F. Akers launched joint-venture talks with Time Warner Inc. in 1992 but never consummated the deal.

This time, IBM can't afford to miss. Microsoft Corp., IBM's longtime nemesis in personal-computer software, has signaled its intention to dominate in a new era of on-line services, too. The software giant will launch its own service to compete with Prodigy Services Co., an IBM-Se Roebuck & Co. joint venture, and alr has deals with Chase Manhattan B and Visa International that will take software giant into financial servi "Rather than get worked up about erating systems," says Bob Djurdje president of Annex Research, "I' much more concerned about Micros moves on line or with Visa, because th the next stop on the food chain."

Indeed, the on-line world consti the next computing wave. As infor tion increasingly becomes digiti ultrafast multimedia networks—ca ing voice, video, and data—will be key information technology. IBM's approach will focus on bringing this r olution to the operations of Corpor America. That means everything fr converting all sorts of information i digital form to creating new on-l ways of reaching customers and sup ers. "There are some phenomenal thi that can happen once you digitize c tent," says Carolyn S. Chin, gene manager of a new IBM unit that, am other things, is designing on-line p

IBM's Route to the I-Way

NETWORKED APPLICATION SERVICES	This 400-person division oversees interactive TV, video on demand, electronic commerce, videoconferencing, CD-ROM publishing, and Internet connections.
PRODIGY SERVICES	A window into the consumer market, the on-line service—a join venture with Sears Roebuck—has 2 million subscribers.
IBM GLOBAL NETWORK	Aimed at heavy-duty corporate traffic, the network serves 25,000 businesses and 2 million users. May double as the backbone for Prodigy.
ALLIANCES	Motorola, Apple, 3DO, Microware, Kaleida Labs, Compression Labs, Scientific-Atlanta, Philips, ICTV, Digital Domain.

Big Blue has blown a number of chances to get out ahead on the Infobahn, and now, Microsoft is barreling along

You'll Swear The New InTech System From Lincoln Has A Mind Of Its Own.

Actually, It Has Three.

INTRODUCING THE LINCOLN INTECH SYSTEM.

The new InTech System is precisely what its name implies: intelligent technology. A system that constantly checks and re-checks powertrain and suspension functions to help deliver miles of worry-free driving. You'll find this technology on both the Lincoln Mark VIII and Lincoln Continental.*

1. POWERTRAIN A 32-valve InTech V-8 engine and a computer-controlled 4-speed automatic transmission work in tandem to provide quiet, responsive power. For additional peace of mind, the impressive V-8 has been designed to run for 100,000 miles before its first scheduled tune-up.†

2. SUSPENSION Another example of advanced intelligence is the computer-managed, 4-wheel independent air-suspension system for a more stable ride and better handling. The load-leveling feature automatically compensates for changes in passenger seating and trunk loads.

3. CHASSIS A four-wheel Anti-lock Brake System and speed-sensitive steering round out the smart thinking. ABS helps you maintain steering control during hard braking. Speed-sensitive steering increases or decreases responsiveness depending on how fast you're going.

Look closely and you'll see that the new InTech System has plenty of street smarts.

---

*1995 Continental available January 1995.

†Available on Mark VIII models produced after 10/17/94.

LINCOLN

What A Luxury Car Should Be

chasing systems for IBM customers.

Now, Gerstner is getting ready to pull into the fast lane. In November, he put the new network groups under Dennie M. Welsh, the sales executive who has been revving up IBM's services business and now oversees 14 marketing groups that focus on customers in specific industries, from insurance to travel to finance.

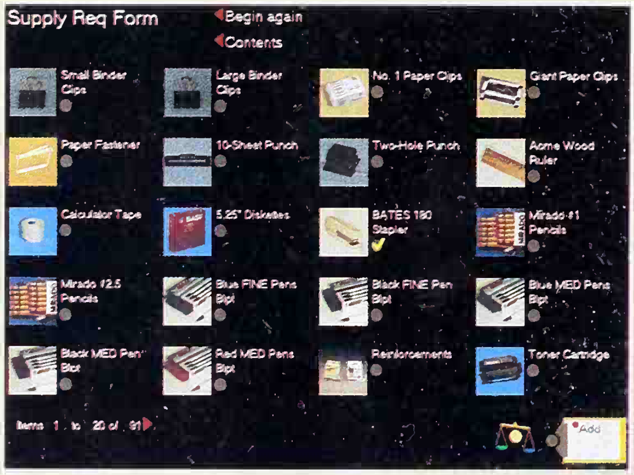
The sales and marketing people under Welsh's command will have a new line to sell: all sorts of on-line computing, communications, and transaction services to be created and delivered by IBM. These setups—for electronic shopping or internal videoconferencing—can be delivered over the Internet, Prodigy, or the IBM Global Network. With network connections in over 90 countries and 700 cities, IBM is one of the biggest companies in the communications business. "We are the businessperson's Internet," says John M. Whiteside, general manager of the network, which already serves 25,000 corporate customers.

ONE-STOP SHOPPING. Creating the basic software for such applications will be the job of the Networked Application Services Div. Run by Fernand B. Sarrat, the 400-person unit is developing a variety of products, including a setup for "collaborative" computing, which will allow people in different parts of the world to share a program or look at a picture simultaneously. Also in the works: a videoconferencing service, interactive TV, video on demand, and systems for electronic transactions. And the Intelligent Communications service will automatically collect messages from different networks for mobile workers. These projects will emerge next year, but sales will not start to ramp up until 1996.

IBM is still working on various deals with TV and phone companies (table), but Sarrat's focus now is decidedly corporate. "Business will pay for this long before the consumer will," he says. And that could help be a step back to the good old days, when corporations paid IBM for computing by the day or month, rather than buying equipment outright. IBM will shoulder the expense of creating the network and related software that few big corporations could attempt to build. The resulting fee-for-service business could provide Big Blue with new growth and fatter profits. "As you start to supply things that are less expensive to rent than to buy, you can make a lot of money," says Cannavino.

Consider Coopers & Lybrand. The Big Six accounting firm is working with IBM researchers on an electronic purchasing system. It is the crux of IBM's efforts to develop a variety of electronic systems for commerce—from corporate purchasing to on-line consumer shopping to inventory management. Jeffrey Block, Coopers' director of national purchasing, estimates that it cost his company anywhere from $40 to $67 to process an order the old way. With the on-line system, that will come down to around $20—including the IBM network fee. IBM will also charge an up-front subscription fee. "I was a tremendous IBM-hater," says Block. "But this has been the most interesting IBM experience I've had."

Here's how the Coopers system works: An employee uses a PC to call up an on-line catalog of approved products and suppliers complete with product pictures and descriptions. Also in the system are department budgets and the manager who approves purchases. Everything is done with icons and menus. Click on paper supplies and choose between steno pads, envelopes, or stick-it notes. Want to comparison shop? You can look at different suppliers' specs, pricing, and availability side by side.



CLICK AND BU

IBM's on-line purchasing system, complete wit product pictures and descriptions, will also let customers track orders electronicall

Once the product is selected, the order is passed on for approval and then sent to the vendor via IBM's network. The system tracks the order's status at every step, and for the supplie could simplify what is becoming a fusing web of separate electronic with each customer. IBM would act central clearinghouse.

IBM's I-Way Deals So Far

COX CABLE	Video-server trial
BELL ATLANTIC	Set-top boxes
GROUPE VIDEOTRON	Set-top boxes
HONG KONG TELECOMMUNICATIONS	Set-top boxes and video servers
BLOCKBUSTER	System to "download" movies and music onto blank media in stores

DATA: BUSINESS WEEK, IBM, KREBS & ASSOCIATES

Delivering all that will require l telecommunications smarts—one r Cannavino tapped Whiteside, a fo MCI Communications Corp. manager. job," says Whiteside, "is to make that the IBM network has all the o ramps, is very well paved and surf and goes everywhere." If the piece into place, IBM will be excellently tioned to offer customers a one-stop for communications—everything running private networks to suppl voice communications to allowing tomers to tap into applications on IBM network.

That big ambition will require a h investment in equipment. Whiteside he'll have portions of the network graded with new technology by the dle of next year. But IBM may be mak those moves without partner Se which owns 30% of Advantis, the section of the IBM Global Netw "We're evaluating our options," s Sears Chairman and CEO Edward Brennan. The retailer, insiders say considering selling its stake back to Blue, but it will hold on to Prodigy, w it has jointly owned with IBM since 1

Indeed, after a decade, Prodigy i nally looking like it was worth the lions IBM has invested. "Prodigy give a view of how people think and use formation in their households," says Richard Thoman, the senior executiv charge of Prodigy. And when IBM g finished paving its truck lanes for I-way, that knowledge will help it b the local roads to consumers, too.

By Ira Sager in New York, with reau reports

“The short march to the Euromarket.”

“We have a lot of experience lead-managing large bond issues,” says Daniela Leung, Corporate Finance, UBS. “So we know what it takes to ensure a successful transaction. A newcomer to the Euromarket – a government institution from China’s Guangdong province – was a challenge to all of us. Our Hong Kong and London offices combined efforts to secure an investment grade rating from Moody’s and a winning reception from the market.”

Beyond the usual.

UBS Union Bank of Switzerland

EW YORK, LONDON, PARIS, FRANKFURT, ZURICH, GENEVA, SINGAPORE, HONG KONG, TOKYO.
the U.S., UBS operates through various branches and subsidiaries with headquarters at 299 Park Avenue, New York, NY 10171
her offices in North America: CHICAGO, HOUSTON, LOS ANGELES, SAN FRANCISCO, TORONTO, MONTREAL

THE NEW WIRELESS LOOKS A BIT PRICEY

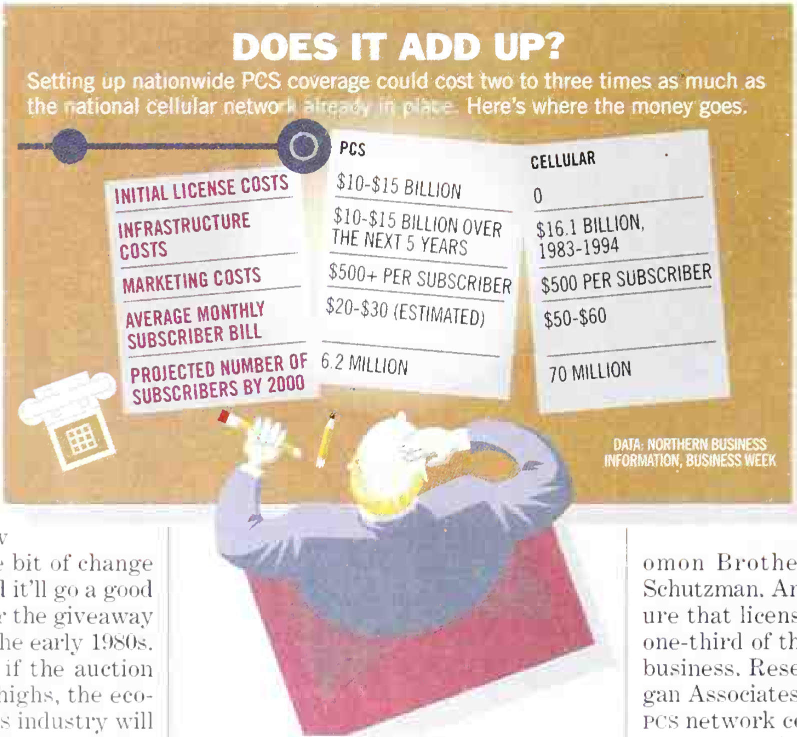
A frenzy over personal communication licenses

The profusion of cellular-telephone networks has turned into one of the greatest business booms in recent memory. Started just 11 years ago, the industry has swollen to 12 million subscribers, 9% of the U. S. population, dialing up $14 billion in charges this year.

Which is why nobody wants to be left out of the next big wireless thing—personal communications services (PCS), a low-power cellular service envisioned as the mobile-phone network for the masses. When PCS was first sketched out a few years ago, industry prognosticators said there could be 20 million subscribers by 2000. So telephone companies, cable-TV operators, and entrepreneurs large and small are scrambling to bid in the Federal Communications Commission's auctions, starting in December, for 2,074 PCS spectrum licenses.

The auction frenzy has grown so intense that the FCC expects to rake in as much as $15 billion, $5 billion more than projected a few months ago. That's a nice bit of change for the federal coffers, and it'll go a good way toward making up for the giveaway of cellular frequencies in the early 1980s.

"JUST ONE OPTION." But if the auction prices hit the estimated highs, the economics of the fledgling PCS industry will have to be recalculated. True, PCS infrastructure is relatively cheap. John A. Roth, president of Northern Telecom Ltd.'s North American unit, which makes all types of wireless equipment, says the construction costs are about half those of cellular. But, he says, "when you sit down to figure out what the cost per subscriber of PCS will be, what you really have to look at is the cost of the license."



DOES IT ADD UP?

Setting up nationwide PCS coverage could cost two to three times as much as the national cellular network already in place. Here's where the money goes.

	PCS	CELLULAR
INITIAL LICENSE COSTS	$10-$15 BILLION	0
INFRASTRUCTURE COSTS	$10-$15 BILLION OVER THE NEXT 5 YEARS	$16.1 BILLION, 1983-1994
MARKETING COSTS	$500+ PER SUBSCRIBER	$500 PER SUBSCRIBER
AVERAGE MONTHLY SUBSCRIBER BILL	$20-$30 (ESTIMATED)	$50-$60
PROJECTED NUMBER OF SUBSCRIBERS BY 2000	6.2 MILLION	70 MILLION

DATA: NORTHERN BUSINESS INFORMATION, BUSINESS WEEK

The FCC may rake in $15 billion—$5 billion more than projected a few months ago

And it looks as if the cost will be high. There are, on average, 10 to 13 bidders registered for each of the first 99 major regional licenses to be auctioned off on Dec. 5. For a PCS system to break even, licensees should pay no more than $50 to $70 per potential customer in a given region, calculates Karen O. Nielsen, a senior analyst with Northern Business Information. "It's more likely, though, that spectrum will go for at least twice that," she says.

Add in the huge increase in wireless
competition—three to six operato
each city once service starts, up f
two now—and PCS no longer looks l
another golden goose. Indeed, T
Warner Inc. and MCI Communicat
Inc. are both sitting out the aucti
figuring they're better off leasing sp
on a network that someone else bu
even if that cuts into profits. "You h
to discount the potential for a hig
operating margin against the cap
outlay," says Dennis Patrick, CE
Time Warner Telecommunications.

As for the other major wirel
groups—the Bell Atlantic/Nynex/
West/AirTouch venture called
PrimeCo, AT&T-McCaw Cellular,
GTE-SBC Communications—they see
auction primarily as an opportunit
fill gaps that exist in their current ce
lar networks. "The [PCS] spectrum
just one option we want to have to m
our wireless networks more comp
tive," says Nicholas Trivisonno, G
executive vice-president in charg
wireless. The only bidders who say t
plan to build a national PCS network
Sprint Corp. and
three cable-TV pat-
ners, who see it as
opportunity to comb
voice and cable, an
group of minority
vestors who are new
wireless (box).

By shelling out
lions of dollars just
a slice of spectru
these operators st
out with a big bur
the cellular compan
didn't carry (table).
one broad stroke,
PCS spectrum aucti
will cost almost
much as the cellular
dustry has spent in
last 11 years," says S
omon Brothers Inc. analyst Stev
Schutzman. And industry executives
ure that license acquisition will be j
one-third of the cost of getting into t
business. Research consultant Paul
gan Associates estimates that buildin
PCS network could cost from $21 milli
for Tulsa to $420 million for New Yo
On top of that, PCS operators will pr
ably have to surpass the $500-per-su
scriber marketing cost that cellular p
viders now spend, just to establish
identity with consumers.

Such costs wouldn't be out of line
PCS operators intended to charge t
same as cellular. But the new servi
was conceived as a much cheaper, a
therefore more popular, wireless alte

e. Although both use radio trans-
ons, PCS will transmit in the low-
wer 1.8 gigahertz (GHz) range,
ared with 800 GHz for cellular, so
transmitting towers and receiv-
andsets can be smaller and cheap-
nd it will be all-digital right from
tart, giving it greater capacity
the analog service still offered by
st all cellular networks. The PCS
holds that consumers will rush to
up for a ubiquitous wireless ser-
hat uses light, low-power phones
pagers and personal digital assist-
that can send and receive data—
nly within local areas.

AL DRIVE. To create a mass mar-
or PCS, analysts figure the price
l have to be $20 to $30 a month—
nuch more than a regular local
e bill. The biggest PCS net so far,
old Mercury One-2-One in London,
d by Cable & Wireless PLC and U S
Inc., is priced 30% to 40% below
lard cellular. That has made it phe-
nally popular—150,000 subscrib-
ave signed on so far. But Merrill
h & Co. also estimates that Mer-
One-2-One will lose $103 million
this fiscal year, ending in March,
he next.

l of which makes the profit outlook
. "None of the PCS providers are
to make a lot of money very quick-
varns Mark Lowenstein, a consul-
at Boston-based researcher Yankee
p Inc.

d while PCS operators are getting
ed, cellular operators aren't playing
They're spending some $2 billion
r to upgrade their networks, add-
igital technology that will increase
city by 3 to 15 times. By the time
etworks get up and running in 1997
98, almost all of the nation's cellu-
etworks will be digital-ready. And
they add digital, cellular operators
e able to cut prices and add many
e same data-transmission services
PCS is promising.

C Communications Inc.'s South-
ern Bell Mobile Systems subsidi-
already offers a product called
dom Link PCS, which allows sub-
ers to roam a corporate campus
a wireless phone. GTE has Tele-Go,
-power wireless service available
regions that uses the subscriber's
e phone number. It works some-
g like a wide-ranging cordless
e, and GTE calls it the "first PCS
uct," on the premise that the ser-
deserves the name more than the
rum. Looks like a cellular service
ny other name can still be a gold
, as long as it doesn't have to buy
wn license.

Catherine Arnst in New York,
bureau reports

HE HAS THE CONNECTIONS TO GET SMALL FRY CONNECTED

It's not easy for small fry to break into the U.S. phone market, dominated as it is by a dozen huge operators. That's why the Federal Communications Commission has reserved 986 slots for so-called designated entities—women, minorities, and rural phone companies—when it auctions off 2,074 licenses for personal communications services (PCS).

So what's James Valentine, a self-described "balding, middle-aged," white male doing in the middle of the process? Valentine, a private investor, has signed up AT&T and Britain's Cable & Wireless PLC in a plan to help designated entities use their licenses to create a national wireless-phone network.

Valentine is promising these designated entities that if they sign up with his new company, North American Wireless Inc. in Vienna, Va., he will lease them space on a state-of-the-art PCS system to be built by AT&T, with support services from C&W, a major supplier of long-distance service to businesses in the U.S. His pitch: Instead of owning isolated licenses, the bidders will be part of a national network. For the designated entities, "it immediately gives them real credibility," says Mark Lowenstein, a consultant for Yankee Group, a Boston market researcher.

VALENTINE: *Juggling phone giants, bidders, and capital*

But who is this Valentine? The 48-year-old Tennessean is, if nothing else, well connected. A Harvard Law School grad who found corporate law "boring," he spent six years at Montgomery Securities in San Francisco handling private placements and bridge funding. He left Montgomery in 1986 to start a venture-capital firm with his father-in-law, George Sealy, an original investor in MCI Communications Corp.

HARDWARE HELP. Along the way, Valentine made some influential friends. There's C&W's North American CEO, C. Alan Peyser, who is on the board of North American Wireless. And there's Sandra Goeken-Martas, daughter of MCI founder John D. Goeken and herself the founder of Women in Wireless, a group trying to bring women into the PCS auction. "This would sure work for our members," says Goeken-Martas. "It allows us to concentrate on growing our business without having to worry about the hardware."

Now comes the tricky part: finding the $1 billion to $2 billion needed to build the network. Although both AT&T and C&W say they are pleased to have the opportunity to work with minority bidders, neither plans to invest in the venture. Valentine says he will fund it with private placements and bank loans. But it's clear he can't raise the capital unless he enlists at least 50 designated entities, and they won't sign on if AT&T or C&W drops out. And the phone giants will exit if the entities don't get enough spectrum to build a national network.

So Valentine is juggling a lot of balls. Add another one: MCI President Gerald H. Taylor says he has been asked if MCI wants to be a tenant on the new network. MCI, which currently has no wireless play, is considering the plan, says Taylor. Just goes to show: Opening up the telecom biz is a lot easier if you've got ties to old boys.

By Catherine Arnst in New York, with Mark Lewyn in Washington

BREITLING
1884

ANTARES WORLD

Stars of Time. Since Man first walked the earth, the night sky has awed voyagers as the stars guided their steps. But today's travelers can rely on a Nightflight wristwatch, fully endowed with the advantages that Breitling's "Instruments for Professionnals" have displayed for over a century.
Take the Antares World, its elaborate and dependable movement provides the time of day simultaneously in three timezones. Its hour and minute hands show local time, with the plane-tipped hand indicating the other two times on the watch's 24-hour graduations. What's more, Breitling's easy-to-operate Antares World is designed for instant legibility day and night.

Selfwinding mechanical wristwatch wit multiple timezone display.

Power reserve in excess of 42 hours.

Special "plane tip" hand showing the secon and third timezones on the dial and bezel' 24-hour graduations.

Easy-to-read calendar.

Case water-resistant to 100 m (300 ft) wit glareproofed cambered sapphire crystal screw-locked crown and case back.

Steel with two-tone bezel; rider tabs in 18 K gold.

Available with three types of leather strap and choice of tang-type buckle or folding clasp, or else with a "Pilot" or "Rouleaux' bracelet.

BREITLING USA INC.
P.O. Box 110215
STAMFORD, CT 06911-0215

Tel.: 203 / 327 1411 ext. 328
Fax: 203 / 327 2537

INSTRUMENTS FOR PROFESSIONALS

evelopments to Watch

TED BY RUTH COXETER

E PARTY-LINE PROACH TO PERCOMPUTING

E A MAJOR PROBLEM THAT
ands a supercomputer,
limited funds? No prob-
says University of Illi-
at Chicago mathemati-
Robert Grossman. Build
irtual supercomputer."
idea, adds Robert J.
lebeek, a University of
nsylvania collaborator, is
nk a bunch of worksta-
s "so they can 'think'
ther."

luster computing isn't
Sandia National Labora-
es and Fermi National Ac-
rator Laboratory, among
ers, began working on
ter computing in the late
Os. But coordinating the
rations of multiple com-
ers in different locations
ney gang up on the same
blem still required expen-
hardware and software.

his team will rely on cheap
he-shelf components and
circuit boards that plug
workstations. In this case,
is not a computerized
k teller—it means asyn-
nous transfer mode. This
e latest method for high-
ed telephone-call switch-
ATM is key, says Gross-
, "because telephone
al quality doesn't degrade"
raffic on the network in-
creases. The National Science Foundation is a believer. It plunked down $4 million to build a virtual supercomputer that will link 100 computers in three widely dispersed locations: University of Illinois' Chicago campus, University of Pennsylvania, and University of Maryland at College Park. If it works, other computers could be added, eventually creating the most powerful computer ever built.

A BOOST FOR BATTERED MEMORIES

HISTORY MAY DESIGNATE 1994 THE YEAR OF THE BRAIN Gain. In January, neuroscientist Gary S. Lynch of the University of California at Irvine showed that synthetic compounds called ampakines enhance memory skills in rats. Last month, Lynch's company, Cortex Pharmaceuticals Inc., began clinical trials in humans. Now, scientists at the Johns Hopkins Medical Institutions in Baltimore think they have discovered the brain's natural mechanism for speeding up messages, leading to sharper memories.

Led by Professor Richard Huganir, a team located specific sites where phosphate molecules bind to receptors, which act as communication ports among cells of the brain. Depending on the site, the phosphates may cause receptors to open up for longer periods of time than normal. That allows extracellular calcium to flow in, triggering heightened memory states.

Megadosing phosphates isn't wise, Huganir warns. Excess phosphate could actually throw the fragile control mechanisms of nerve cells out of whack. Still, learning how receptors function should help scientists find new compounds to reverse damage from strokes or Alzheimer's disease.

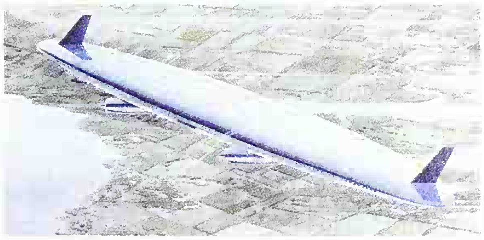
SMART CAR SEATS THAT MEET POTHOLES HALFWAY

TO SMOOTH OUT SOME OF life's littler bumps, engineer Farid M. L. Amirouche of the University of Illinois at Chicago has developed a seat for people who spend too much time on the long and winding road.

News of every bump and pothole is relayed by electronic sensors in the automobile's suspension system to an on-board computer, which instantly compares the data with mathematical models developed by Amirouche. The computer's microprocessor then issues orders to motorized actuators underneath the driver's seat to absorb the shock before it reaches the driver. Smoothing out highway jolts will cost about $300 a seat, says Amirouche, who is talking to Sears, Northrop, and other interested companies.

Meanwhile, Amirouche is forging ahead in the quest for greater driver comfort. In the works: a system that compensates for the way road bumps affect the upper body. The system uses seat belt sensors and dashboard lasers to measure changes in the driver's head and body orientation.

URFING FASTER THAN SOUND



FLYING WING: *NASA and Stanford's design*

IENTISTS AT NASA AND
anford University hope to
ing the cost of supersonic
ght down to earth. But
eir design—a single flying
ing—seems otherworldly.
nagine a giant, 400-foot
rfboard. Then, picture it
ing sideways.

At takeoff, the wing's
road side would face into
e direction of flight. As the
ing approached supersonic
eed it would turn at an
lique angle, which would
increase with acceleration. To stabilize the oddly shaped wing, a computer would make continuous adjustments to a series of wing flaps. Passengers would ride in the center of the wing's forward edge. Fuel would be stored in other parts of the wing for the engines hanging below.

The aircraft's peculiar looks may pay off. Improved aerodynamics allow the wing to operate at a cost that is estimated to be only 20% higher than that of a Boeing 747 jumbo jet; yet the wing would arrive at its destination in half the time. In addition, the wing's liftoff power eliminates the need for the noisy afterburner jets that are now being used on supersonic commercial aircraft.

So far, the NASA-Stanford team has tested a 20-foot wing controlled by an Apple Macintosh 2. The model reached only 65 mph, but a full-scale version could zip along at Mach 2, about 1,200 mph.

(TOP TO BOTTOM) ILLUSTRATIONS BY TIM GRAJEK, COURTESY OF NASA

MEDICINE

THE NEW MIRACLE DRUG MAY BE—SMOG?

Nitric oxide figures in many diseases, and possible cures

Eight years ago, at a medical meeting in Rochester, N. Y., two American scientists suggested that human blood vessels spew out nitric oxide gas—the very same toxic chemical in car exhaust fumes and smog. They were greeted by near-unanimous skepticism. But not from Dr. Salvador Moncada, head of British research for Wellcome PLC. To him, the notion suggested a tantalizing path for drug development. He immediately phoned his London team, insisting on crash confirmation.

Back at Wellcome, Moncada's crew started sleuthing for NO in blood vessels with crude environmental-lab machines that measure toxins in car fumes. Put to the test, blood vessels showed enough evidence of NO to persuade Wellcome to make its own souped-up NO detector—1,500 times as sensitive as the others. "Every time we stimulated cells, they released NO," says Moncada. He was convinced this "simple and beautiful" substance lurked all over the body.

In the years since, NO—not to be confused with nitrous oxide (N_2O), or laughing gas—has been found everywhere in the body and tied to an array of major diseases. Today, researchers believe either boosting or blocking NO production could help combat such killers as heart disease and cancer, and treat such ailments as impotence, asthma, and rheumatoid arthritis. Those add up to a colossal potential market, considering the 1.2 million people in the U. S. alone who are diagnosed annually with cancer, the 1.5 million who have heart attacks, and the additional 500,000 who suffer strokes.

It's no surprise, then, that major drugmakers have begun to chase NO-based cures. Thanks to Moncada's prescience, Wellcome is exploring NO treatments for coronary artery disease, asthma, and rheumatoid arthritis, plus a slew of neurological diseases. Ciba-Geigy and Cassella, a subsidiary of Germany's Hoechst, are targeting cardiovascular drugs, while giant Merck is studying NO's role in the brain, the heart, and the immune system. Meanwhile, at least three U. S. startups, Guilford Pharmaceuticals, NitroMed, and Apex Bioscience, have pinned their futures on NO-based treatments for everything from septic shock and AIDS-related dementia to brain disorders. The payoff is likely to "be significant, considering the nature of the diseases involved," predicts Dr. Trevor M. Jones, director-general of the Association of the British Pharmaceutical Indus

Plenty of people think he's wr "It's a revolutionary concept" for development, agrees Dr. Jeffrey M. zen, chief of pulmonary medicine an NO investigator at Harvard Med School. "But if I bought stock in companies, and I don't, I probably w not be heavily invested in nitric oxi He worries that while NO can have portant beneficial effects, such as lo ing blood pressure, it may prove to toxic effects, too. "We don't know if is another thalidomide," he warns. sides, since drugmakers need to s a few problems—targeting the ri amount to treat specific conditions, instance—it is likely to be a decade fore significant drugs come to mark

TICKLING VEINS. Still, it's clear that no longer viewed as merely a pollut Toxicologists began to change the v of it in the 1980s, when they started ploring how smog wreaks havoc in body. They spotted excess NO, way yond the amount that would be exp ed from pollution—the first clue that body might be making its own sup Then, immunologists led by Univers of Utah School of Medicine's Dr. John Hibbs Jr. zeroed in on NO in macroph es, an immune-system cell, which s gested that NO can fight infections a possibly tumors. About the same ti Louis J. Ignarro, professor of molecu pharmacology at the University of C ifornia, Los Angeles School of Medici and Robert F. Furchgott, profess emeritus of pharmacology at the St University of New York Health Scie Center at Brooklyn College of Medici proposed that wisps of NO tickle the ner lining of blood vessels, prompti

DR. NO: *Moncada is steering Wellcome's R&D*

Nitric Oxide: How It Helps And Hurt

The primary ingredient in smog, NO also plays many roles in the body

	Nervous system	Circulatory system	Immune system
GOOD	NO helps relay messages between nerve cells in the brain and elsewhere.	NO relaxes blood vessels and eases blood flow, keeping blood pressure in check.	NO boosts the body' ability to fight viruses, bacteria, fungal infections, and possibly tumors
BAD	High NO levels caused by stroke can kill brain cells. And scientists think low levels of it can lead to impotence.	Too much NO, caused by massive infections, dramatically lowers blood pressure, leading to shock.	Too much NO seems to be linked to arthritis, multiple sclerosis, asthma, and transplant rejection.

to relax. That was the finding that
Moncada racing to the phone. Any
ance that could do that, he knew,
be valuable because so many dis-
are tied to narrowed blood ves-
ncluding cardiovascular disease.
's ubiquity is both an asset and a
pack. "With the involvement of this
cule in so many functions, the risk
at [drugmakers] may be working
wrong area," says Duncan Moore,
lth-care analyst at Morgan Stanley
in London. Indeed, to develop suc-
ul NO-based treatments, scientists
have to figure out NO's role in a dis-
whether it's helpful or harmful,
figure out how to take advantage of
oid the effect. Then they need to
er NO precisely where it's needed,
n just the right dose.

NEWS, BAD NEWS. The effort to
impotence shows how difficult this
e. Many scientists think the condi-
s caused by lack of NO in the ner-
system. In initial attempts in 1992,
ersity of California at San Francis-
searchers injected NO into the penis
ax blood vessels and get blood rush-
the site. The men did get erec-
but they also fainted because this
attempt used long-lasting NO drugs
owered blood pressure.

spite such obstacles, drugmakers
rging ahead. Wellcome, NitroMed,
Apex are targeting septic shock,
ntially fatal low blood pressure
d by massive infections that gener-
xcess NO. Roughly 600,000 people in
.S. develop sepsis each year, and
00 die. In recent years, three high-
e potential treatments have failed.
ysts say a drug that helps could
in as much as $1 billion a year in
.S. alone.

September, Wellcome launched clin-
rials for its drug, L-NMMA, which
its enzymes that make NO. Mean-
, Apex Bioscience Inc. in Durham,
has won a patent for a potential
-shock therapy. Its goal is to use a
nbinant hemoglobin that would mop
xcess NO caused by infections. In
bridge, Mass., NitroMed research-
re gambling on a different approach.
patented method aims to block NO
tors on cells to keep the chemical at
None of these drugs would cure the
rlying infection, but they might re-
blood pressure, keeping patients
until the original illness can be con-
d, says Joseph DeAngelo, vice-pres-
of research at Apex.

ncada's 1986 phone call was crucial
leashing NO research. Today, he in-
research into the workings of NO
oving faster than any other field of
rch." Still, it will be a while before
ecomes more than just smog.

Randi Hutter Epstein in London

Government

NEW FACES

TAX REFORM'S SPLIT PERSONALITY

Congress' new tax czars are a study in contrasts

Tax cuts are at the top of Capitol Hill's agenda, thanks to the tidal wave that swept Republicans into control. Representative Bill Archer of Texas and Senator Bob Packwood of Oregon, the new chairmen of the revenue committees, must make GOP promises of massive tax relief a reality. Two more different characters would be hard to find. Archer is an anti-tax conservative who passionately believes in less government. Packwood is more moderate on social issues, less ideological about taxes. The two, says a GOP aide, are the "Dr. Jekyll and Mr. Hyde of taxes."

BILL ARCHER: He would love to scrap the income tax

The tax system, says Houstonian Bill Archer, incoming chairman of the House Ways & Means Committee, is "an abomination." Displaying a courteous but steely demeanor that reflects his past as a Southern banker, Archer preaches: "The less we tax people, the more we let them keep money in their own pockets, the better country we are going to have." Archer, 66, is unwavering. Observes Kenneth J. Kies, a former top GOP tax lawyer for Ways & Means: "In a way, he's like Ronald Reagan. If you asked him the same question 20 years ago, you'd get the same answer."

The lawmaker who replaced George Bush in Congress 24 years ago would love nothing more than to scrap the income tax. And Archer hopes to start in the new Congress: "It would be very appropriate to take a long look at alternatives to the current tax structure."

The Texan may tangle with deficit hawks, however. Archer insists that tax cuts be offset by domestic-spending cuts, not by curbing other tax breaks. And he has one budgetary sacred cow: "I will strongly oppose any cuts in Medicare to pay for the promises in the GOP Contract With America," he vows.

Archer has always gone his own way. He completes his own tax returns. He runs one of the leanest staffs in Congress—and plans to slash the panel's staff. And he refuses money from political action committees—perhaps an easy choice since he regularly runs unopposed. That's in stark contrast to Packwood and former Ways & Means boss Dan Rostenkowski (D-Ill.), both voracious fund-raisers.

Archer differs from Rosty in other ways, too. Although he is unfailingly polite to both Democrats and Republicans, he's no backslapper. His relationship with Treasury Secretary Lloyd M. Bentsen is said by friends to be cordial, not close, though they've known each other for more than 20 years. "Archer's always been an enigma," says a fellow Texas Republican. "He travels off the beaten path of Washington politics."

WAYS & MEANS: *Archer doesn't kowtow*

JOHN DURICKA/AP WIDE WORLD

And though Archer's outlook is strongly probusiness, he's a source of frustration to lobbyists and their clients. "He's a nightmare," says one rep. "He hasn't been doing a lot of favors over the years." Another adds: "He has no problem saying, 'I can't help.'"

When it comes to tax cuts, the Texan is closely in tune with the new GOP

Two Chairmen, Two Agendas

ARCHER'S VIEWS

TAX REFORM: Wants to replace the income tax with a consumption tax—though action in 1995 is unlikely

CAPITAL GAINS: Backs a cut, and will win passage

OIL AND GAS DRILLING: Strongly supports incentives for energy producers, but Clinton may resist

INHERITANCE TAXES: Prefers repeal of estate tax, but will settle for a jump in the tax-exempt portion

PACKWOOD'S VIEWS

TAX REFORM: Favors an investment-slanted code, but gives no specifics

HEALTH CARE: Will push for modest reform, though he must win over reluctant Republicans

TRADE: Backs free trade and GATT; will support future trade deals

WELFARE: Will develop a consensus reform plan with Senator Daniel P. Moynihan, the Finance panel's top Democrat

DATA: BUSINESS WEEK

House leadership, and he'll have a strong majority of antitaxers on his panel. Indeed, the tax provisions of the GOP Contract came straight from his own playbook: tax cuts for capital gains and business investment, new breaks for married couples and families with children, and an easing of estate taxes.

Archer will enjoy a relatively free hand in developing a tax bill this year. Tax experts wonder, though, whether he'll be flexible enough to develop a bipartisan consensus on revenue bills. "He is very rigid in his views," says one Ways & Means Committee Democrat. "There's never a deal with Archer."

Yet, under extremely trying circumstances, Archer has succeeded in cobbling together majorities. In 1989, in the face of overwhelming opposition of the House Democratic leadership, he lobbied colleagues until he won the Ways & Means committee's support for a capital-gains cut—and pushed it through the House. "It was a remarkable job," says former GOP Representative Bill Frenzel of Minnesota.

While Archer has spent much of his time focusing on Texas tax issues such as breaks for oil producers, capital gains is closest to his heart. Sometime next spring, the patient Texan should finally bring his dream to fruition, the first step in a lifelong ambition to slash taxes.

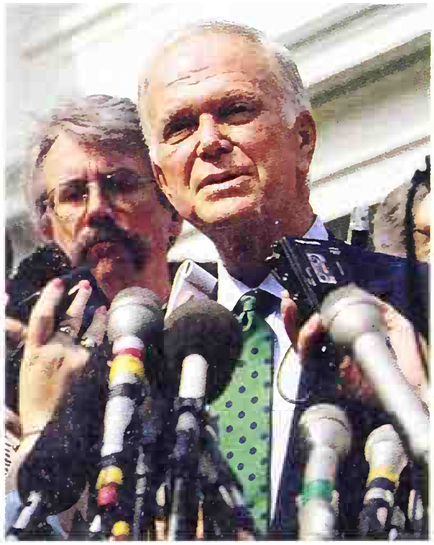
BOB PACKWOOD: Will he undo the tax-reform act?

At 62, Bob Packwood has neither the manner of a banker nor the vision of an ideologue. He's rumpled and volatile and unpredictable—at least as far as taxes are concerned.

The Oregonian, who chaired the Finance Committee in 1984-86, will use his reclaimed post to put his stamp on several nontax measures: a welfare overhaul, health reform, and trade. But he is circumspect about his tax agenda.

Packwood declined to discuss his ideas, despite repeated calls from BUSINESS WEEK. That may stem partly from his realization that what remains of the 1986 Tax Reform Act—perhaps his greatest legislative achievement—is endangered. The '86 law hinged on a grand bargain: Income tax rates were slashed, but tax breaks were curbed. Congressional Republicans want to restore many of those breaks. "What Archer is proposing is in many ways a full repeal," says Deloitte & Touche tax analyst Clint Stretch.

Packwood will also have to forge consensus on his own diverse committee. While Archer's ideas enjoy support, Packwood will have to broker between two GOP Presidential contenders—incoming Majority Leader Bob Dole (R-Kan.), who is already a member, and Senate powerhouse Phil Gramm (R-Tex.), who wants to join the panel. Each



FINANCE: *Packwood can be mercurial*

has very strong views. "e
have to operate under
tough constraints," says
tax lobbyist.

Handling that challe
takes the skills of a di
mat—a role ill-suited to P
wood's personality.
leagues call him a ma
independence, enormou
nacity, and a deep merc
streak.

Before 1986, Packwood
known as a social liberal
was pro-choice on abor
His tax agenda was limite
protecting incentives
home-state timber inter
and backing tax breaks
employee fringe benefits—
other popular issue in
union Oregon. In 1985 h
said, "I sort of like the
code the way it is."

Late that year, the Ho
passed version of tax ref
was dumped on Packwo
reluctant committee. Against all o
he muscled the massive rewrite thro
the panel. "I don't think he ever
lieved a word of it, but he just dec
he was going to get it done," says a
maker involved in the process.

LONG-RUNNING SCANDAL. Packwood's
reer also has been marred by con
versy. In 1982, after five successful y
as chief fund-raiser for Senate Repu
cans, he was booted from the post
charging that then-President Ro
Reagan was hurting the party by ig
ing African Americans and wom
More seriously, Packwood in 199
was hit with allegations of sexual
rassment by two dozen women.
charges are the subject an ongoing
vestigation by the Senate Eth
Committee. Many senators, inclu
Republicans, have called for his resig
tion. Packwood not only hung on to
job but he has gained new power. S
a GOP colleague: "There was a poin
which publicity about his personal
was so intense he couldn't do anyth
But he just kept fighting."

With the Republicans in charge,
worst of the scandal is behind him. Pa
wood now has to decide what to do w
his restored clout. He has shown int
est in replacing the current code wit
consumption-based tax. But first h
have to decide whether he's prepa
to demolish the tax-reform act that
monument to his first go-round as
nance chairman.

*By Howard Gleckman in Washing
and Richard S. Dunham in Housto*

Every cancer patient should have one.

e corporate jet. You'd be surprised who's flying on it these days. But Corporate Angel twork (CAN) isn't. CAN is a nationwide program designed to help cancer patients of all es travel free to or from recognized treatment. CAN arranges with corporations to utilize e empty seats on their corporate aircraft operating on business flights. This unique program ows cancer patients to travel in comfort and dignity. And best of all, the CAN program is e and it's easy. Since its inception in 1981, CAN has already helped thousands of patients oss the country. If you'd like to find out more, call Corporate Angel Network at 914-328-1313

CAN®
CORPORATE ANGEL NETWORK, INC

110A-NCA

"I VIEW PLANNED GIFTS A BIT LIKE ORGAN DONATION — LEAVING SOME PART OF YOU THAT CAN IMPROVE OR EVEN SAVE THE LIVES OF OTHERS AFTER YOU'RE GONE."

- A 50-YEAR-OLD KIDNEY TRANSPLANT RECIPIENT
AND NATIONAL KIDNEY FOUNDATION PLANNED GIVING DONOR

The National Kidney Foundation brings help and hope to 20 million Americans suffering from kidney and urinary disease.

SECURING A FUTURE OF SUCCESS

PLANNED GIVING

NATIONAL KIDNEY FOUNDATION

For information on how to plan a gift or bequest, contact the National Kidney Foundation • 30 East 33rd Street • New York • NY 10016 • 1-800-622-9010

NKF

National Kidney
Foundation

IS GRANDMA WANTS KEEP THE WORLD WARM

rude Boyle's secret at Columbia Sportswear: Zany ads

ey told Gertrude
oyle, 70, that she
ight not play well
kyo. The grand-
er and business-
n owns Columbia
swear Co., an out-
ar company based
rtland, Ore. She's
tar of Columbia's
ercials, which de-
er as a tough-talk-
atriarch who runs
shod over her son,
45, the company's
American audiences
the spots, which
crucial to turning
's fledgling compa-
o the world's larg-
anufacturer of out-
apparel. But
nbia's Japanese dis-
tor worried that
pers would find
ner Gert" offensive.
persuaded them
wise. Now, Columbia's jackets are
sellers in Japan.

e global craze for the rugged look
ving sales at family-owned Colum-
'he company has captured 30% of
itdoor apparel business in the U. S.
s trying to conquer new markets
eas, where sales have tripled to
nly $30 million in the past two
. Overall revenues are expected to
38% this year, to $265 million, and
projects they'll hit $340 million
95. Columbia's sporty gear crosses
graphic and party lines: Suburban
pies cherish Columbia's midpriced
ackets, while inner-city African
ricans prize its baggy raincoats.
dents Bush and Carter both wear
nbia's multipocketed fishing vests.

FAST CLIMBER: *French sales may hit $5 million by '95*

GHAI SHOP. Fueled by Boyle's te-
y, shrewd marketing gambits, and
gness to mock herself in ads, Co-
a is trying to become to outdoor
rel what Nike is to sneakers: The
recognized brand in the world. To
here, Boyle has been speeding up
ompany's international push. Sales in France are expected to hit $2.5 million this year and double to $5 million in 1995, from nothing in 1993. Revenues in Japan, Australia, and Canada have doubled every two years. In the next few months, Columbia will open a shop in Shanghai. Boyle's "Tough Mother" image works almost everywhere, though the "Born to Nag" tattoo she sports in some ads proved impossible to translate. "I don't think women have to be bitches to get things accomplished," says Boyle. "But you also can't run scared."

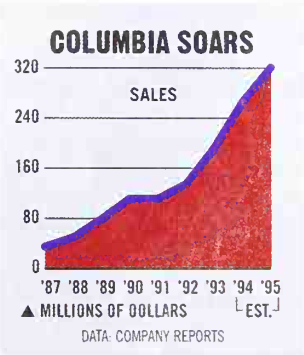
Boyle knows plenty about running scared. She and her family fled Nazi Germany when she was 13 and emigrated to Oregon. There, her parents founded Columbia Hat Co. Boyle's husband, Neal, took the company over in 1964, while Gert stayed home to raise their three children. When her husband died in 1970, the bank called the company's loan. Desperate, Gert borrowed against her $50,000 life-insurance policy to stave off bankruptcy and went to work.

Her first year as CEO, Columbia's sales fell from $800,000 to $600,000. "We made mistakes like you wouldn't believe," she says. Boyle hired Tim, then 21, and fired some of her best employees because they wouldn't listen to her. "In those days, they thought women didn't know anything about running a business," says Boyle. The company chugged along, selling jackets and hats to hunters and fishermen. Sales hit $9.4 million in 1982. Then Columbia introduced a jacket with a zip-out lining that could be worn separately. Now known as the Bugaboo parka, it became a best-seller because of its warmth and $150 price tag—a bargain next to North Face and Patagonia jackets, which top $300.

BUGABOO BACKUP. But the real coup came in 1983. Columbia's ad agency, Borders, Perrin & Norrander Inc., based in Portland, persuaded the Boyles to launch a humorous campaign portraying Gert as a glowering battle-ax. Viewers loved the results. In one commercial, Gert forced Tim to walk through a car wash to demonstrate the jacket's waterproofing. In a new spot, Tim almost commits matricide by "accidentally" pushing Gert off a cliff. He rescues her by knotting together the shell and liner of his Bugaboo parka and pulling her up, testimony to the jacket's resilience. Columbia spent $6 million on TV and magazine ads this year.

Besides good ads, Columbia got a boost from the decision by rivals to remain niche players. While Patagonia and North Face position themselves as top-of-the-line outfitters for extreme conditions, the Boyles cheerfully admit that their gear won't withstand Arctic temperatures—so it's cheaper. "If you went to the North Pole, you wouldn't take my stuff," says Gert. "Don't!" she warns. "Because you'll die."

In Portland, Gert and Tim strive to reach $1 billion in sales but have brushed aside offers to take Columbia public. Earnings run 15% of sales, roughly $35 million this year. For now, the Boyles see no reason to share the wealth. "Frankly, with employees and customers yelling at you, who needs stockholders yelling at you?," says Tim. Especially when your boss is already one tough mother.



DATA: COMPANY REPORTS

By Dori Jones Yang in Portland

PHOTOGRAPH BY GARY MATOSO/CONTACT, CHART BY LISA KNOUSE BRAIMAN/BW

EDITED BY AMY DUNKIN

PLANNING NOW CAN MAKE APRIL LESS TAXING

The Republicans are brewing up some tantalizing tax breaks, but for most taxpayers, it's going to be yearend planning as usual. If the GOP wish list gets enacted—and that's a big if—that's all the more reason you should defer income to 1995 and accelerate deductions into this year as you normally would. That way, you delay paying taxes while keeping as much current income as possible—and take advantage of any tax cuts that get enacted. There are two exceptions: If you'll earn a lot more money next year or you're subject to the alternative minimum tax (AMT), consider the reverse strategy of shifting income into this year and delaying deductions until next. Either way, base your decisions on financial—not tax—considerations first.

APPRECIATION. The biggest proposed change is a 50% cut in the capital-gains tax. Whether this passes or not, you would want to avoid realizing gains on the sale of stocks, real estate, or interest income. If you have an appreciated stock that you want to sell, you can cash out and offset the gains with any capital losses you have. Or you can use tactics that let you lock in stock appreciation but defer the gains. For example, buy a put option to sell your stock at a fixed price in January. If the stock drops in the meantime, you'll still be able to sell at the current price. But if the stock rises, you'll enjoy the added appreciation minus the cost of the put—say, $3 per share. Either way, you defer the sale until next year.

Another strategy: Sell short against the box. This way, you lock in your price by holding a long and short position in the same stock so price fluctuations are canceled out. You do this by borrowing shares of an appreciated stock you already own and shor them. But you don't close deal and get the gain u you repay the broker in future. "We've been tel clients to put off sel stocks that peaked selling short and closing until n year," says Tom G senschlager, a partner at accounta Grant & Thornto Washington.

If you've alrea realized gains in 1 and, like most hapl bondholders, have losses, sell the losers to set the gains. You can w off those losses dollar for d lar against your gains if sell this year. And, if the lo es exceed your gains, you deduct up to $3,000 agai ordinary income. If you wa to take the bond losses wi out changing the composit of your portfolio, do a sw Sell the offending securit to realize the loss, and use money to buy similar ones they vary in interest, mat ity, or issuer, you can av the wash-sale rule. That r disallows the tax break if y sell and buy "substantia similar" securities withi 30-day period.

To avoid capital gains fr real estate, you could put the sale until next year. If y must sell this year, arran to get paid in installmen most of which will be receiv next year, says Rick T lor, a partner at KP Peat Marwick in Washi ton. To avoid gains fr interest on bank deposi consider investing th cash in Treasury bills short-term certificates deposit that don't matu until next year.

TAXES "Put off selling stocks that peaked by selling short and not closing until next year"

Yearend Tax-Planning Tips

CAPITAL GAINS Republican leaders are making loud noises about cutting the capital-gains tax. That's all the more reason to stick with a yearend strategy of deferring stock sales until next year. Buying put options is a tactic that allows you to lock in the current stock price without realizing gains from the sales until 1995.

ORDINARY INCOME Max out investments in retirement plans, pensions, 401(k)s, IRAs, and other tax-deferred vehicles. Defer bonuses and speed up deductions. Consider a short-term tax-deferred investment such as Treasury bills or three-month certificates of deposit to put off having to pay tax on the interest.

CHARITABLE CONTRIBUTIONS This year is your last chance to deduct the fair-market value rather than the purchase price of appreciated property when you donate to private foundations. But it will still be legal with public charities, so use mutual funds and securities over cash in future years.

WITHHOLDING Figure out if you've withheld enough because you will be subject to stiff penalties if you haven't set aside 100% to 110% of the prior year's tax (depending on income) or 90% of what you owe this year. It's not too late to get your employer to withhold more.

GOP Wish List

REDUCE capital-gains taxes by 50%.

CREATE the American Dream Individual Retirement Account that would allow withdrawals for certain purposes without a penalty.

RAISE the depreciation on business equipment.

LOOSEN restrictions on home-office deductions.

INCREASE the amount retirees can earn before getting taxed on Social Security benefits.

PHASE IN reduction of the marriage penalty.

ESTABLISH a $500 tax credit per child, a one-time $5,000 credit for adopting a child, and a $500 credit for elder care.

e Republicans are also
ng to boost "family val-
by reducing the mar-
penalty, giving families
) tax credit per child, a
ime credit of up to
) to cover the expenses
pting a child, and a $500
t for elder care. The
significant change would
e marriage penalty. Tax-
rently penalize two-in-
couples because togeth-
ey get less of a break
each would singly. Any
ty reduction would be
ally phased in because
resents a huge loss of
l revenue, says KPMG's
. The only way to avoid
arriage penalty is to put
e wedding until next
but for most people
rs of the heart come be-
axes.

RA. Republican leaders
ropose to roll back the
tax increase on Social
ity benefits to high-in-
people, from 85% to
And they want to in-
e the amount benefici-
aged 65 to 69 could earn
),000 from $11,160 be-
heir benefits get re-
d. Even if this isn't
l, those currently taxed
cial Security should try
fer income to
rve as much of
enefit as pos-
One way is to
ess out of your
idual retire-
account or
) plan without
ng afoul of the
bution rules.
f-employed tax-
s and business
rs would also
a break under
GOP regime.
-office deduc-
would be liber-
l, letting you
t costs as long
e office was essential to
business—even if it was-
our principal place of
. The proposal would
ncrease depreciation for
ess equipment pur-
d in a given year from
0 to $25,000. So "if your
ment purchases are going to exceed $17,500, wait to buy until next year," suggests Ochsenschlager.

The future may also bring a new kind of IRA. The Republicans are suggesting the "American Dream" IRA from which people could withdraw money for medical, educational, and homebuying purposes without a penalty. There would be no upfront deduction when you stash money in this IRA, but retirement funds would not be taxed when you start receiving them. It's not yet clear whether this IRA would replace or coexist with current IRAs, which allow deductions for people under certain income levels.

Irrespective of the GOP, some changes become effective next year that you should heed now. For one, this is your last chance to donate gifts of appreciated securities to private foundations and deduct the current market value instead of the purchase price. Private foundations are set up by individuals or families to support their charities. Don't confuse this with donations made to public organizations such as universities, churches, or hospitals. You can still deduct the full value of appreciated gifts to such public charities. "Wherever possible, instead of using cash, give away appreciated stocks or mutual funds that have been held more than one year," says Nadine Lee, a tax partner at Ernst & Young. "That way, you get a big deduction and avoid capital gains."

If you elected to pay the 1993 tax increase in installments, remember that payment No. 2 is due in April over and above what you will owe for this year. "People have to make sure now that they will have the cash on hand to pay it," says Mark Kersting, tax manager at accountant Urbach, Kahn & Werlin in New York.

Now's the time to ensure that your withholding or estimated tax payments are high enough to avoid penalties—currently around 9% of the amount unpaid per month. The rules are complicated: You're safe if you withhold 90% of this year's bill or an amount equal to last year's. If you earn more than $150,000, however, you'll have to withhold 110% of what you owed last year. If you've withheld too little, it's not too late to get your employer to hold back more from your paycheck or pay extra estimated taxes.

RED FLAGS. Starting in 1995, a greater tax bite comes out of the paychecks of those making more than $135,000 and those who are self-employed. The former must pay a medicare tax equal to 1.45% of all earnings, and the latter must pay 2.9%. Self-employeds must also set up a Keough retirement plan by yearend.

When projecting your tax liability, calculate two years ahead. You don't want to catch a tax break this year only to be liable for the AMT next year. Many deductions, such as state and local taxes, don't apply under the AMT. Two red flags for falling into the AMT: if you live in a high-tax state and if you have lots of capital-gains income.

No matter what politics sweep into the tax code next year, always make your money moves for sound financial reasons, not just to save on taxes. "Analysis and projection are a required part of fiscal planning," says Lehman Brothers political analyst Kim Wallace. "Hoping and wishing often lead to disappointment." *Pam Black*

TIME TO TRUST YOUR TRUST FUND TO A PRO?

SMART MONEY

When bad investments eat up funds that were supposed to be preserved in a trust, beneficiaries often sue the trustee—a friend, a lawyer, or a bank that's charged with making responsible decisions about the money. One current case involves the heirs of former New York Governor Averell Harriman. They are accusing trustees Clark Clifford and Paul Warnke of squandering the family's fortune on a failed resort hotel rather than sticking to investment-grade securities.

Your family may never have the Harrimans' trouble. However, choosing the right trustee is more important than ever because new laws are expanding the freedom of trust funds to invest in growth stocks, mutual funds, and securities which were once off-limits. In the past, the trust laws of many states made preservation of capital a top priority, compelling trustees to stick with conservative investments—which sometimes didn't keep up with inflation or reflect beneficiaries' needs. This made it easier to appoint Uncle Harry as the trustee, since he could just sock everything away in Treasury notes and forget about it.

NEW THEORIES. Now, states are changing their laws to bring them into line with modern portfolio theory, which favors assembling a diverse asset mix designed to achieve an overall objective. California, Delaware, Florida, Georgia, Illinois, Minnesota, Tennessee, Virginia, and Washington have all acted. New York's statute takes effect on Jan. 1, and about a dozen other states have similar amendments pending. Some of them use as a guide a model statute, the Uniform Prudent Investor Act, completed this past summer by a committee of trust experts.

The new rules encourage lawyers to provide greater flexibility in trust agreements. Now, the investment approach is allowed to take into account general economic conditions, inflation, tax consequences, needs for liquidity, and other considerations. For example, if the goal is to keep pace with inflation, the trustee might design a portfolio that includes growth stocks and riskier holdings. "Even derivatives can find a place in a trust if they're appropriate," says John Langbein, a law professor at Yale University.

As long as the overall strategy is consistent with the goal, laws should protect the trustee if any part of the portfolio goes sour. Given the added complexity of managing the money, however, it's important to pick a friend or relative with financial skill or to appoint a trustee who will delegate investment authority to professionals.

PHILIP ANDERSON

The new laws make it easier to do that. New York's statute, for example, permits trustees for the first time to hire investment professionals. But the selection must be made carefully, and the trustee remains liable for advisers' actions. In Florida and Illinois, by contrast, the trustee is not liable if advisers act irresponsibly.

In general, bank trust departments make better trustees than relatives or friends. For one thing, a bank has institutional safeguards against self-dealing and other breaches of fiduciary responsibility. At one time, banks had a reputation for investing trust funds too conservatively. But large regional banks can now
put trust assets in pro
tary mutual funds, son
which have been exce
performers. Before enga
a bank, however, you sh
request three years' wor
data on the returns for
mingled trust funds unde
management as well as t
assets placed in other in
ments. Also look into t
services that are offere
brokerage firms and
ey managers. Me
Lynch, for exam
chartered its
trust compan
1987 and now
trust departm
in many part
the country.

Choosing a co
rate trustee shoul
based as much on ch
istry as on dollars
cents. Most inst
tions charge 1%
1.5% of a trust's v
each year—and less
trusts exceeding $1
lion. The relations
will matter more t
the costs. For ex
ple, Bank One, Ar
na provides a ser
for smaller trusts
range from $100,00
$500,000. "A lot of in
tutions won't take acco
under a half-million," s
Robert Johnson, execu
vice-president at Bank O
Other banks emphasize th
willingness to work with
trustees to make the right
vestment choices. "It's w
derful to have the bank se
with trusted friends," s
Jayne Lipe, executive v
president at Overtin Ban
Trust in Fort Worth. For
tra protection, make s
that the trust allows f
change in banks if the c
sen one doesn't perform
meet general investm
parameters.

Nonprofessionals s
serve an important funct
in running a trust. But ra
er than encouraging a frie
or relative to go it alone,
up a team. That increases
chances that all members
be qualified for the role th
play. *Richard Korn*

NEW CRITERIA TO CONSIDER IN INVESTING TRUST ASSETS

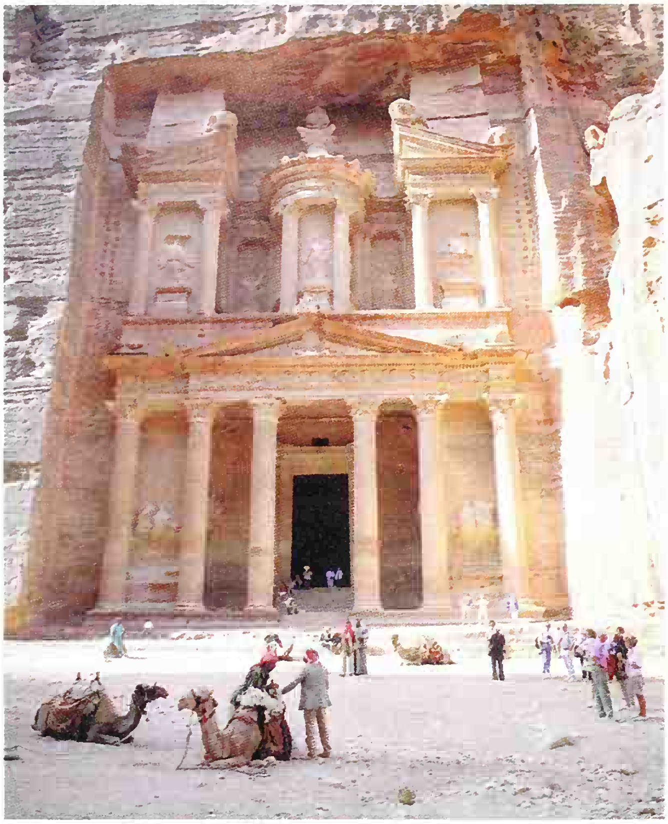
- General economic conditions
- Possible effect of inflation or deflation
- Expected tax consequences
- The role that each investment plays within the overall portfolio
- The expected total return from income and capital appreciation
- Other resources of the beneficiaries
- The need for liquidity, regular income, and preservation and appreciation of capital

DATA: UNIFORM PRUDENT INVESTOR ACT

RDAN:
VEL IN
E DESERT

enter by way of a
ow road called the
lined on both
s by sheer cliffs.
specially dramatic by
ight. After a half hour's
you come out into a can-
hose walls are carved
monumental gateways
acades. This is the ru-
ity of Petra in southern
n.
ny world travelers rank
at the top of their list of
it sites. The attraction
o much the individual
ngs as the city's vast,
quare-mile expanse. The
d hills, brushed with sil-
aved oleander bushes,
herworldly. There are
eestanding ruins, but
abataeans, who lived
from the 6th century
o the 1st century A. D.,
heir imposing temples
mbs cut into the rock.
h peace established be-
n Israel and Jordan,
sm to the Hashemite
dom is on the rise. Pe-
hich adventurous trav-
often had to
selves in the
will be a prime destina-
Already, 10 hotels are
construction to comple-
the 10 or so facilities
n operation. Concerned
damage to the area, the
rnment recently an-
ed that it would only
t 3,500 visitors per day.
N STREETS. Tourists in
n will find plenty to do
es exploring Petra. Only
les from Amman, the
al, is the huge Roman
f Jerash. There, you can
er over the ruins of sev-
emples and walk along
pectacular colonnade.
n's magnificent restored
itheater is now used for
ival under the patron-

TRAVEL


OTHERWORLDLY: *The ruined city of Petra*

ALAN SMITH/TONY STONE

age of Queen Noor, King Hussein's American-born wife.

At Ajloun—also not far from Amman—is a massive, 12th century fortress built by one of Saladin's nephews to fight off the Crusaders. It looms above the dry hills. On a clear day, you can see all the way to the West Bank. Also not far from Amman is Madaba, which has well-known early Christian mosaics.

Jordan's capital itself is easily the most pleasant and negotiable of Arab cities. Its steep, clean streets and polite residents are a welcome contrast to the squalor and hassle of Cairo. The Jordan Intercontinental hotel is the hangout of Western reporters and local café intellectuals. On summer nights, it's fun to watch the spectacular Arab wedding parties around the pool.

Amman lacks the medieval atmosphere of nearby Damascus or even Jerusalem, but it does have a central *souk*, where you can buy anything from bedouin headscarves, known as *kefiehs*, to gold and Arab spices.

You can get around Amman in taxis, which are inexpensive. For excursions outside the city, hire a car and driver or rent a car from one of the major agencies. Head for the loop of ancient desert castles dating from the Omayyad period and earlier. The best-preserved of these, Qasr Amr, has interesting frescoes. At Qasr Azraq, the celebrated T. E. Lawrence had his headquarters. In the northern part of the country, along the Yarmuk River, it is still possible to get a glimpse of the remains of railroad bridges that Lawrence's band blew up.

Desert scenes from the film *Lawrence of Arabia* were shot in a valley in the South called Wadi Rum. A spectacular region with cliffs jutting from the desert floor, it is now a popular destination for tourists. For as little as $18 a day, you can go out in the desert on camel trips. Also worth visiting is the Red Sea port of Aqaba, which offers excellent scuba diving nearby.

For those who like austere vistas, Jordan is a stunningly beautiful country. This is especially true in the spring, when the deserts and rocky hillsides burst into a spectacular display of red poppies, black irises, and other blooms.
DON'T DELAY. It's not difficult to get to Jordan. The national carrier, Royal Jordanian Airlines, flies from the U. S. KLM, Air France, British Airways, and Alitalia all fly from Europe. You can come from Israel by bus, changing at the border. The fastest route from Jerusalem to Amman is the Allenby Bridge crossing, near Jericho. Allow about three hours for the trip. Recently, the Israelis and Jordanians have opened two more border crossings, one near Eilat and Aqaba, and another near the Sea of Galilee.

In Jordan, the national airline and International Traders, the local American Express representative, offer package tours. Go before the sites are overrun. *Stanley Reed and Kirk Albrecht*

WORTH NOTING

- **ON-LINE JOB SEARCH.** Connect to resumé databases, job-posting services, and other Info Highway resources with *The Job-Seeker's Guide to On-Line Resources*. The 64-page paperback is available for $14.95 (plus $4 shipping) from Kennedy Publications, Fitzwilliam, N. H., 03447.
- **800-NUMBER RULES.** You can be billed for calls to an 800 number only if you agree to the arrangement beforehand. The Better Business Bureau of Metropolitan New York, which has registered hundreds of complaints from consumers who were not informed about charges, explains the rules and dispute process in *Pay-Per-Calls*, a $3.80, eight-page report. Call 212 533-6200 for a copy.

FOR AD RATES AND INFORMATION
PHONE: (312) 337-3090
FAX: (312) 337-5633 OR WRITE:

BUSINESS WEEK MARKETPLACE

BUSINESS WEEK MARKET-PLAC
100 EAST OHIO STREET SUITE 6
CHICAGO, ILLINOIS 60611

Telecommunications Products

Two Cellular Phones – One Number –

Order this handheld MOTOROLA phone and we will put it on the same number as your existing cellular phone!

No second bill, no second number to give out!

Only $495 Programmed to your existing cellular number!

Spy Supply, Inc.
1212 Boylston St. #120
Chestnut Hill, MA 02167
(305) 340-0579 • (617) 327-7272

Travel Abroad with a PC & fax/modem?

Recognize this problem?

TeleAdapt provides solutions which enables you to connect & communicate from **anywhere** in the world

Contact us now for more information!

USA Tel: 408-370-5105
Fax: 408-370-5110
CompuServe ID: 72623,706
UK Tel: +44 (0)81 421 4444

Computer Equipment

HEWLETT-PACKARD
Buy–Sell–Trade

LaserJet	ColorPro
DeskJet	Draft Pro
RuggedWriter	Draft/Master
Electrostatic Plotters	DesignJet

HP 9000 Workstations and Vectras also available.

Ted Dasher & Associates
4117 Second Ave., S. Birmingham, AL 35222
Phone: 205/591-4747 Fax: 205/591-1108
800/638-4833

Videos

TomKat PRODUCTIONS

The TEN COMMANDMENTS OF NETWORKING

Who do you know? Who knows you?
POWER NETWORKING secrets from the master, Sandy Vilas. ONLY $39.95 VISA & MasterCard Accepted

(800) 580-0857

Books

1995 CHINESE MANUFACTURERS GUIDE

List of Chinese manufacturers. 3 Vol., over 1000 pages, with name, address, etc. Cross-referenced. $195/set. Send check to:

C.B.S.
2665 Alder St.
Eugene OR 97405
1-800-875-3059/Fax 503/342-3676

Pets/Pet Supplies

TROPICAL & MARINE FISH
AQUATIC & MARINE PLANTS

COMPLETE PET SUPPLY CATALOG
BUY DIRECT FROM FISH FARM
SEND $1.00 TO PET XPRESS
DEPT B
10520 BRANCHTON CHURCH RD
THONOTOSASSA, FL 33592

Cable TV

CABLE TV ACCESSORIES

Save Money! Own Your Own Equipment
Lowest Prices On All Major Brand Names
30 Day Money Back Guarantee
Call for information
1-800/613-4554
E.T.I. International, Inc.

Education/Instruction

LEARN IN YOUR CAR® FOREIGN LANGUAGES

Only $15.95
Money Back Guarantee!
FAST • FUN • EFFECTIVE
Free Catalog
CALL 1-800/748-5804

SPEAK BETTER

Complete audio programs for
• VOICE IMPROVEMENT
• ACCENT REDUCTION
by David Alan Stern, PhD
$29.95 each
1-800-753-1016

University Degrees

Approved Self Paced Home Study
Associate Bachelors Masters Doctors
Business Admin, Public Admin, Health Care Admin, Human Resources, Finance, International Business, Tech Mgmt, Law, Paralegal, Psychology. Call for brochure (800)477-2254 (24 hrs)
Southern California University for Professional Studies
1840 E. 17 St-BW, Santa Ana, CA 92701

ASSOCIATE, BACHELOR'S, MASTER'S DEGREE for Academic, Military and Work Experience. Accredited. Send resumé for Free Evaluation. No class attendance.

ADAM SMITH UNIVERSITY
2200 Main St., Suite 500-BW
Wailuku, Hawaii 96793
1-800/732-3796

JAPANESE RUSSI
or any of 81 Languag
FREE CATALOG
Audio Language & Knowledge Instit
1202 Lexington Avenue Suite 272
New York, NY 10128
800 722 639
212 343 1203

No-Classroom College De

Earn your no-classroom, *fully-accredited deg* USNY/Regents College in Business, Liberal Nursing using Moore's successfully refined study

FOR FREE INFORMATION OR A TRANS EVALUATION, CALL OR WRITE TOD

Moore Educational PUBLISHERS
3202 Belmont Blvd
Nashville, TN, 37212-60
(615)383-5633 • FAX (61
1-800-737-222

EARN YOUR COLLEGE DEGREE AT

- B.S. & M.B.A. in Business
- B.S. in Environmental Studies
- M.S. in Management/ Environmental Studies
- Approved for tuition reimbursement by major companies.

CHADW UNIVER
ACCREDITED
World Association
and Col

For a free catalogue call 1-800-767-

• FREE VIDE

EXTERNAL DEGRE
BA/BS MS/MBA PhD/J
Credit for work./life exp. • Accre
(800) 444-8569 (24 hrs.
LASALLE UNIVERSIT
Dept. 569 Mandeville, LA 7047

Contact Lenses

CONTACTS AT LOWEST PRICES!

- Same Day Shipment Via Federal Express
- All Major Brands And Prescriptions
- All Lenses 100% Guaranteed

For a FREE Catalog Call
1·800·571·LENS
INTERNATIONAL ORDERS:
(305) 422-8181

LENS EXPRESS INC.

"I Don't Trust These Baby Blues To Just Anyone"

Doctor's Prescription Required

350 S.W. 12th Avenue Deerfield Beach, Flori

Computer Equipmen

CUSTOM COMPUTE SCREEN SAVERS

Turn your favorite photos into screen savers. Makes a great gift. For *only* $25.00.

Please specify for PC/
Computers

Send photos to:

ONTAR Corporation
9 Village Way North Andover, MA 01
TEL. 508-689-9622 FAX 508-681-45

MC/VISA Accepted

Investment Opportunities

INTERNATIONAL EQUITY PARTNER WANTED

A recently established and successful record label with a dynamic programme of classic, pop and folk music is seeking an international equity partner. Located in a southern German music metropolis, the company offers

- A diversified source of productions which have proven their attractiveness on the German market and could be distributed in other countries under the equity partner's label
- Entry to the German market for the equity partner's own productions.

Germany Fax: ++49 89 480 22 60

OR AD RATES AND INFORMATION
PHONE: (312) 337-3090
FAX: (312) 337-5633 OR WRITE:

BUSINESS WEEK MARKETPLACE

BUSINESS WEEK MARKET-PLACE
100 EAST OHIO STREET SUITE 632
CHICAGO, ILLINOIS 60611

Travel

TRAVEL NETWORK
EE AIRLINE TICKETS
ONCE - EARN TWICE! JOIN
VEL NETWORK'S FREQUENT
R PROGRAM / 300+ locations
$1 BILLION SALES
LL 1-800-222-2220

Financial Services

BUSINESS OWNERS
We will pay your bills by
gotiating with your creditors.
Save 40% to 80%
0-560-9955 (call 24hrs/7days)
We settle business disputes
OUT OF COURT
O RESULTS - NO COSTS
Free information

Business Services

ESEARCH REPORTS
850 academic topics available!
$2.00 for the 290-page catalog
stom-written reports available.
RESEARCH ASSISTANCE
11322 Idaho Ave., #206BF,
Los Angeles, CA 90025
ll Free Hotline: 800-351-0222
(or 310-477-8226)

Calendars/Planners

DAY-RUNNER
Calendars • Refills • Planners
1-800-322-3723
Office Warehouse, Inc.
Major Credit Cards Accepted

Business Opportunities

$10,000+ PER MONTH
Potential
Earnings Collecting
Judicial Judgments Locally.
Free Information 24 hours
Call 1-206/863-7827

Direct Marketing

TAKE A QUANTUM LEAP
INTO DATABASE MARKETING
Do you sell products or services
to businesses & institutions?
Put our expertise in custom
built databases for b-to-b
marketing to work for you!
For more details, call or fax:
INFORMATION PLUS
Ph: 716/852-2220 Fx: 716/842-6049

DVERTISE IN THE *BUSINESS WEEK* MARKETPLACE...
AND REACH 6.5 MILLION RESPONSIVE READERS!!

For rates and information mail or fax this coupon today!
The next MarketPlace section closes on December 16

ME: ______________________________

MPANY: ______________________________

DRESS: ______________________________

Y: ____________________ STATE: __________ ZIP: __________

ONE: ____________________ FAX: ____________________

l or fax to:

Business Week MarketPlace
500 North Michigan Avenue, Suite 2010
Chicago, IL 60611
Phone 312/337-3090 • Fax 312/337-5633

Holiday Gifts

Heavenly Gifts. Easily.

The world's finest spiral sliced, honey-spice glazed Ham, Turkey and other Heavenly Holiday gifts. Call your local store or 1-800-725-4267 ext. 315

HEAVENLY HAM®
"A taste that is out of this world."®

Corporate Gifts

YOUR LOGO HERE
IMPRINTED MUGS
AS LOW AS 99¢ EA
AS LOW AS $1.89 EA
IMPRINTED SOLAR CALCULATORS
AS LOW AS $3.59 EA
EMBROIDERED
CALL FOR FREE BROCHURE
LOGOGEAR USA
1-800-936-5646
FAX: (415) 579-5534

Investment Services

Growling bear eating your investments?

Protect yourself. Read the *Agressive Investor*

Three months	$ 55
One year	$ 195

The Agressive Investor
P.O. Box 4011
Cerritos, CA 90703-4011

Corporate Gifts

WHY PAY MORE???
FACTORY DIRECT!!!
Free Set-up, Die, Artwork, Shipping

Embroidered Caps as low as **$3.55**
Embroidered Jackets as low as **$26.50**
Embroidered Polo Shirts as low as **$13.90**
Patches 3" as low as **$ 0.37**
Lapel Pins 3/4" as low as **$ 0.55**
800/775-7722
for free catalog
Best Greetings, Inc.

Holiday Gifts

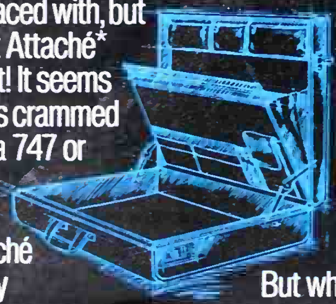
n.y. eats

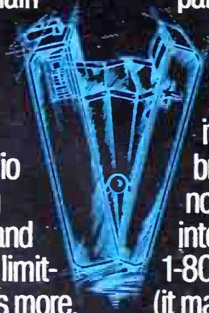
Food & Delicacies uniquely from the gourmet kitchens of New York - with tidbits from some on NY's finest: Balducci's, Carnegie Deli, Dean & Deluca, E.A.T., Sarabeth's, Zabar's, & NY's best restaurants.

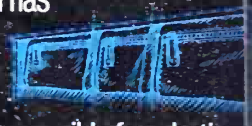
Kosher pickles or NY bagels *from*	$ 29.95
Breads of all nations	$ 39.95
Worldwide exotic cheeses	$ 49.95
Old world bakery cakes & pastries	$ 59.95
Cheesecake one dozen varieties	$ 69.95
Corned beef, pastrami & trimmings	$ 79.95
Smoked fish platter & garnish	$ 89.95
A taste of NY - sampler!	$ 99.95
Montauk lobster clam bake	$119.95
NY's finest prime steaks	$129.95

The perfect corporate, personal or family gift
overnite **800/964-2468** overnite

THE WORLD'S SMARTEST BRIEFCAS







You never know what kind of business situation you'll be faced with, but Samsonite's Smart Attaché* does. It's that smart! It seems to know whether it's crammed between seats on a 747 or sprawled out on a spacious desk top. And the Smart Attaché will not only identify your problems— it'll solve them, too. Thanks to a patented, gravity-activated "smart-hinge" that allows it to automatically function in a number of mind-boggling ways. When it's flat, it "knows" to open like a standard briefcase, revealing a sizeable main compartment for the bulk of your belongings.

But when it's upright, it intuitively opens as a portfolio —from the top. So you can retrieve tickets, itinerary and files even when space is limited or time is tight. What's more, it just looks "smart." Elegant stylin grain leather. Side-mount combinat locks. It even has ingenious interior compartments** that are accessible from both briefcase and portfolio positions And since it's a Samsonite® brief it's got the brawn to back up its brains, and protect your contents nobody's business. Call it applied a intelligence! Call it brilliant! Or call 1-800-262-8282 for more informati (it may be the smartest thing you ever

Samsonite®

Our Strengths Are Legendar

---

*U.S. Patent #4,714,286 and other patents pending

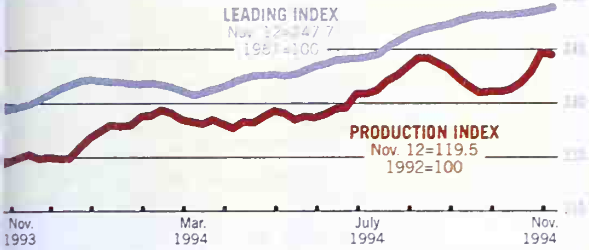
**Patent pending

[illegible]

ısiness Week Index

DUCTION AND LEADING INDEXES

ange from last week: –0.2%
ange from last year: 8.7%



ıdexes are 4-week moving averages

roduction index fell slightly during the week ended Nov. 12, as plant clos-r Veterans' Day cut output in some industries. Before calculation of the four-noving average, the index fell to 116.1, from 122.5.

eading index rose a bit during the same week. Fewer business failures and r growth rate of materials prices led the gain. Before calculation of the mov-erage, the index edged up to 248.9 from a revised 248.2.

uction index copyright 1994 by McGraw-Hill Inc. BW leading index copyright 1994 by CIBCR

DING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
K PRICES (11/18) S&P 500	464.34	464.17	0.0
ORATE BOND YIELD, Aaa (11/18)	8.70%	8.74%	25.4
STRIAL MATERIALS PRICES (11/18)	110.0	109.3	16.9
NESS FAILURES (11/11)	257	316	-7.6
ESTATE LOANS (11/9) billions	$449.6	$448.6	7.2
Y SUPPLY, M2 (11/7) billions	$3,550.2	$3,549.4r	0.8
AL CLAIMS, UNEMPLOYMENT (11/5) thous.	332	322	-7.3

es: Center for International Business Cycle Research (CIBCR), Standard & , Moody's, *Journal of Commerce* (index: 1980=100), Dun & Bradstreet (failures e companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ss failures and real estate loans.

EREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
RAL FUNDS (11/21)	5.49%	5.59%	2.98%
MERCIAL PAPER (11/21) 3-month	5.89	5.78	3.42
IFICATES OF DEPOSIT (11/22) 3-month	5.90	5.82	3.36
MORTGAGE (11/18) 30-year	9.33	9.31	7.21
STABLE MORTGAGE (11/18) one-year	6.33	6.24	4.26
E (11/22)	8.50	8.50	6.00

es: Federal Reserve, HSH Associates, Reuters Holdings

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (11/19) thous. of net tons	1,908	1,892#	5.8
AUTOS (11/19) units	139,107	144,347r#	1.7
TRUCKS (11/19) units	120,435	123,866r#	4.3
ELECTRIC POWER (11/19) millions of kilowatt-hrs.	56,067	56,204#	1.4
CRUDE-OIL REFINING (11/19) thous. of bbl./day	NA	14,891#	NA
COAL (11/12) thous. of net tons	20,419#	20,282	5.8
PAPERBOARD (11/12) thous. of tons	884.1#	897.9r	3.6
PAPER (11/12) thous. of tons	829.0#	841.0r	1.2
LUMBER (11/12) millions of ft.	500.7#	491.5	0.2
RAIL FREIGHT (11/12) billions of ton-miles	25.0#	25.2	4.6

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (11/22) $/troy oz.	383.800	386.250	2.0
STEEL SCRAP (11/21) #1 heavy, $/ton	138.50	138.50	0.7
COPPER (11/19) ¢/lb.	136.8	128.7	72.7
ALUMINUM (11/19) ¢/lb.	92.0	90.0	84.0
COTTON (11/19) strict low middling 1-1/16 in., ¢/lb.	72.16	70.84	28.7
OIL (11/21) $/bbl.	17.48	17.57	5.6

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (11/22)	98.04	98.41	108.60
GERMAN MARK (11/22)	1.55	1.55	1.71
BRITISH POUND (11/22)	1.57	1.57	1.49
FRENCH FRANC (11/22)	5.33	5.33	5.92
ITALIAN LIRA (11/22)	1604.7	1589.4	1698.3
CANADIAN DOLLAR (11/22)	1.37	1.36	1.33
MEXICAN PESO (11/22)[3]	3.444	3.451	3.113

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense ent. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

UMER CONFIDENCE

ay, Nov. 29, 10 a.m.▶ The Confer-Board's index of consumer confidence vember probably was little changed October's 87.6. That's the median st of economists surveyed by MMS ational, a unit of McGraw-Hill Inc.

S DOMESTIC PRODUCT

esday, Nov. 30, 8:30 a.m.▶ According MMS survey, the Commerce Dept.'s evision to the GDP data will show that onomy grew at an annual rate of 3.5% third quarter, not much different than 4% initially reported. Inventory growth ss than first thought, but final de-was higher. Aftertax corporate profits probably increased 6% in the third quarter from a year ago.

PERSONAL INCOME

Thursday, Dec. 1, 8:30 a.m.▶ Personal income likely grew by a large 0.9% in October, after a 0.6% gain in September. That's suggested by the jump in weekly pay and jobs last month. Consumer spending probably looked stronger in October, with a 0.6% advance, after a 0.2% rise during September.

CONSTRUCTION SPENDING

Thursday, Dec. 1, 10 a.m.▶ Construction outlays likely rose 0.3% in October, on top of a 1.6% jump in September.

NAPM SURVEY

Thursday, Dec. 1, 10 a.m.▶ The National Association of Purchasing Management's business index probably fell to 59% in November from 59.7% in October.

LEADING INDICATORS

Friday, Dec. 2, 8:30 a.m.▶ The October index of leading indicators probably edged up just 0.1% after no change in September.

EMPLOYMENT

Friday, Dec. 2, 8:30 a.m.▶ The MMS economists forecast that nonfarm payrolls rose by 225,000 in November after rising 194,000 in October. The November jobless rate likely remained at a tight 5.8%.

Whaddya Say To A Guy Who's Had The Same Job For 50 Years, Has Never Called In Sick Or Showed Up Late, Never Taken A Vacation Or A Holiday, Never Asked For A Raise Or Griped About His Bonus And, Believe It Or Not, Has No Plans For Retirement?

Thanks.

Remember - only you can prevent forest fires.

A Public Service of the USDA Forest Service and Your State Forester.

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Air France **115**
AirTouch **104**
Alitalia **115**
Allstate Insurance **84**
Alpargatas **52**
Alumax **84**
American Airlines **40**
American Express **46, 115**
American Residential Mortgage **82**
Amgen **40, 92**
Annex Research **100**
Apex Bioscience **108**
Apple Computer **15, 107**
AT&T **24, 100, 104, 105**
Autolatina **52**

B

Baby Superstores **90**
Banc One **86**
Bankers Trust **26, 46**
Bank of America **82**
Bank One **114**
Bausch & Lomb **94**
Bear Stearns **68**
Behind the Numbers **68**
Bell Atlantic **44, 100, 104**
Biowhittaker **84**
BMW **64**
Boeing **107**
Borders, Perrin & Norrander **111**
Bozell **81**
Brahma **52**
Bridas **90**
British Airways **115**
British Sky Broadcasting **90**
British Telecom **24**

C

Cable & Wireless **104, 105**
Caremark **84**
Castle Rock Entertainment **44**
Caterpillar **64**
CCC Information Services **70**
Celestial Seasonings **70**
Celtrix Pharmaceuticals **92**
Chase Manhattan **82, 100**
Chemical Bank **82**
Chiron **92**
Chrysler **34, 40, 64, 70, 81, 94**
Ciba-Geigy **92, 108**
CIT Group **12**
Citibank **26**
C.L. King **92**
Coast Distribution System **92**
Coca-Cola **44, 52, 94**
Columbia Pictures **44**
Columbia Sportswear **111**
Columbia/HCA **70**
Compton's NewMedia **6**
Conseco **46**
Coopers & Lybrand **100**
Cortex Pharmaceuticals **107**
Countrywide **85**
CS First Boston **42**

D

Dana **40**
D&F Group **94**
Datasonix **15**
Deere **64**
Deloitte & Touche **109**
Delta Air Lines **42**
Dun & Bradstreet **26**

E

Eastman Kodak **122**
Embotelladora Andina **52**
Ernst & Young **112**
Ethicon Endo Surgery **69**

F

Fiat **52**
Fidelity Investments **90**
Fingerhut **46**
Fisher Brothers **6**
Fleet Financial Group **82**
Ford **40, 52, 64, 70**
Fox **44**
Furman Selz **42**

G

Galen Health Care **84**
Gap **70**
Gardner-Denver **84**
GE **46**
GE Capital **70**
Genzyme **92**
Giordano **56**
Glycomed **92**
GM **52, 64, 70, 122**
Goldman Sachs **6, 34, 40**
Grant & Thornton **112**
Green Cross **92**
GTE **104**
Guilford Pharmaceuticals **108**

H

Harris Associates **84**
Hayes Microcomputer Products **46**
Hewlett-Packard **52**
H.F. Ahmanson **85**
Hoechst **108**
Home Depot **26**
Honda **70, 81**
HSH Associates **31**

I

IBM **94, 100**
International Traders **115**
Isuzu **81**

J

Johnson & Johnson **68, 69**

K

Kemper **46**
Kennedy Publications **115**
KLM **115**
Kmart **90**
KPMG Peat Marwick **112**

L

LaSalle National Bank **40**
Lehman Brothers **84, 112**
Los Angeles Clippers **94**

M

Matsushita **44**
Mazda **70**
MCA **41, 44**
McCaw Cellular Communications **24, 104**
McDonald's **46, 94**
McGraw-Hill **119**
MCI **100, 104, 105**
McKinley Capital Partners **90**
McKinsey **6, 100**
Mercedes-Benz **64**
Merck **108**
Mercury One-2-One **104**
Merrill Lynch **90, 104, 114**
Microsoft **15, 100**
MMS International **119**
Montgomery Securities **105**
Morgan Stanley **86, 90, 108**
Mount Vernon Mills **12**

N

National Gypsum **40**
NatWest Securities **42**
NBA **94**
Network Peripherals **90**
New Line Cinema **44**
News Corp. **46**
Next Media Group **56**
Nike **52, 94, 111**
Nissan **64**
NitroMed **108**
North American Wireless **105**
Northern Business Information **104**
Northern Telecom **104**
North Face **111**
Northrop **107**
Northwest Airlines **40**
Norwest **82**
Novell **46**
Nynex **44, 104**

O

Overton Bank & Trust **114**

P

Pacific Telesis Group **44**
PaineWebber **70**
Paramount Communications **44**
Patagonia **111**
Paul Kagan Associates **104**
Piper Jaffray **69**
Portland Trail Blazers **94**
PRC Aviation **46**
Procter & Gamble **40, 46**
Prodigy **100**

R

Rank Organization **41**
REIS Reports **26**
Renaissance Capita
Research Industrie
Rio de Janeiro Refrescos **52**
Royal Jordanian Airlines **115**

S

Saban Entertainme
Salomon Brothers
Sanford C. Bernste **85**
Sankyo **92**
SBC Communications
Sears **84, 100, 107**
Sevel **52**
SGS-Thomson **90**
Shared Services **69**
Shiva **90**
Smith Barney **42,**
Smith New Court Fa East **56**
Sony **44**
Southwest Airlines
Southwestern Bell
Spacelabs Medical
Sprint **104**
Standard & Poor's **82, 84**
Sterling Vision Shoppes **64**
Storage Technology
Synergen **40, 92**

T

Tecnol **68**
Tele-Communications **8 100**
Texas Instruments **3**
Time Warner **100, 1**
Toyota **70, 81**
Toys 'R' Us **26, 46**
Transamerica **44**
Turner Broadcasting

U

UBS Securities **41**
United Airlines **42**
Universal Studios **4**
Urbach, Kahn & Werlin **112**
USAir **46**
U.S. Surgical **68, 69**
US West **104**

V

Viacom **44**
Visa **100**
Volkswagen **52**
Volvo **70**

W

Wal-Mart Stores **26**
Walt Disney **41, 92**
Wardley Corporate Finance **56**
Wasserstein Perella
Wellcome **108**
Whirlpool **40**

X

Xoma **92**

Y

Yankee Group **104, 1**

Z

Zacks Investment Research **85**

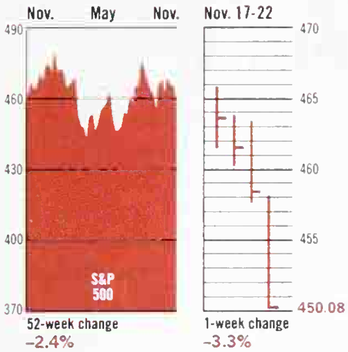
Business Week (ISSN 0007-7135) published weekly, except for one issue in January, by McGraw-Hill Inc. Executive, Editorial, Circulation
Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate $46.95/year; Canada: CDN $69/year. Se
class postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications
Product Sales Agreement No. 246484. Postmaster: Send address changes to BUSINESS WEEK. P.O. Box 430, Hightstown, N.J. 08

nvestment Figures of the Week

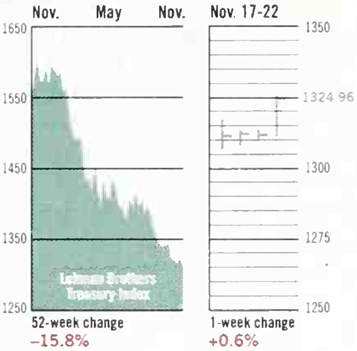
ENTARY

g into the Thanksgiving holi- e stock market investors were l mood. In just four days, the nes industrials plunged 167 or 4.3%. Half the loss came inal hour of trading on Nov. damage in the broad market quite as bad—the Russell dex lost 3.4%. Don't blame it on the bond market, which ed fairly calm all week. Pun- med the sell-off on every- om computer-driven trading es that the GATT trade pact ail to win Senate approval.

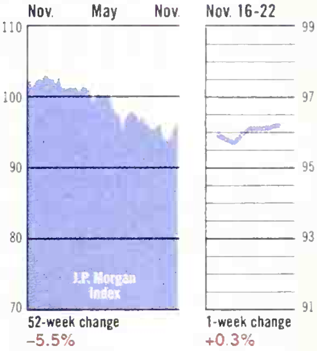
STOCKS



BONDS



THE DOLLAR



RKET ANALYSIS

TOCKS	Latest	% change Week	 52-week
NES INDUSTRIALS	3678.0	-4.3	0.1
E COMPANIES (S&P MidCap Index)	166.1	-4.0	-2.8
COMPANIES (Russell 2000)	242.3	-3.3	-2.4
MPANIES (Russell 3000)	257.8	-3.4	-2.5

GN STOCKS	Latest	% change (local currency) Week	 52-week
(FINANCIAL TIMES 100)	3078.7	-2.2	0.3
NIKKEI INDEX)	18,963.0	-1.8	9.1
D (TSE COMPOSITE)	4058.2	-2.7	-3.7

FUNDAMENTALS	Latest	Week Ago	Year ago
90-DAY TREASURY BILL YIELD	5.43%	5.51%	3.19%
30-YEAR TREASURY BOND YIELD	8.04%	8.09%	6.31%
S&P 500 DIVIDEND YIELD	2.85%	2.74%	2.74%
S&P 500 PRICE/EARNINGS RATIO	16.5	17.3	22.5

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	459.4	459.8	Negative
Stocks above 200-day moving average	27.0%	32.0%	Positive
Speculative sentiment: Put/call ratio	0.80	0.73 r	Positive
Insider sentiment: Vickers sell/buy ratio	1.29	1.42	Positive

BLOOMBERG FINANCIAL MARKETS

USTRY GROUPS

WEEK LEADERS	% change 4-week	 52-week	Strongest stock in group	% change 4-week	 52-week	Price
CIALTY APPAREL RETAILERS	9.4	-15.1	THE LIMITED	15.8	-7.7	21 1/8
ICONDUCTORS	8.2	21.6	NATIONAL SEMICONDUCTOR	23.1	19.2	18 5/8
D WHOLESALERS	7.7	5.4	SYSCO	8.2	-8.2	26 1/2
SEWARES	6.4	-1.7	PREMARK INTERNATIONAL	13.6	19.5	47 1/8
T DRINKS	6.4	12.7	PEPSICO	8.5	-8.7	36 7/8

WEEK LAGGARDS	% change 4-week	 52-week	Weakest stock in group	% change 4-week	 52-week	Price
D MINING	-14.2	-18.2	ECHO BAY MINES	-17.5	-15.8	10 5/8
NGS AND LOANS	-12.7	-8.9	H.F. AHMANSON	-16.6	-8.4	16 3/8
ALS	-11.4	19.3	ASARCO	-17.8	35.6	27 1/8
L	-11.3	2.3	INLAND STEEL INDUSTRIES	-15.9	-11.3	30 1/2
ER CONTAINERS	-10.7	3.9	STONE CONTAINER	-24.7	45.2	15 1/4

TUAL FUNDS

MORNINGSTAR INC

RS

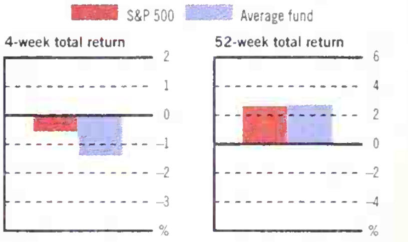
eek total return	%
ETT SMALLER COMPANIES	6.5
G EMERGING GROWTH	5.5
ANCE TECHNOLOGY A	5.3

k total return	%
GMAN COMMUNICATIONS & INFORM. A	51.2
ANCE TECHNOLOGY A	33.5
ETT SMALLER COMPANIES	31.9

LAGGARDS

Four-week total return	%
RYDEX PRECIOUS METALS	-13.2
MONITREND GOLD	-13.1
MFS GOLD & NATURAL RESOURCES B	-12.8

52-week total return	%
MONITREND GOLD	-51.6
STEADMAN AMERICAN INDUSTRY	-31.3
AMERICAN HERITAGE	-31.0



LATIVE PORTFOLIOS

DRI/McGRAW-HILL

amounts represent the t value of $10,000 d one year ago n portfolio

ntages indicate y total returns

Foreign stocks	Money market fund	U.S. stocks	Gold	Treasury bonds
$11,693	$10,353	$10,195	$10,187	$8,883
-0.39%	-0.90%	-1.66%	-0.44%	-0.62%

on this page are as of market close Tuesday, Nov. 22, 1994, unless otherwise indi- ndustry groups include S&P 500 companies only; performance and share prices are as of market close Nov. 21. Mutual fund returns are as of Nov. 18. Relative portfolios are valued as of Nov. 21. A more detailed explanation of this page is available on request. r=revised

HOW TO CONQUER FEAR OF GATT

Support for free trade is eroding in America. It is no longer just traditional protectionists who are battling competition, trying to save union jobs or the textile industry. The problem also goes beyond political isolationists, who worry about the loss of national sovereignty to multilateral institutions such as the U. N. or the proposed World Trade Organization. At a time when the trade gap is widening and legislation for the General Agreement on Tariffs & Trade is under siege in Congress, something deeper and much more dangerous is at work.

The middle class is beginning to turn protectionist. The new opponents to free trade are to be found among the 62% of white men who voted Republican this year. For the first time in recent memory, blue-collar workers are being joined by hordes of white-collar employees being downsized out of their jobs, often in the name of global competition. Together, they form a growing portion of the vast middle class of America that is questioning the value of free trade to themselves and their families. Ross Perot first expressed their doubt in his opposition to the North American Free Trade Agreement in 1992, and he and many younger "America First" Republican politicians just elected to Congress are doing it again on GATT.

Asian mercantilism is part of the problem. The free-trade principles of multilateral pacts such as GATT have not been able to protect working Americans from the trading practices of Japan. Unlike U. S. trade with Europe, Canada, and Latin America, which ebbs and flows relatively freely, the trade deficit with Japan is impervious to fluctuations in currency, productivity, innovation, or business cycles. Japan's ability to flout the meaning, if not the letter, of GATT through nontariff barriers has done serious damage to the support for free trade in America. The spread of the mercantilist model to other parts of Asia and the growth of a second huge, ch ic deficit with China, almost half the size of the deficit wit pan, are making matters worse.

Proponents of free trade, for their part, have been too f in dismissing the worries of trade's victims. While the frui free trade—bigger markets, faster growth, higher earnin are evident to some, they are murkier to millions of ot who have lost jobs to the new globalism. World trade will g at an astonishing 8% this year, yet to a growing numbe Americans, the rewards appear to be distributed unfairly

The alleviation of this new middle-class economic a lies not in a replay of Smoot-Hawley Act protectionism. T can be no hiding from the global marketplace. But th should be no retreat from reality, either. There are th broad policies that can help.

First, individuals and families need to retain more incom cope with global dislocation. That means lower taxes. R now, Washington spends billions on poorly designed retrain programs, money that should be returned to the people.

Second, a level playing field in the global economy mus established that promotes U. S. exports. Passing GATT expanding NAFTA can help with countries that adhere to f market principles. But for the mercantilists, a more di quid pro quo approach on market openness is necessary.

Third, corporations should spend more on training th workforces to increase their skills and value in the globa bor market. The earnings corporations are generating f the expanding international economy are directly threate by growing middle-class disenchantment with free trade. gain as well as the pain from global growth has to be sha or the people and the politicians will take it away.

LET THE LATIN MARKET FLOURISH

Remember Europe '92, the drive to take down barriers to trade and investment by 1992? Well, quietly and without much fanfare, Latin America is embarking on a similar mission. As Washington dithers about expanding NAFTA southward, Latin nations are going about their business creating a variety of free-trade zones. Washington politicians may not believe in the value of open markets—witness Congress' pressure on President Clinton to give up authority to "fast-track" trade deals—but U. S. corporations do. A growing number of them are joining newly privatized brethren in Chile, Argentina, and Brazil in establishing one of the world's largest markets.

While George Bush once envisioned a free-trade zone "from Alaska to Tierra del Fuego," America's new reticence is pushing Latins to create their own free economic spaces from Santiago to Rio. The biggest is the Mercado Común del Sur, or Mercosur, a four-nation pact that includes Argentina, Brazil, Uruguay, and Paraguay and covers a population of nearly 300 million. But there is also the Caricom in the Caribbean an network of bilateral trade agreements among Mexico, Ch Venezuela, Colombia, and the trade blocs themselves (page

As in Europe, U. S. multinationals are beginning to set their operations to take advantage of each country's strengt expecting to trade freely within the bloc. Both Eastman dak Co. and General Motors Corp. are shifting strategies take advantage of Mercosur's diversity.

When the leaders of 34 countries in the hemisphere mee Miami for the Dec. 9-11 Summit of the Americas, they will gathering at a time when Latin America is "hot" again on t world economic stage. In the past two years, Latin Amer exports have nearly matched the 8¼% annual real grow rate of Asia's newly industrializing countries (NICs). Their i ports, at 13% per year, have actually outpaced the NICs Asia. If Washington politicians choose to turn a blind eye these enormous developments, Corporate America should n

AMERICA'S UMBRELLA®

When you choose a Managed Care and Employee Benefits program it affects more than your company's bottom line. It affects the lives of your employees and their families. Which is why The Travelers is committed to providing both savings and quality for the people you trust and the people they love.

We offer your employees the caring and expertise of over 100,000 health professionals in more than 130 major metropolitan areas, as well as a nationally recognized wellness and counseling program that is preventing illness through innovation.

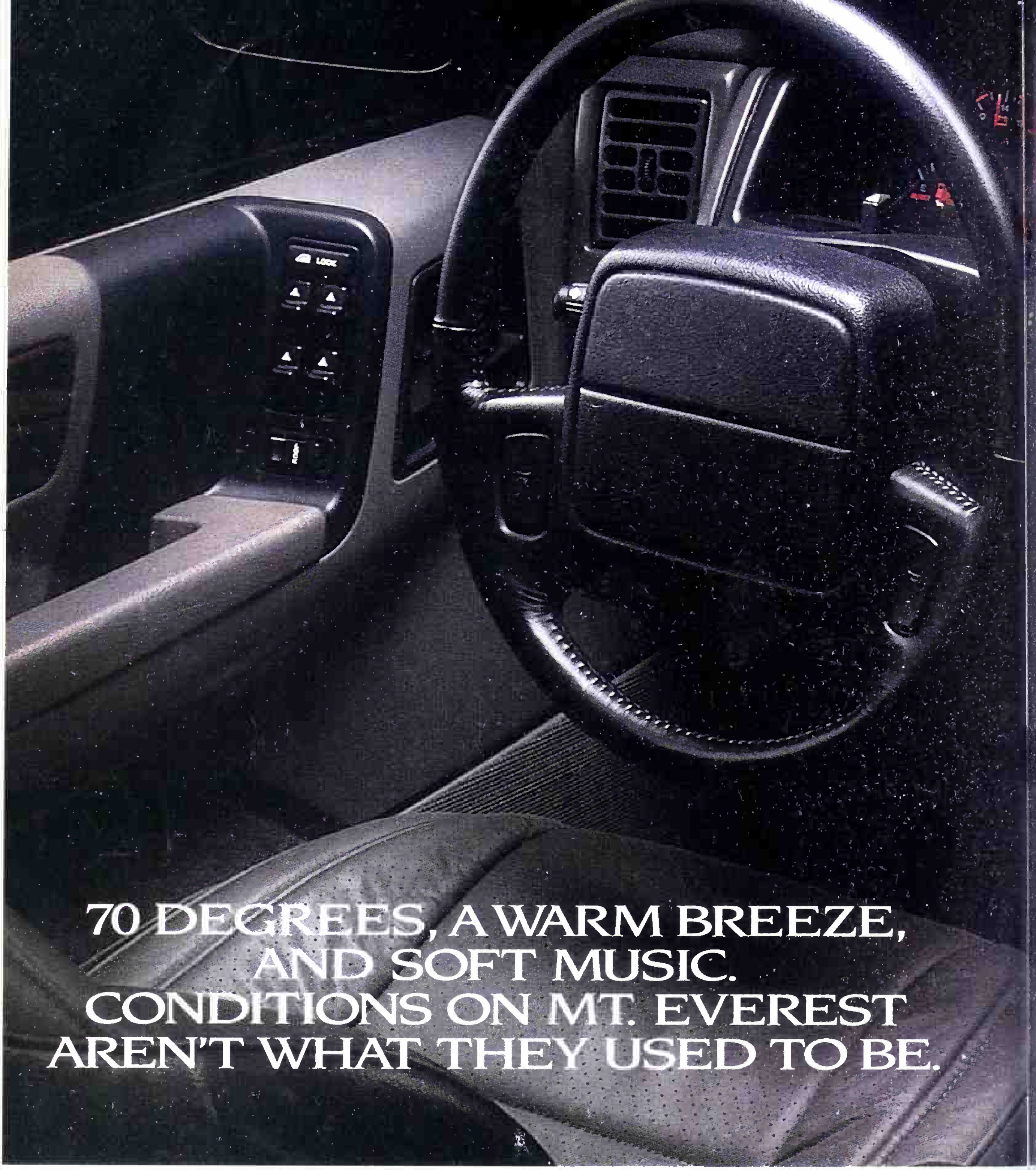
And our Managed Care System can be customized to provide your company with the flexibility to make the most of your benefit dollars. In fact, we've actually reduced the rise in health care costs for our customers by over 30%.

With one of America's largest managed care networks, we understand the importance of taking care of one another.

But most importantly, under America's umbrella there is a program that recognizes one truth for employer and employee alike – the greatest wealth of all has little to do with money.

4 The Travelers Insurance Company and its Affiliates, Hartford, CT 06183

TravelersInsurance
A Member of *TravelersGroup*


LOCK
70 DEGREES, A WARM BREEZE,
AND SOFT MUSIC.
CONDITIONS ON MT. EVEREST
AREN'T WHAT THEY USED TO BE.

Presenting a vehicle engineered to bring a
level of luxury and sophistication to some of the w
most remote locations: Jeep Grand Cherokee Limit
Inside, you'll enjoy such amenities as an
system that surrounds you with eight premium spe
and 120 watts of symphonic sound.
The luxurious comfort you'll feel isn't just the

Always wear your seat belt. Jeep is a registered trademark of Chrysler Corporation.

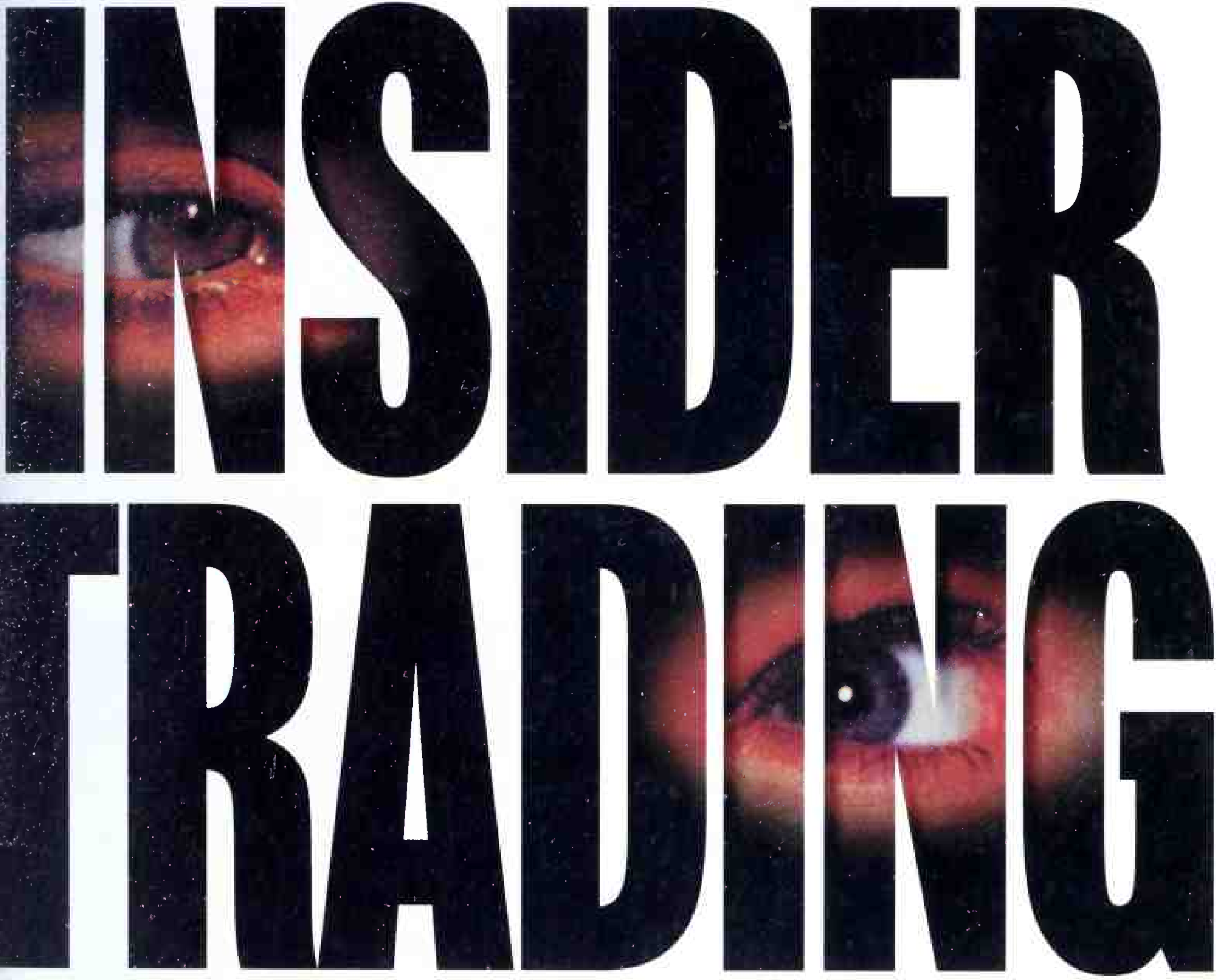
NA BEHIND THE EXPORT BOOM **TAXES** DOES THE GOP'S MATH ADD UP? **HOLLYWOOD** RESTRUCTURING: TAKE TWO!

SS WEEK
ecember 12.

usinessWeek

BER 12, 1994 A McGRAW-HILL PUBLICATION $2.95

BURLINGAME PUBLIC LIBRARY
3 9042 03747984 4



INSIDER TRADING

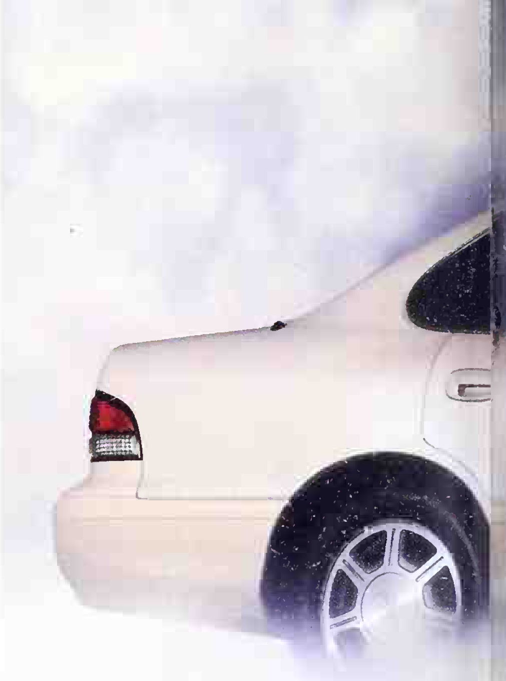
It's back, but with a new cast of characters

PAGE 70

BURLINGAME CA
480 PRIMROSE RD
BURLINGAME PUBLIC LIBRARY
0602 10581160 DEC94 102 0513
94010-4010
94010 ***********5-DIGIT

BURLINGAME
DEC 2 - 1994
LIBRARY

Avalon's bench seat features a retractable armrest for more personal driving comfort.

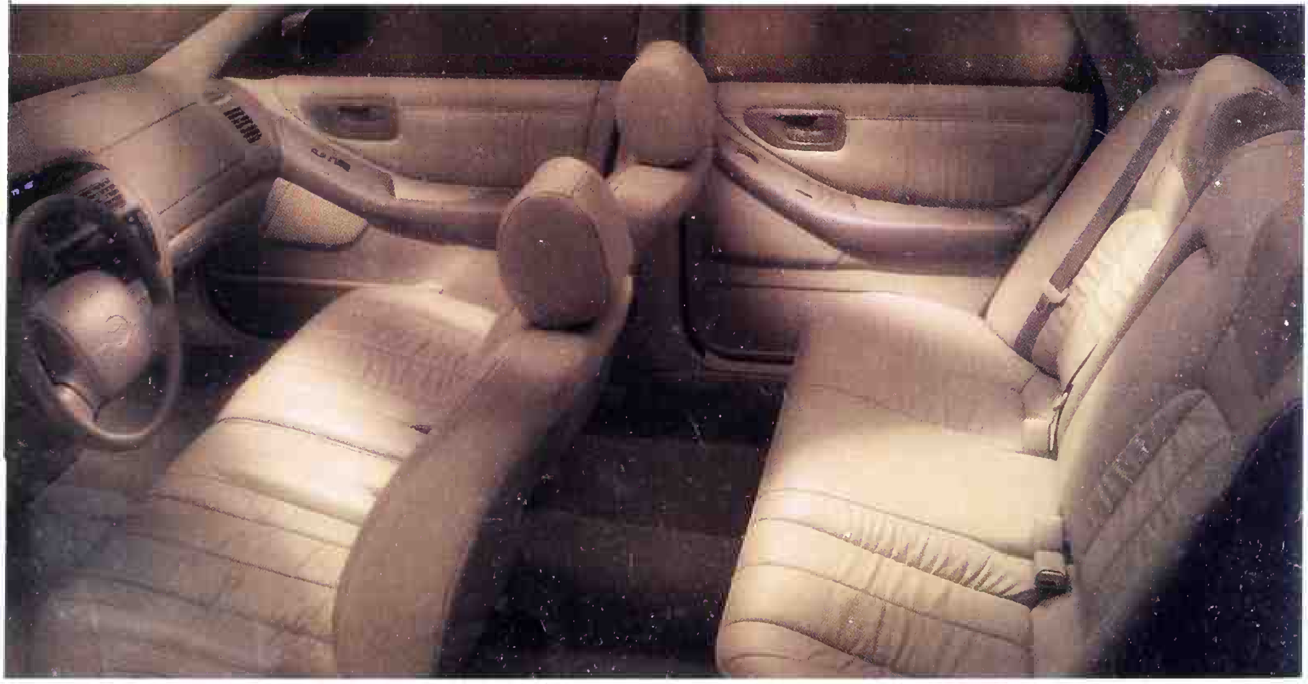


It is a world of superior COMFORT, room and refined driving performance.

It has an expansive WHISPER-QUIET interior that offers a SERENE feeling unlike anything else. It has a MUSCULAR 192-horsepower V6 engine and a

Introducing AVALON

It is an experienc



You have a choice of plush bucket seats or a spacious bench (shown) that allows Avalon to accommodate six passengers.

©1994 Toyota Motor Sales, U.S.A., Inc. Buckle Up! Do it for those who love you. *Starting MSRP without freight for Avalon XL. Avalon XLS with optional equipment shown. Actual dealer prices may vary.

ove ALL ELSE.

ISTICATED suspension system
that sets new standards of driving
EXCELLENCE. It is the highest level
of Toyota CRAFTSMANSHIP,
UALITY and technology.
it is built exclusively in America.
is AVALON...the new FLAGSHIP from Toyota...starting at only $22,758.*
Experience the TRANQUILITY. Call 1-800-GO-TOYOTA for a BROCHURE
and location of your NEAREST DEALER.

TOYOTA AVALON
I Love What You Do For Me

inted glass and
s make Avalon
e car and more
ing for the eye.

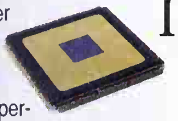
A liquid-filled engine mount
makes a quiet, all-aluminum
engine even quieter.

Power Macintosh

Steve Archuleta
Director, Systems for Mass Markets Service Delivery
U S WEST, Phoenix

During the week, Steve manages the systems and processes that support 11 million customers in 14 western states. On weekends, he dotes on his granddaughter, rushes the net on the tennis court and, "when I'm feeling daring," scales the face at local rock climbing havens.

here's leading edge. And bleeding edge. And you
have to walk the line to stay competitive.
That's why we use Power Macintosh. It's a
SC PC, so it's leading the way. But it's
so a Mac that can run Windows and
OS, so it's compatible with everything
e're doing now. That makes Power Macintosh a
very safe choice. Which is good for a guy
like me. I take my risks on the weekend."



SC-based PowerPC™
rocessor at the heart
y Power
osh
desktop
ting to
vels of per-
ce and compatibility.
e name of your nearest
zed Apple reseller, call
2-3131, ext. 750, today.

"In some cases, we used to have three different PCs on one desk–an absolute monument to systems failure. So that's where we put the Power Macintosh first. Now there's one PC per desk, the Power Macintosh. One happy user per desk, too."

OS
For Windows

Macintosh™ fits right in
WEST, where people
any different types of
nd 30 or so custom
nd Windows programs.
Macintosh helps our
collaborate, no matter
nd of PC they use."

Power Macintosh™ The business Macintosh.

Apple

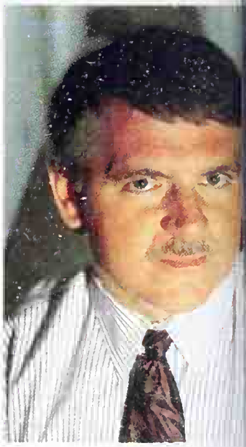
indows™ from Insignia Solutions Inc. lets you run MS-DOS and Windows 3.1 on a Power Macintosh. ©1994 Apple Computer, Inc. All rights reserved. Apple, the Apple logo and Macintosh are registered trademarks of Apple Computer, Inc. Mac, the Mac OS logo and Power Macintosh
rks of Apple Computer, Inc. PowerPC and the PowerPC logo are trademarks of International Business Machines Corporation, used under license therefrom. MS-DOS is a registered trademark and Windows is a trademark of Microsoft Corporation. SoftWindows is a trademark used
e by Insignia from Microsoft Corporation

BusinessWeek
DECEMBER 12, 1994

COVER STO

INSIDER TRAD

Greed is still wh
motivates inside
trading, but the
has shifted from
Street to Main S
BUSINESS WEEK pr
this new world o
whispers, tips—
cops like William
McLucas page 70



Cover Story

70 INSIDER TRADING
Better policing and stiffer sanctions haven't deterred culprits ranging from CEOs to car-pool cronies: A BUSINESS WEEK probe reveals suspicious runups preceded 34 of 1994's 100 largest merger deals. Who loses? The honest investor

82 COMMENTARY
Insider trading: There oughta be a law—instead of a bunch of vague, cobweb-covered rulings

News: Analysis & Commentary

36 THE NEW HOLLYWOOD
Katzenberg & Co.'s deal with Cap Cities shows how a vast scramble for showbiz riches is reshaping the industry

39 PRIVATIZING EVERYTHING
As the mania for smaller government grows, more services at the state and federal levels are on the block

40 A TALE OF TWO BUDGETS
A congressional fight is brewing over the cost of tax cuts in the GOP's Contract With America

41 RUDDERLESS AT THE NAACP
Its financial crisis is easing up as more contributions come in—but the organization sorely needs direction

42 SORRY, WE DON'T TAKE CASH
The credit-card business is booming—at supermarkets, cinemas, and dentists' offices—as consumers snap up rebates

43 A RETAIL REVERSAL OF FORTUNE
After years of explosive growth by off-pricers, department stores and outlets are winning back customers

43 CRATE & APPLE BARREL
The small housewares chain draws raves elsewhere—but can it cut the mustard in Manhattan?

44 ENTERPRISE: BIGGER THAN HERTZ?
Whatever the car renter's true ranking, it has made its mark in the low-budget insurance-replacement market

48 STORM WARNING
Farmers' almanacs predict snow, snow, snow—and spur a blizzard of sales

50 IN BUSINESS THIS WEEK
The Democrats fire back, sugar prices, bank bonus, Union Pacific-Santa Fe, Infobahn shootout, GE, Citibank on line

International Business

S6 CHINA
Soaring Chinese exports will wi
U.S. deficit by $30 billion

57 CHINA
And you thought Japanese trade
barriers were bad

S8 SOUTH KOREA
Carmaker Kia launches a global

60 TRADE FINANCE
Why tiny OPIC is such a big deal

63 INTERNATIONAL OUTLOOK
Mexico: Is Zedillo strong enough

Economic Analysis

26 ECONOMIC VIEWPOINT
Dornbusch: The folly of Newtno

30 ECONOMIC TRENDS
Shrinking workforce, a Midwest
taxes on the rich, spiced-up Indo

33 BUSINESS OUTLOOK
At this rate, Santa's elves will be
working overtime

100 FEAR NOT COMMODITIES PRICES
Some materials costs are sowing
terror that's probably unfounded

COVER AND ABOVE ILLUSTRATIONS BY RICO LINS STUDIO, PHOTOGRAPH ABOVE BY KATHERINE LAMBERT

DEC'S EVOLUTION
The PC business isn't an afterthought anymore. In fact, under Bernard Auer's guidance, it may pull Digital out of a five-year funk page 106

HOLLYWHOOSH
In Tinseltown, swift changes and great expectations page 36

DEJA VOODOO?
The GOP wants budget forecasts to show tax cuts paying for themselves page 40

HE GIFTS THAT FIT
tocking-stuffer stocks to CD-ROMS, it's the
al Business guide to giving page 112

TIDAL WAVE
A flood of Chinese exports rouses anger in the U.S. page 56

ernment

INGTON OUTLOOK
mber Clinton's industrial policy?
now forget it

RNATIVE MEDICINE OR HOKUM?
IH's Office of Alternative Medicine
otes crackpot ideas, critics charge

Corporation

FRONT IN THE COLA WARS
private-label blitz has Coke
epsi on the counterattack

RE BOSSES OF AMERICA
list of 250 likely CEOs-to-be is
isingly diverse

keting

BALANCE: ALL-AMERICAN?
TC contends that the running
aren't really "Made in the USA"

rts Business

OCH, SULTAN OF SWEAT
ggressively buying rights
rting events around the world
d his hungry TV networks

Legal Affairs

92 **DEVAL PATRICK'S PAINFUL EDUCATION**
At his post barely eight months, the Justice Dept.'s civil-rights chief is drawing heavy fire from the Right

95 **COMMENTARY**
GM pickups: The issue is safety, not regulation

Environment

102 **RED FLAG FOR GREEN LAWS?**
The Republicans' planned assault on environmental rules will be a thorough procedural overhaul, not a direct attack

Information Processing

22 **TECHNOLOGY & YOU**
Home PCs: How much computer can you get for $2,000 and $3,000?

106 **DEC STEPS UP TO THE PC PLATE**
After years of false starts, the minicomputer maker has hot products and a savvy game plan

107 **MFS: PHONE JACK-OF-ALL-TRADES?**
The tiny "bypass" phone company wants to take on telecom's giants

Personal Business

112 **CD-ROMs:** Software to tickle the tykes
CAMERAS: Finding the perfect model
INVESTING: Stocks for the holidays

Features

6 **UP FRONT**

10 **READERS REPORT**

15 **BOOKS**
The best business books of 1994: Succinct, well-written—even dramatic

84 **INSIDE WALL STREET**
Where casinos place their bets
Time Warner may cut its cable
Ready to go from mousy to blonde?

105 **DEVELOPMENTS TO WATCH**
Detecting prostate cancer, flypower vs. fire ants, new surgery for blindness, light waves that allow for denser data

123 **BUSINESS WEEK INDEX**

124 **INDEX TO COMPANIES**

125 **FINANCIAL FIGURES OF THE WEEK**

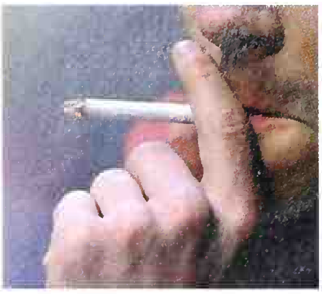
126 **EDITORIALS**
Is "dynamic scoring" just Voodoo II?
Wanted: Clearer laws on insider trading

Up Front

EDITED BY LARRY LIGHT & JULIE TILSNER

TALK SHOW “I don't believe there are any questions left.
there are, then people haven't been listening.”

—U.S. Trade Representative Mickey Kantor, right before GATT was voted on by Congress



LEGAL HAZE: *A risk for RJR*

TOBACCO ROAD

A SAFER CIG–OR RJR'S ALBATROSS?

THE LOW-SMOKE CIGARETTE from R.J. Reynolds Tobacco is firing up antismoking advocates. Called Eclipse, the new product has the benefit of very little second-hand smoke, so those long car journeys with a smoker will be more pleasant for nonpuffers. Reynolds says Eclipse, still under development, also has less tar and nicotine than most cigarettes. But to attorneys bringing liability claims against Reynolds, the company is in effect admitting that its current smokes aren't safe. If cigarettes ain't broke, the lawyers say, why fix them with Eclipse?

The day after news reports of the cigarette broke, lawyers at Indianapolis-based Young & Riley demanded that Reynolds produce “all documents that refer to or describe the Eclipse cigarette.” The lawyers represent the estate of a nonsmoking nurse who allegedly died from lung cancer by inhaling second-hand smoke.

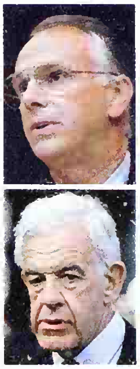
Reynolds, rejecting the lawyers' arguments, contends that it isn't asserting Eclipse is safer than other cigarettes. One legal plus for Reynolds: Product-liability law generally prevents a manufacturer's efforts to make new-and-improved products from being used as evidence against it. *Maria Mallory*

CAPITOL HILL

INVASION OF THE BUSINESSPOLS

TOO MANY LAWYERS MAKING laws? That longstanding complaint against Capitol Hill has been remedied, at least in the House. For the first time in decades, businesspeople will outnumber lawyers there. When the new Congress convenes in January, there will be 191 with business, banking, or real estate listed as their calling, compared to 170 attorneys. That's because the new crop of GOP-dominated House freshmen is top-heavy with business types: 64, in fact, with only 28 attorneys.

The shift could have major policy implications on issues ranging from business tax breaks to tort reform. “It's great that we'll have so many people who have signed the front side of a paycheck,” says Republican National Committee Chairman Haley Barbour.



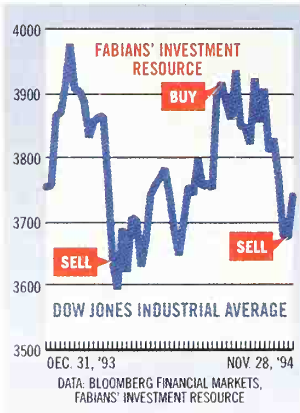
IN AND OUT: *Chrysler, Foley*

Among the prominent lawyer-losers in November House races are Speaker Thomas Foley (D-Wash.) and Judiciary Committee Chairman Jack Brooks (D-Tex.). T
newest busine
people-turned-pols
clude Dick Chrys
(R-Mich.), the owne
an auto-accessory c
pany; Wes Cooley
Ore.), the co-owne
a nutritional-supp
ment distributor;
Zach Wamp (R-Ten
a real estate brok
While Republica
took back the Sena
as well, they didn't
the chamber's lawy
ly majority. Fifty-f
senators hold law
grees, exactly twice the nu
ber of biz folk. Seven of
11 Senate GOP freshmen
lawyers. *Richard S. Dunh*

PAPER PLAYS

THEY SAY TIMING IS EVERYTHING...

JUST ASK THE 35,000 READERS of *Fabians' Investment Resource* about the vexing 1994 stock market. The well-known father-and-son newsletter out of Huntington Beach, Calif., which sells for $179 a year, specializes in market timing, shifting money in and out of mutual funds to capture market upswings and dodge downdrafts. This year, it is selling low and buying high—not a winning formula.

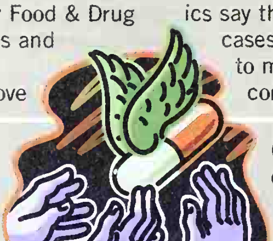


DATA: BLOOMBERG FINANCIAL MARKETS, FABIANS' INVESTMENT RESOURCE

Fabians' said to sell on Mar. 31, near the end of a two-month slide that clipped ne
ly 10% off the Dow. Then
the market climbed, Doug
Fabian and his dad, Dick,
in money funds until Aug.
when they flashed a buy s
nal. The Dow topped out t
weeks later and has pre
much slumped since. On N
23, the day after the Do
91-point bloodbath, the
bians said sell again. We'll s

Fabians' has made bad c
before, in 1984, 1988, and 1
Says Douglas: “The syste
not infallible.” Still, the let
has batted .700 during its
year history. And long-te
returns are good, around 1
yearly. *Jeffrey M. Laderm*

REALITY CHECK



NEW DRUGS and medical devices are being kept from the public by a fussy Food & Drug Administration, say Republicans and conservative think tanks. Now, the law directs that the FDA prove that new products are safe and effective. Critics say the FDA should settle for safe in some cases, which would get life-saving product
to market faster. They would leave it to consumers to find if products work.

IN REALITY, lowering the standard for approval would hurt both patients and industry. Without rigorous clinical trials showing how well a drug or device works—and how best to use it—doctors may not be able to pick the best treatment for any given condition. Consider the confusion about AIDS drugs, whose O.K.s were rushed before the usual extensive testing. To AIDS activist Gregg Gonsalves of Treatment Actio
Group, it's unclear if the three drugs approved to treat AIDS “are better than nothing at all.” And without FDA assurance that a new drug or device does work, companies will lose a key selling point for important new products. *John Care*

(CLOCKWISE FROM LEFT) PHOTOGRAPHS BY NINA BERMAN/SIPA, ALAN KAMUDA/DETROIT FREE PRESS, GAMMA LIAISON. ILLUSTRATION BY PETER ALSBERG, CHART BY ERIC HOFFMANN/BW

GOVERNMENT'S DIRTY LITTLE SECRET

Politicians tell us that the national debt is over $4 trillion and the only way to reduce it is by raising taxes. They also tell us that America is in the midst of a social and economic crisis that demands more regulation. On issues ranging from health care to unemployment to the environment to high tech industry, they use such trendy terms as "managed competition," "economic stimulus," and "revenue sharing," but in every case what they are telling us is that we need more big government.

But do you know government's dirty little secret? It is this: *Federal, state and local bureaucracies in the United States are already consuming 45 percent of the national income.* And it isn't just money the government is confiscating—it is confiscating our freedom, too. Between 1988 and 1992 alone, *14,000 pages of new regulations* were added to the Federal Register.

When politicians tell us that more taxes and more regulations are the answer, who do they think they are fooling? Ronald Reagan had it right all along: Government is the problem, not the solution.

We must restore stringent limits on government. To accomplish this, we must start relying on ourselves instead of politicians. Only when we recover our responsibility for our own lives and our own problems will we be able to say "no" to more big government.

Hillsdale College is an enduring symbol of independence. We enrolled women and minorities nearly twenty years before the Civil War. We do not accept federal funds because federal funds invariably mean federal control. Over the last several decades, we have sponsored more than 2,000 on and off campus lectures on critical issues, many of which are featured in our monthly digest, IMPRIMIS, which means "in the first place" and which reaches over half a million readers nationwide.

IMPRIMIS IS FREE TO ANYONE WHO REQUESTS A SUBSCRIPTION. It's our way of extending Hillsdale College's educational mission to a national audience. Please call or write today!

IMPRIMIS IS FREE—SUBSCRIBE TODAY!

DR. GEORGE ROCHE
President, Hillsdale College

George Roche

IMPRIMIS Hillsdale College
"Exit Communism, Cold War and the Status Quo"
Jeane Kirkpatrick, Former Ambassador to the U.N.
IMPRIMIS Hillsdale College
"Popular Culture and the War Against Standards"
Michael Medved, co-host, Sneak Previews
IMPRIMIS Hillsdale College
"Reagan Was Right: Government IS the Problem"
Charlton Heston

A FREE OFFER FROM HILLSDALE COLLEGE

Interested in the war of ideas? **IMPRIMIS** features original articles by Ronald Reagan, Charlton Heston, William F. Buckley, Jr., Jeane Kirkpatrick, Thomas Sowell, Malcolm S. Forbes, Jr., Lynne Cheney, Tom Wolfe, and more.

Mail this coupon to IMPRIMIS
Dept. BW-2, Hillsdale College
Hillsdale, MI 49242.

Or call toll-free:
1-800-535-0860

HILLSDALE COLLEGE

Name ☐ Mr. ☐ Mrs. ☐ Ms. ☐ Miss ____________________

Title/Organization ____________________

Address ____________________

City/State/Zip ____________________ ☐ Home ☐ Office

Up Front

PRODUCT PEEK

WHAT JOE CAMEL SPLASHES ON

TOBACCO USERS ARE LEPERS lately. Laws forbid smoking the golden leaf in restaurants, airplanes, and workplaces. Cigarette advertising is under new assaults from crusaders who are outraged at the selling of a product linked to cancer. How odd, then, that a bunch of new men's fragrances have a tobacco scent, whether from the actual plant or from artificial ingredients.

HABIT-FORMING? *Havana*

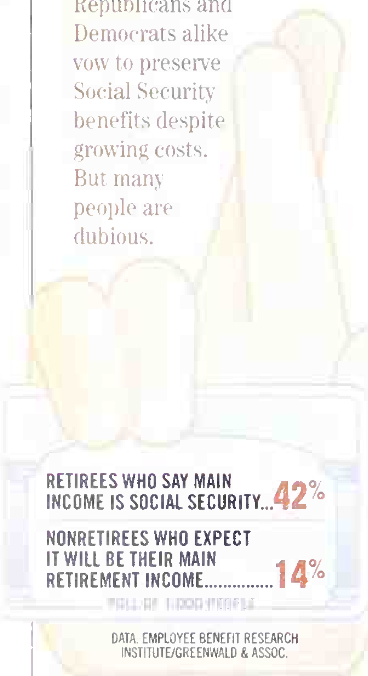
The latest is Havana cologne by Aramis, slated for a national rollout in January. It employs the aroma of both American and Cuban tobacco. "It's a unique fragrance," says David Nap, Aramis' vice-president for marketing. The company is so confident that Havana will sell that it is inaugurating a category for a whole line of tobacco scents, called Fougere Tabac.

A competitor is Donna Karan, which earlier this year launched cig-scented DK Men. Company President Stephan Weiss chose the smell after a visit to a tobacco shop. He says that the finished product recalls "powerful, masculine" scents he encountered while racing automobiles. The tobacco fragrance, he says, adds a feeling "of warmth and security similar to a fireplace."

But cologne makers are aware of the public crusades against cigarettes, so they are quick to say they don't endorse smoking. Says Donna Karan's Weiss of his product: "I couldn't imagine a more healthy use of the scent of tobacco." *Antonio Fins*

THE BIG PICTURE

HOW SECURE IS SOCIAL SECURITY?


Republicans and Democrats alike vow to preserve Social Security benefits despite growing costs. But many people are dubious.

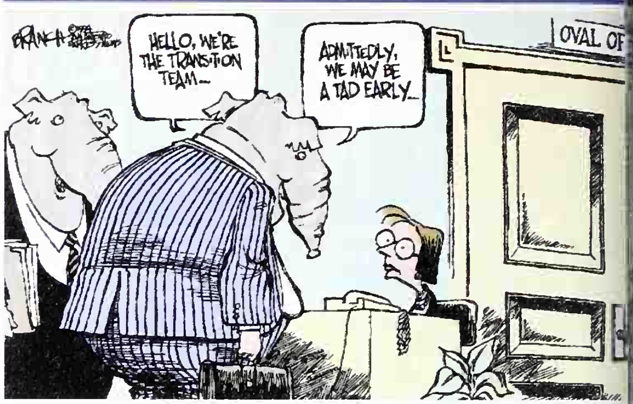
RETIREES WHO SAY MAIN INCOME IS SOCIAL SECURITY...42%

NONRETIREES WHO EXPECT IT WILL BE THEIR MAIN RETIREMENT INCOME..............14%

POLL OF 1,000 PEOPLE

DATA: EMPLOYEE BENEFIT RESEARCH INSTITUTE/GREENWALD & ASSOC.

DRAWN & QUARTERED


BRANCH ©1994 SAN ANTONIO EXPRESS-NEWS
HELLO, WE'RE THE TRANSITION TEAM...
ADMITTEDLY, WE MAY BE A TAD EARLY...
OVAL OF

MAIL ORDERS

'AND HAVE A MERRY— UH, NEVER MIND'

YOUR FRIENDLY POST-OFFICE clerks are forbidden to give you holiday greetings. Or at least, that's how they interpreted a recent edict from the U. S. Postal Service brass.

Ever mindful of the separation between church and state, Postal Service lawyers drafted a bulletin on Oct. 27 that bans signs reading "Merry Christmas" and "Happy Hannukah" from post offices. A number of postmasters, however, saw the bulletin as a gag rule that also prevented postal workers from wishing custom well for the holidays. Res Many window clerks end up saying nothing to custo ers—making the clerks se a bit surly. Some clerks co plained to local newspap about the rule, and some e barrassing stor appeared.

That attract the attention Postmaster Ge eral Marvin Ru yon, who w need all the pu lic goodwill can get wi postal rates to rise 10.3% Jan. 1, bringing the price o first-class stamp to 32¢. has issued a statement u ing his people to extend t best of the season to the pu lic—nonreligiously, to sure. *Mark Lew*

I-WAY PATROL

THE INTERNET: WHAT'S IN A NAME?

THE INTERNET IS HOT STUFF these days. Too bad companies that want to capitalize on Net fever will have to wait, perhaps interminably, before they can trademark names using "Internet." One company, Internet Inc., already has trademarked the word, and federal regulators have rejected an application from the Internet Society. The bureaucrats are reconsidering, but the mess could take years to sort out.

In legal limbo at the U. S. Patent & Trademark Office are some 64 applicants, ranging from Internet Business Report, producer of newsletters about doing business on the Net, to Internet in a Box, which helps cybernetic ne phytes navigate the Net's la yrinth. If a competitor wa to rip off their names, it ca

Internet Inc., an electro ic-banking outfit, secured trademark in 1990. Earl this year, the Internet So ety, a cyberspace resear group, was denied on t grounds that the prior trad mark existed. T group challeng Internet Inc.'s right a mark before t Trademark Trial & A peal Board, argui that "Internet" is generic term in u for two decades. Inte net Inc. declined comment.

PENDING TRADEMARK / APPLICANT
▶ INTERNET SHOWCASE / Ziff Communications
▶ INTERNET BUSINESS REPORT / CMP Publications
▶ INTERNET IN A BOX / Spry
▶ INTERNET WORLD / International Data Group

DATA: *THE INTERNET LETTER*

FOOTNOTES Annual change in sales, 1989 to 1993, for PCs and workstations: +12%. For mainframes and minicomputers: -3%

MCI AND BRITISH TELECOMMUNICATIONS INVITE YOU TO PLUG INTO THE FIRST GLOBAL NETWORK.

gine a communications network where
ry branch office of your company is in
ce, data, and video contact with every
er branch office. And a network that
vides access to all of your clients, as well.
Now imagine having this global network
talled, configured, customized, and
npletely functional without having to
ry about a thing.
And imagine this entire net-
k managed at a single point
contact so any questions can
answered at any time of the day

or night by speaking with someone who knows your system intimately. What you're imagining is a reality. It's called Concert Virtual Network Service. And it's available today.

MCI® and British Telecommunications have joined forces to create the first truly global, seamless virtual network service that connects your offices throughout the globe.

So call us at 1-800-333-3939 and find out more about Concert VNS.

It's a communications breakthrough of global proportions.

CONCERT™
Global Communications from BT and MCI
1-800-333-3939

ert is a mark of Concert Communications Company. BT is a registered trademark of British Telecommunications, plc. MCI is a registered service mark of MCI Communications Corporation.

BusinessWeek

EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
CHIEF ECONOMIST: William Wolman
ASSISTANT MANAGING EDITORS: Sarah Bartlett, Robert J. Dowling, G. David Wallace
ART DIRECTOR: Malcolm Frouman
CHIEF OF CORRESPONDENTS: Keith G. Felcyn
SENIOR EDITORS: Bob Arnold, Frank J. Comes, Deidre A. Depke, Judith H. Dobrzynski, James E. Ellis, Marc Frons, Geoff Lewis, Ciro Scotti, Mark N. Vamos, Lee Walczak (Washington), Elizabeth Weiner, Chris Welles, Seymour Zucker
EDITORIAL PAGE EDITOR: Bruce Nussbaum
INTERNATIONAL EDITION: William J. Holstein (Editor); John E. Pluenneke (Sr. Editor)
SENIOR WRITERS: John A. Byrne, William Glasgall, Jeffrey M. Laderman, Gene G. Marcial, John Pearson, Karen Pennar, Otis Port
ASSOCIATE EDITORS: Duane E. Anderson, Catherine Arnst, Amy Dunkin, William D. Marbach, John Meehan, Michael Oneal, Thane Peterson, Gary Weiss
DIRECTOR, EDITORIAL OPERATIONS: Thomas J. Reed
PICTURE EDITOR: Lawrence Lippmann
SENIOR ART DIRECTOR: Laura Baer
ECONOMICS: James C. Cooper (Sr. Economist/Business Outlook editor), Kathleen Madigan (Assoc.). Christopher Farrell, Michael J. Mandel (Economics editors). Gene Koretz (Economic Trends editor).
DEPARTMENT EDITORS: Books: Denise Demong. **Computers:** Ira Sager. **Corporate Finance:** Phillip L. Zweig. **Corporate Strategies:** Jane A. Sasseen. **Information Management:** John W. Verity. **International Finance:** Joan Warner. **International News:** Christopher Power. **International Outlook:** Stanley Reed. **Investment Banking:** Leah Nathans Spiro. **Legal Affairs:** Linda Himelstein. **Media:** Mark Landler. **Money & Banking:** Kelley Holland. **News:** Keith H. Hammonds. **Personal Business:** Edward C. Baig. **Science:** Emily T. Smith. **Scoreboards:** Frederick F. Jespersen. **Social Issues:** Michele Galen. **Software:** Amy Cortese. **Technology:** Peter Coy, Neil Gross. **Up Front:** Larry Light. **The Workplace:** Aaron Bernstein.
STAFF EDITORS: Pam Black, Veronica Byrd, Bruce Einhorn, Paul M. Eng, Elizabeth Lesly, Ron Stodghill II, Amey Stone, Suzanne Woolley, Laura Zinn
ASSISTANT EDITORS: Lori Bongiorno, Julie Tilsner
COPY EDITORS: Harry Maurer, Michael Mercurio (Deputy chiefs); Prudence Crowther, Marc Miller (Asst. chiefs); Tim Belknap, Aleta Kaufman, Jack Robbins, Jim Taibi (Sr. copy editors); Carl Desens, Hardy Green, Cynthia McClean, Joseph Mandel, David Pengilly, Malka Percal, Doug Royalty. Maria Chapin, Gail Fowler, Jeneen Hobby, Aida Rosario (Researchers)
PRODUCTION COPY EDITORS: Donald Halsband (Chief), Lawrence Dark (Deputy), Hallberg Hallmundsson, Celine Keating, Robert S. Norman, Robert J. Rosenberg, Eva Stettner
ART: Steven Taylor (Deputy director), Cynthia Friedman, Francesca Messina, Jay Petrow, Christine Silver (Assoc. directors), Alice Cheung (Asst. director). **Graphics:** Arthur Eves (Director), Joan Danaher (Deputy director), Rob Doyle (Sr. Illustrator), Lisa Knouse Braiman, Alberto Mena, Ray Vella (Illustrators), Jaime Beauchamp (Computer artist). **Production:** Stephen J. Romeo (Mgr.), Annette Kennedy (Asst. manager), Alan Bomzer (Coordinator)
PHOTOS: Scott Mlyn (Deputy Picture editor), Todd James (Senior Picture editor), Anne Murray, Ronnie Weil (Assoc. Picture editors); Bettina Baudoin (Paris), Kathleen Moore (Asst. Picture editors), M. Margarita Eiroa (Traffic manager). Lawrence Crowe (Librarian), Michael Hirsch (Researcher)
EDITORIAL OPERATIONS: Yvonne Rodriguez (Production chief). Richard Balestrino, A. Peter Clem, Nicholas M. White (Production managers). Karen Butcher, Thomas R. Dowd, Fidel Lee, Jose L. Martin, Jane M. Perkinson, Craig Sturgis, Edgardo Torres, Karen Turok, Ilse V. Walton (Makeup editors). Bruce M. Arnold, Stephen R. Lebron (Asst. Makeup editors). Donald C. Pearson (Traffic manager)
CORRESPONDENTS: Atlanta: David Greising (Mgr.), Maria Mallory. **Boston:** Mark Maremont (Mgr.), Gary McWilliams, Geoffrey Smith. **Chicago:** Richard A. Melcher (Mgr.), Greg Burns, Susan Chandler, Kevin Kelly. **Cleveland:** Zachary Schiller (Mgr.). **Connecticut:** Tim Smart (Mgr.). **Dallas:** Wendy Zellner (Mgr.), Peter Burrows, Stephanie Anderson Forest. **Detroit:** Kathleen Kerwin (Mgr.), James B. Treece (Sr. Correspondent). David Woodruff. **Los Angeles:** Ronald Grover (Mgr.), Larry Armstrong (Sr. Correspondent), Nanette Burns, Eric Schine. **Miami:** Gail DeGeorge (Mgr.). **Philadelphia:** Joseph Weber (Mgr.). **Pittsburgh:** Stephen Baker (Mgr.), Keith L. Alexander. **San Francisco:** Russell Mitchell (Mgr.). Richard Brandt, Joan O'C. Hamilton, Robert Hof, Kathy Rebello. **Seattle:** Dori Jones Yang (Mgr.). **Washington:** Stan Crock, Owen Ullmann (News Editors), Amy Barrett, Amy Borrus, John Carey (Sr. correspondent), Christina Del Valle, Richard S. Dunham, Dean Foust, Susan B. Garland, Howard Gleckman (Sr. correspondent), Douglas Harbrecht, Mark Lewyn, Paul Magnusson, Mike McNamee, Mary Beth Regan, Michael Schroeder, Stephen H. Wildstrom (Technology & You), Catherine Yang. **Bonn:** John Templeman (Mgr.), Karen Lowry Miller. **Hong Kong:** Joyce Barnathan (Mgr.). Pete Engardio. **London:** Paula Dwyer (Mgr.), Julia Flynn. **Mexico City:** Geri Smith (Mgr.). **Moscow:** Peter Galuszka (Mgr.). **Paris:** Stewart Toy (Mgr.), Gail Edmondson, Bill Javetski. **Rome:** John Rossant (Mgr.). **Tokyo:** Robert Neff (Mgr.), Larry Holyoke. **Toronto:** William C. Symonds (Mgr.)
EDITORIAL SERVICES: Broadcasting: Ray Hoffman. **Business Manager:** Barbara Boynton. **Information Services:** Jamie B. Russell (Director), Judi Crowe (Asst. editor). Heather Hartley, Fred Katzenberg, Maria Maronak, Karen Stevens. **Office Manager:** Roselyn Kopit. **Public Relations:** Christine Summerson. Josephine Coppola. **Readers Report:** Yvette Hernandez. **Reprint Permission:** Janet Gonzalez. **Systems:** Ina L. Kichen (Mgr.), Andrew Bernardo, Marie Brown-Bryant, Marta Skrelja

PRESIDENT: John W. Patten
PUBLISHER: David G. Ferm
SR. VP, OPERATIONS: Gary B. Hopkins
VP, CONSUMER MARKETING/CIRCULATION: Robert Montemayor
VP, INTERNATIONAL: Gerd Hinske
VP, STRATEGIC PLANNING & DEVELOPMENT: Cara Erickson
VP, MARKETING: Harold K. Somerdyk
VPs, SALES: Constance E. Bennett (Eastern Region). Dan Dunn (Midwestern Region), Louis R. Mohn (Western Region)
VP, STRATEGIC PROGRAMS: James H. McGraw IV
CONTROLLER: Gary M. Singer
DIRECTOR, ADVERTISING BUSINESS: Linda F. Carvalho
DIRECTOR, PRODUCTION: Mario J. Talluto

Readers Report

READING THE ELECTION RETURNS

Regarding your article "The conservative agenda" (News: Analysis & Commentary, Nov. 21), what do the congressional Republicans, now marching under the banner of Senator Robert Dole and Speaker-elect Newt Gingrich, stand for? According to Gingrich, they stand for cutting public spending, reinventing defense expenditures, and a middle-class tax cut.

In fact, much the same agenda was pursued with great vigor by President Reagan from 1981-89 and it meant that among his White House legacies were three huge black holes: the budget deficit, the trade deficit, and the national debt.

It was not until the "tax and spend" Democrats reoccupied the White House in 1992 that a serious effort to reduce the U. S. deficit, as a percentage of gross domestic product, was achieved.

The Grand Old Party's Contract With America is a recipe for disaster and will mortgage the future of America's children.

Irving Henry
Bucks, England

CONSERVATIVE AGENDA-BENDER

"Gingrich is more confused than Clinton. He thinks we co-signed his Contract With America, even though practically no one who voted knew what was in it."

To a major extent, the Democrats lost control of Congress by a refusal to "cash in" the peace dividend and make deep cuts in defense and intelligence budgets, which would have provided the resources to fund health-care reform. A repeat of this omission will extend Republican control beyond 1996.

The Administration should propose to continue deficit reduction and fund domestic priorities by deep and immediate cuts in defense and intelligence budgets. The Defense Dept. could and should produce a complete review to provide a framework.

President Clinton could force Republicans into a position of justification for their calls for increased defense spending. There is no justification for retention of current and projected levels of defense
spending, much less increasing th

Thomas E. Murray
San Jose, C

In the next election, the Republi
will suffer the same reversal in pu
support that Clinton experienced. F
Clinton and the GOP were and are f
in believing that the American ele
rate wants what they offered.

We are tired of the right wing's
tacks against personal liberty, and w
had more than enough of the Democr
obscene wastefulness. Clinton thou
1992 was a demand for more and b
ger government. Now, except for a
in the White House and their hang-
on, everyone knows otherwise. N
Gingrich is more confused than Clin
was. He thinks we co-signed his C
tract With America, even though pr
tically no one who voted knew what
in it.

John He
Moss Beach, Ca

ALTERNATIVE MEDICINE FOR DEFICIT DISEASE

I am much relieved by Robert Ku
ner's "What's causing the deficit d
ease? Health care" (Economic Vie
point, Nov. 21). All this time I thou
that the deficit was due to billions sp
for pork and wasteful and unnecessa
projects—not to mention the flight
good-paying manufacturing jobs that
low people to pay income taxes.

It's nice to know that all we have
do to eliminate the deficit is reform M
icare. Or is Kuttner just another lib-
al who hasn't gotten the message?

Curtiss Gilb
Oxford, Co

Kuttner is right. We do need heal-

BUSINESS WEEK
DECEMBER 12, 1994 3403
ISSN 0007-7135 * * *

Published weekly, except for one issue in January, by McGraw-Hill, Inc. Founder: James H. McGraw (1860-1948).

Executive, Editorial, Circulation, and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127039; Intl. 2360127039. U.S. subscription rate $46.95 per year; 2 years, $78.95; 3 years, $104.95. Single copies, $2.75; back issues, $5. Write for rates in other countries. Subscriber Services: 1-800-635-1200. TDD. 1-800-554-1579

Postmaster: Send address changes to BUSINESS WEEK, P.O. Bo
Hightstown, N.J. 08520. Second-class postage paid at New York, N.Y
at additional mailing offices. Postage paid at Montreal, P.Q. Canada
International Publications Mail Product Sales Agreement No. 24
Registered for GST as McGraw-Hill, Inc. GST #R123075673. Copyright
by McGraw-Hill Inc. All rights reserved. Title registered in U.S. P
Office. European Circulation Center, McGraw-Hill House, Maiden
Berks, England. Telephone: 0628-23431; Telex: 848640.
Officers of McGraw-Hill, Inc.: Joseph L. Dionne, Chairman and Chie
ecutive Officer; Harold W. McGraw, III, President and Chief Operatin
ficer; Robert N. Landes, Executive Vice President, General Counse
Secretary; Robert J. Bahash, Executive Vice President and Chief F
cial Officer; Frank D. Penglase, Senior Vice President, Treasury Opera

PHOTOCOPY PERMISSION: Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance
ter (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy any article herein for the flat fee of $1.50 per copy of each article. Send payme
the CCC. Copying for other than personal or internal reference use without express permission of McGraw-Hill is prohibited. Address requests fo
tomized bulk reprints to Business Week Reprints, P.O. Box 457, Hightstown, N.J. 08520, or call 609-426-5494. ISSN 0007-7135/94/$2.75
PRINTED IN THE U.S.A.

Microsoft Office
Microsoft Word
Schedule+
Powerpoint
Mail
Microsoft Excel
MS-DOS Prompt
TD-4

Conceptual design by Robert P. Humeniuk and Jerry D. Flynn of McDonnell Douglas Space Systems

Out-of-this-world graphics have *landed* on the *Intel* platform.

onal workstations from Intergraph Computer Systems transport you to a world where high-end graphics software runs alongside your office mation tools – at a cost that won't send your budget into orbit. Until now, the processing power required for high-level CAD/CAM/CAE software d you to work in two separate worlds: a PC for your office tasks and a workstation for intensive graphics design.

you can experience warp speed in both worlds. Personal workstations (TD-2 through TD-5) are equipped with single or dual Intel Pentium essors. In addition, they implement a workstation architecture that boosts Pentium power. So compute-intensive engineering operations – and Microsoft Windows applications – run at lightning speed. And you can choose either Windows NT or Windows/DOS.

years beyond other systems, personal workstations are the first to implement the full thrust of OpenGL for graphics acceleration. So you can rocket igh intensive 3D graphics operations such as rendering, modeling, and animation up to 100 times faster than conventional technology allows.

pay astronomical prices for workstations or push a PC beyond its limits? Choose the only Intel-based system made for the world of graphics – ersonal workstation from Intergraph Computer Systems.

today: 800-763-0242 or 1-205-730-5441. Or reach us on the Internet at ://www.intergraph.com.

INTERGRAPH
COMPUTER SYSTEMS

el
side
tium
ESSOR

MICROSOFT®
WINDOWS NT™
READY-TO-RUN

BEST OF BYTE
COMDEX Spring '94
Winner
Best System

American
Megatrends

Intergraph and the Intergraph logo are registered trademarks and TD-2, TD-3, TD-4, and TD-5 are trademarks of Intergraph Corporation. Microsoft is a registered trademark and Windows and the Windows logo are trademarks of Microsoft Corporation. The Intel Inside and Pentium Processor logos are trademarks of Intel Corporation. Other brands and product names are trademarks of their respective owners. Copyright 1994 Intergraph Corporation, Huntsville, AL 35894-0001. DDAD190B0

*Nissan Motor Corporation U.S.A. Smart people always read the fine print. And they always wear their seat belts. GLE model shown. *'95 Maxima GXE MSRP excludes taxes, le*

Most luxury cars
come luxury liners
in the corners.

*We gave our engineers a tall order. Combine the ride comfort of a luxury car with the precision handling of a sports car. And at the same time, make sure it starts under $20,000.**

Their response, the 1995 Nissan Maxima.

*All of a sudden, there aren't many luxury cars for anywhere near the price that can stay with it in the corners. And some pretty formidable price tags have tried, including the Acura Legend LS and the BMW 540i.***

Our achievement can be attributed to a revolutionary Multi-Link Beam Suspension™ designed to maximize the handling capabilities of the Maxima's front-wheel drive. Even in the sharpest of turns, it helps keep the angle of the rear tires more perpendicular to the road, which gives the front tires much better steering response.

Car and Driver *states, "this Maxima will do grievous injury to several upscale sedans that cost more but aren't as much fun. The Acura Legend comes instantly to mind."†*

For more information call 1-800-335-1436 or visit your nearest Nissan Dealer.

Arrange to take the new Maxima out for a little test cornering. And experience a whole new sensation. Luxury without seasickness.

The New Nissan Maxima

NISSAN®

It's time to expect more from a car.™

*ination, options & locally reqd. equipment.**Based on AMCI-certified tests of '95 Maxima vs. '94 competitive models. †*Car and Driver, *June '94. Prices subject to change.*

care reform. But giving government control will not help. The problem started when government allowed corporations, but not individuals, to deduct medical insurance premiums as a business expense. This gave the medical industry a third-party payment system and the right to prescribe and charge with no concern about costs. If Kuttner wants a simple solution, have Congress make medical insurance premiums taxable to either corporations or individuals.

Harlan A. Bentzinger
Edinburg, Tex.

Robert Kuttner's terse and succinct commentary on the root cause of the deficit—health care—is all well and good. President Clinton knows this. All that's needed now is to convince the new Republican Congress of the facts.

Linda Umstead
Los Angeles

Robert Kuttner has the right diagnosis but the wrong prescription. Yes, health-care costs contribute significantly to the deficit, and something must be done. No, universal health care is not the answer. It will only degrade the world's best health care and do little to reduce costs.

While Medicare and Medicaid costs are growing rapidly, health-care fraud and abuse are growing faster than total costs and account for about 10% of the nation's near-trillion-dollar annual health-care bill. Kuttner believes the way to eliminate waste in the system is for everyone to be in the same system. This is simply not the case.

New technologies effectively detect and ultimately prevent many forms of fraud. Soon, these systems will even detect the leading cause of fraud—billing for services not rendered. As companies implement software systems that detect fraud before providers are paid, 3% to 5% of total health-care costs will be saved each year.

Stephen D. Savas
President
HealthCare Fraud Prevention Corp.
Newport Beach, Calif.

MISPLACED PRAISE OF THE FUJIANESE?

Your article "Send your huddled masses, and a hot & sour soup" (Economics, Nov. 14) on the accomplishments of the undocumented Fujianese overlooks the many problems they bring with them. These individuals are smuggled into the U. S. by unscrupulous syndicates often associated with Asian organized crime. The illegal aliens debase the concept of political asylum through bogus claims, which an overburdened system cannot cope with. Many serve as virtual indentured servants working in the most appalling conditions to pay off their enormous debts. The syndicates may force them into prostitution, or recruit them to distribute illegal drugs or operate underground gambling establishments. Some become enforcers in Chinatown street gangs dominated by the Fujianese.

Every visa officer in greater China will tell you that this group is the largest single source of immigration fraud. Sham marriages and divorces, bogus adoptions, fraudulent claims of relationship, forged financial documents—all are common occurrences when processing a case with a Fujian connection.

Obviously, not all Fujianese engage in these illegal activities. But praise of these illegal immigrants—who flaunt our laws, make a mockery of the political asylum process, and bring in even more illegals—is misplaced at best.

Paul Stephenson
Hong Kong

Editor's note: The author is the chief of the emigrant visa section at the U. S. Consulate General. The letter reflects his personal views.

CORRECTIONS & CLARIFICATIONS

"Why the Army's next tank could be plastic" (Developments to Watch, Nov. 7) should have identified the U. S. Army tank involved as the M-1.

"Watch out for flying packages" (Top of the News, Nov. 14) should not have said that Federal Express Corp. was switching from its fleet of Boeing aircraft to used Airbus Industrie planes. The company is buying 25 new Airbus A300-600F freighters and 13 used A310s to supplement its existing fleet.

SCRAP TIRES FEED THE ENTIRE CEMENT INDUSTRY

I read your article "This blacktop comes with whitewalls" (Developments to Watch, Nov. 21), which describes a potentially beneficial use of scrap tires as an additive to road cement. Actually, the cement industry is using a substantial amount of scrap tires on the front end of the process, as fuel for cement kilns. Several cement kilns have successfully used whole or shredded tires as a partial substitute for fossil fuel. This solution not only provides an approach to the tire disposal problem but simultaneously provides a valuable sour
fuel to the cement manufacturing
cess. Overall emissions using the ti
fuel generally are lower than those
a plant burning traditional fuels.
Environmental Protection Agency
Ohio Air Quality Development Au
ity, the California Integrated W
Management Board, and others
identified cement kilns as an env
mentally suitable means of disposi
scrap tires.

Carrie Y
Vice-Presi
Schreiber Grana & Yonley
St. I

DEPT. OF LIKE, WE KNOW ALREADY

Kudos to your editors; they're
clever. In Readers Report, Labor
retary Robert Reich extols the virtu
"well-paying jobs for workers with a
level of education and training" ("On
and work: Robert Reich replies,"
21). In Economic Trends, we are ble
with the new knowledge that overw
women don't get paid as much as
thinner sisters and that short men
get paid as well as their taller bret
("Too much fudge in job numbers?"
what do we do with this newfound kn
edge? Liposuction or the rack?
somebody paid for that research.
thanks for a terrific juxtaposition.

James A
Des Moines, W

AN UNSUNG VALUE OF RATE HIKES

Regarding "Who gets hurt by l
rates?" (Economics, Nov. 21), I do
consider that this article presented
total picture. No mention was mad
the impact on lower-income peopl
the terrible costs of inflation, which
hikes strive to control.

Robert L. Sr
Champaign,

HOW TO REACH BUSINESS WEEK

LETTERS FOR READERS REPORT

All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space.

Mail: Business Week, 1221 Avenue of the Americas, 39th floor, New York, NY 10020
Fax: (212) 512-4721
Internet: bwreader@mgh.com

SUBSCRIBER SERVICES

For individual subscriptions, corporate subscriptions, renewals, changes or problems, and single copies.
Phone: (800) 635-1200 or (609) 426-7500

COPYRIGHT PERMISSIONS

Before quoting or reproducing editorial material.
Phone: (212) 512-3396
Fax: (212) 512-4938

HE BEST
USINESS BOOKS OF 1994

What's striking about 1994's
business books is that so many
of them blend useful insights
good writing. About three years
, business books hit a kind of
n: BUSINESS WEEK's reviewers com-
ed that even worthwhile books
repetitive and overlong. Not
ore. The titles that drew the
st marks from our writers and
s this year not only illuminate
tant aspects of business but
so a pleasure to read. A few,
t, are downright riveting.
write *The Billion-Dollar Mole-*
One Company's Quest for the
ct Drug (Simon & Schuster),
Werth spent four years at Ver-
harmaceuticals Inc. in Cam-
e, Mass. His account of the hu-
rama attending the evolution
romising startup "has more in
on with a John Grisham thrill-
n with dreary tomes on modern
e," said our reviewer, Boston
espondent Geoffrey Smith.
emist Joshua Boger founded
x in 1989, vowing to redefine
ay drugs are made. The core
strategy was "rational drug
," an unproven technique that
omputers to build drugs atom
om. Werth recreates the inter-
valries and the bouts of anger
oubt that beset Vertex employ-
henever competitors outpaced
The Billion-Dollar Molecule,
mith, "sheds light on the en-
iotech industry and the com-
ve spirit that drives hundreds
ll companies trying to develop
rugs."

other page-turner is Connie
's *Master of the Game: Steve*
and the Creation of Time
er (Simon & Schuster).
ook "sizzles with the vi-
of its subject," wrote Me-
ditor Mark Landler, who
it "a marvelously detailed
emorselessly critical por-
of this most complex and
adictory media mogul."
Bruck focuses on the 1989
er of Time Inc. and Warner,
ves us the whole life:
s Brooklyn boyhood; his early career, redolent of mob connections; the prodigal lifestyle that earned him the sobriquet "the last great pasha of American business."

Master of the Game compels our interest both because of Ross's outsized personality and deeds and because his shadow looms large over the company he created. Many problems playing out at Time Warner Inc. are rooted in the merger deal he engineered. And some observers see his successor, Gerald M. Levin, as struggling to run the company the way Ross did—as a vast, decentralized organization held together by fierce loyalty to the boss. Trouble is, Levin lacks Ross's charisma. Indeed, Bruck's trenchant biography leaves no doubt: Ross was in a class by himself.

Ordinary working men and women take center stage in *The Force,* David Dorsey's dark portrait of contemporary salespeople (Random House). Dorsey, a Rochester (N. Y.) business journalist, persuaded Xerox Corp. to let him spend a year trailing a Cleveland sales team—one of the company's hottest. His astonishingly intimate book depicts the lives of men and women maniacally driven to meet their annual revenue goals. In Dorsey's vision, though, it isn't targets that propel them. It's the sense that if they surpass their mark, they will be somehow transformed. Their bodies and spirits may break in the pursuit, but each believes this year's success will yield next year's promotion—and a better life.

The Force, wrote Chicago Correspondent Kevin Kelly, contains "finely drawn portraits of suffering, craziness, and triumph." Underlying the book is a sense of a world out of whack. Here are characters so stressed out they can't finish thoughts, their most personal conversations polluted by the jargon of sales. But Dorsey doesn't pity or damn them; he "locates the dreams that drive the team and finds they're not ephemeral." Overall, Kelly concluded, "this is a generous book, laced with amusing touches."

What would life be like without credit cards? It's getting hard to imagine. *A Piece of the Action: How the Middle Class Joined the Money Class* (Simon & Schuster) is Joseph Nocera's history of the transformation of personal finance that began in September, 1958, when Bank of America mailed out its first 60,000 BankAmericards. Nocera positions the event as the first shot in the money revolution that has given ordinary Americans credit on demand, high interest on savings, and unending investment opportunities.

Nocera chronicles this revolution through the stories of the innovators who fomented it—among them discount brokerage founder Charles

THE BILLION-DOLLAR MOLECULE
One Company's Quest for the Perfect Drug
By Barry Werth

THE CHOICE
A Fable of Free Trade and Protectionism
By Russell D. Roberts

COMEBACK
The Fall and Rise of the American Automobile Industry
By Paul Ingrassia and Joseph B. White

COMPETING FOR THE FUTURE
Breakthrough Strategies for Seizing Control of Your Industry and Creating the Markets of Tomorrow
By Gary Hamel and C.K. Prahalad

THE FORCE
By David Dorsey

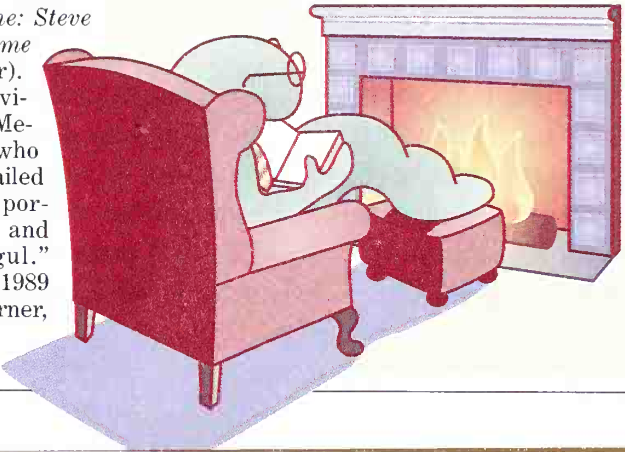
MASTER OF THE GAME
Steve Ross and the Creation of Time Warner
By Connie Bruck

A PIECE OF THE ACTION
How the Middle Class Joined the Money Class
By Joseph Nocera

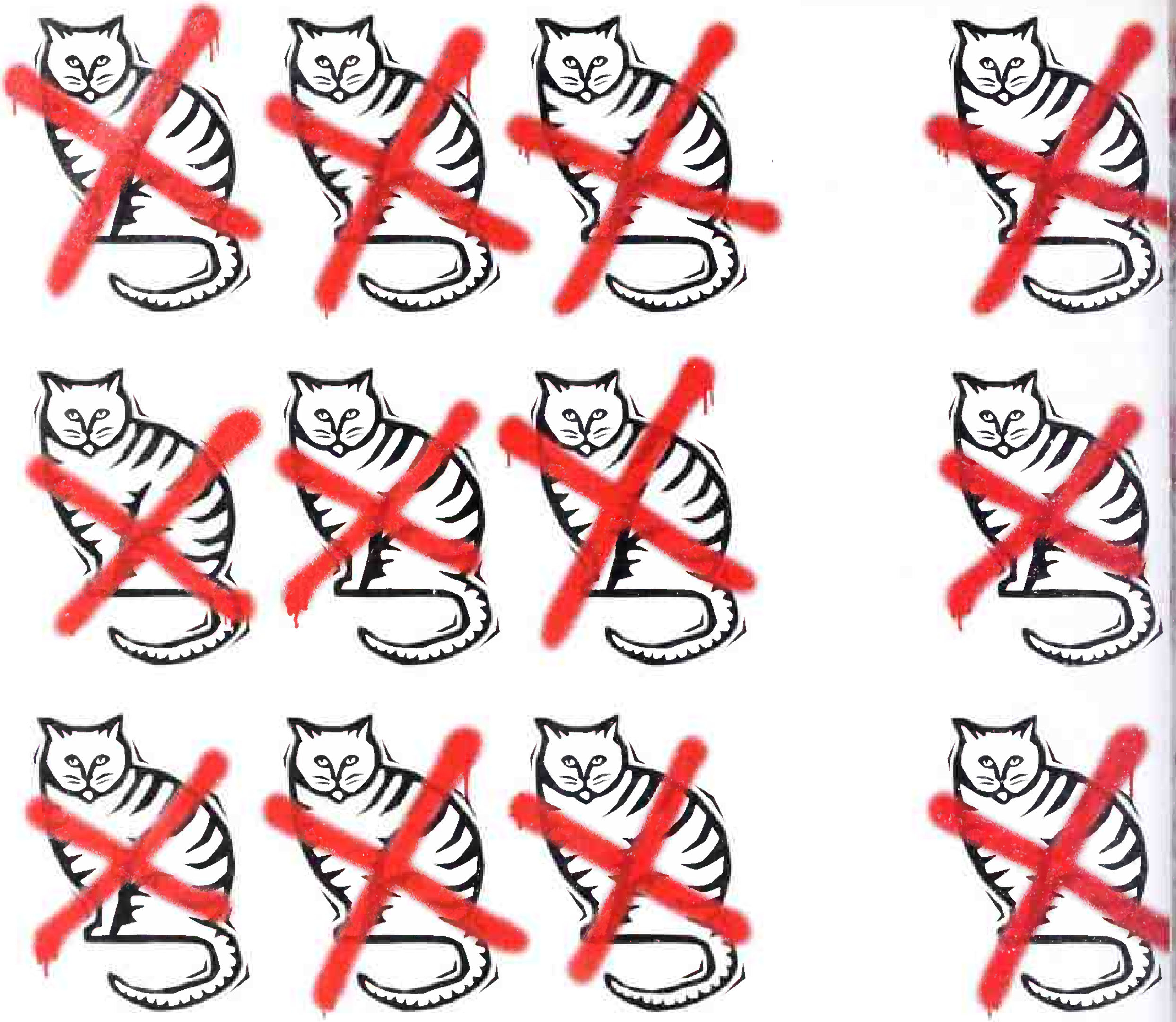
STOCKS FOR THE LONG RUN
A Guide for Selecting Markets for Long-Term Growth
By Jeremy J. Siegel

TAINTED TRUTH
The Manipulation of Fact in America
By Cynthia Crossen

WORKING UNDER DIFFERENT RULES
Edited by Richard B. Freeman



LISA KNOUSE BRAIMAN/BW



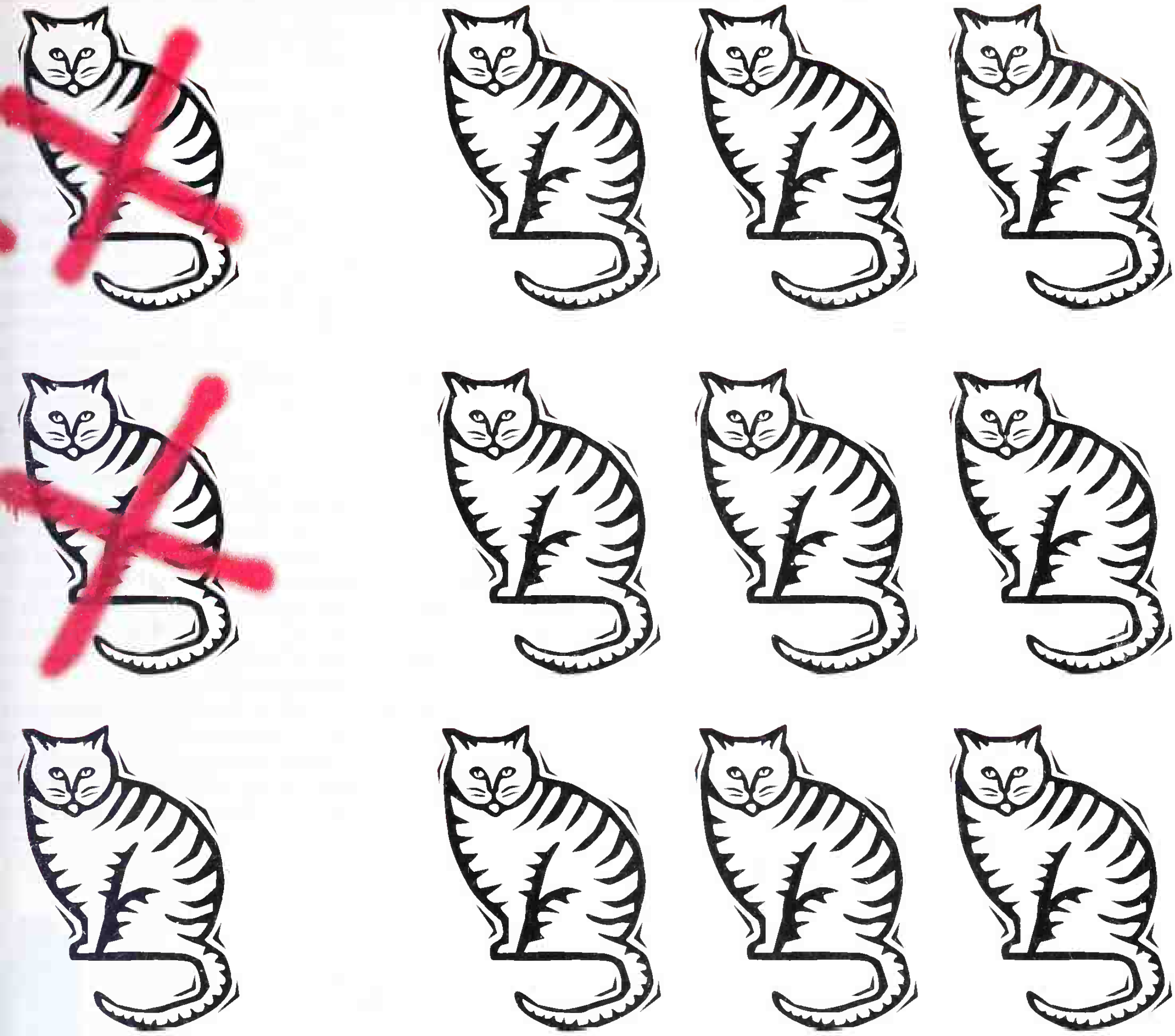
Let's say compu

intel inside pentium PROCESSOR

Some computers have nine lives left. Others don't. That's why if you're buying a PC today, you should only be considering Pentium™ processor-based PCs.

The reason is simple. A more powe
PC lasts longer, since it will still have
plenty of horsepower when tomorrow'
applications come along. And most ne
Pentium processor-based systems also
include the latest PC technology — lik

© 1994 Intel Corporation



Pentium™ processor-based PCs

have nine lives.

local bus for high-speed graphics and and Play technology for easy expansion e years to come.

That, plus the fact that these PCs are now ffordable, makes this a great time to buy a tium processor-based PC. Especially when you'll be getting a system that performs so well. Today. And several lives from now. For more information call 1-800-626-6788, Ext. 213.

intel®

Schwab, Citicorp's John Reed, and several fascinating, more obscure players. Senior Writer Jeffrey M. Laderman praised *A Piece of the Action* as "richly detailed and thoroughly documented."

Although Nocera terms the money revolution "a force for good," he also views it as a source of anxiety. All our new financial options, he says, further complicate our already complicated lives. For helping to reduce the confusion, Economics Editor Michael J. Mandel praised Jeremy J. Siegel's *Stocks for the Long Run: A Guide for Selecting Markets for Long-Term Growth* (Irwin Professional Publishing).

Siegel, a professor of finance at the Wharton School and academic director of the Securities Industry Institute, "makes an utterly convincing case," wrote Mandel, "that the stock market not only pays higher returns than the bond market but is also, contrary to what most people believe, less risky over time." Siegel's long-range analysis of the pluses and minuses of investing in stocks is especially credible, said Mandel, because he has compiled data going back to the early 1800s.

Comeback by Paul Ingrassia and Joseph B. White (Simon & Schuster) is a remarkably juicy yet substantive analysis of the issues faced by an entire industry. Subtitled *The Fall and Rise of the American Automobile Industry*, the book describes how each of the Big Three veered toward disaster during the 1980s, then pulled out of the skid. *Comeback*, wrote Detroit Bureau Manager Kathleen Kerwin, "wraps a dozen years of turmoil into a compelling saga."

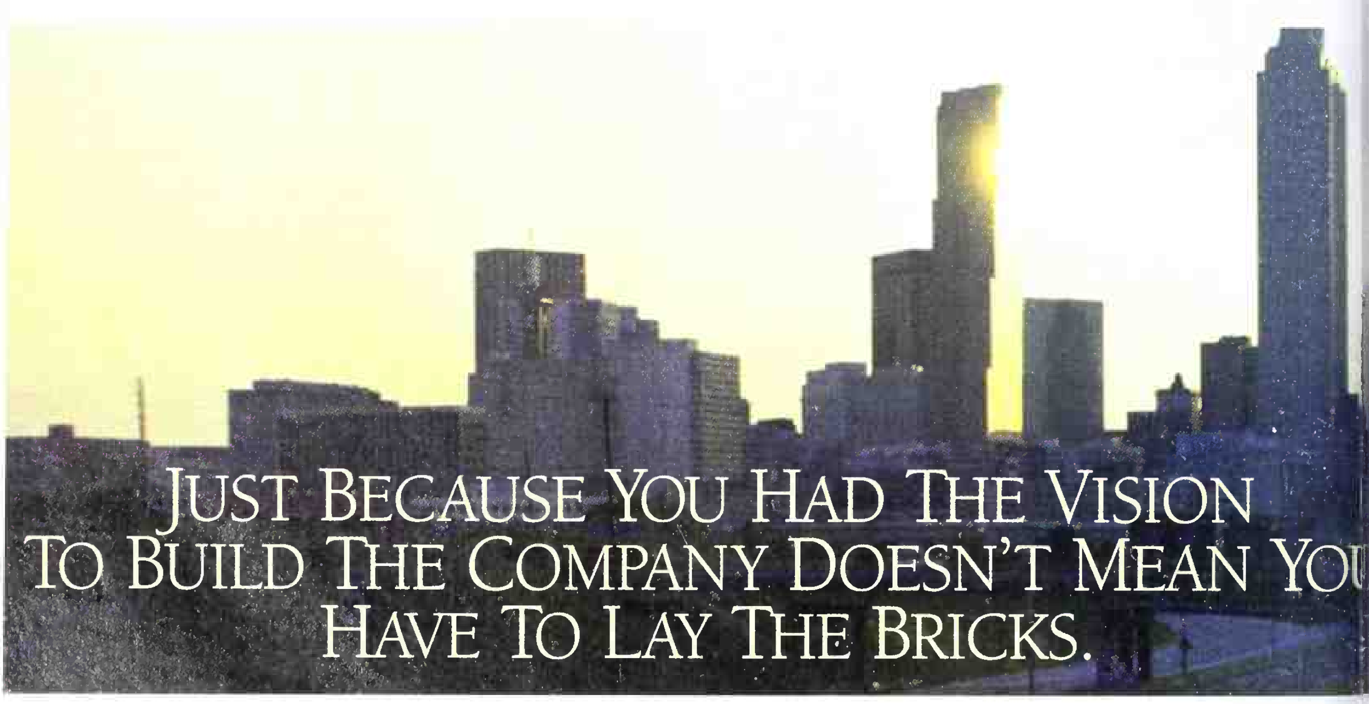
To make sense of this tumultuous era, the authors, *Wall Street Journal* writers, focus on a series of key episodes. Personality struggles, in their telling, drove as many of the Big Three's major initiatives as rational business plans. Enlightening and entertaining anecdotes abound.

In the authors' view, although Detroit decried free trade as a threat to its existence, overseas competition saved Detroit by forcing it to improve efficiency, quality, and service. The book's heroes are the managers who awoke early to the changing climate and fought for years to get their companies to adapt.

Just that combination of insight and action—divining change and positioning your company to make the most of it—is the subject of the year's best management book, *Competing for the Future: Breakthrough Strategies for S ing Control of Your Industry and Cr ing the Markets of Tomorrow* (Harv Business School Press). In fact, auth Gary Hamel and C. K. Prahalad go ther: The task for corporate strategi they argue, is to change their indust rules fundamentally, as Charles Sch did in the brokerage and mutual-f businesses, or to redraw the bounda between industries, as Time Warner others want to do in "edutainment."

The authors, prominent profess and consultants, lay out questions m agers must ask to gain a point of v about the future and create a plan getting there. They want such issue supplant today's preoccupation w cost-control because downsizing, th say, is a kind of "corporate anorex It can make a company thinner but necessarily healthier. Senior Wri John A. Byrne called *Competing for Future* a "worthwhile tonic for de tees of today's slash-and-burn schoo management."

Tainted Truth: The Manipulation Fact in America (Simon & Schuster a tonic for anyone who feels ov whelmed by warring product claims shrewdly concocted study, *Wall Str*


Just Because You Had The Vision
To Build The Company Doesn't Mean Yo
Have To Lay The Bricks.

And just because you need network solutions doesn't mean you have to build the network. Advantis offers a full spectrum of Network Outsourcing solutions, structured to save you time, money and resources. Selecting the right outsourcing partner is critical, and since networking is our only business, Advantis has the experience to be that partner for you. We already provide a wide range of network solutions, including Internet access, Network Services like leased line, dial and wireless connectivity, high bandwidth data and voice applications, and E-mail and EDI messaging services than 13,000 companies and 1.5 million users. And as part of the IBM Global N Advantis can link your company to customers and business partners in 700 lo covering more than 90 countries. The expertise of 3,000 skilled networking sionals can develop the right voice and data network solution for your comp can design, implement and operate your network, allowing you the free

SUCCINCT, WELL-WRITTEN, OFTEN DRAMATIC –YES, THESE REALLY ARE BUSINESS BOOKS

nal editor Cynthia Crossen dem-
ates, can prove virtually anything.
cting studies done by and for en-
mentalists and for makers of
, breast implants, and foods, she
s that slicing data differently can
the truth remarkably pliable—
hat money makes such recasting
o alluring.

inted Truth amply illustrates how
it is to dress up a one-sided sales
with good-looking numbers and
a story whichever way is conven-
wrote Philadelphia Bureau Man-
Joseph Weber, who calls the book a
-read for anyone who deals with
ers.

scrutinizing the numbers used by
cians and policymakers, *Working*
r Different Rules (Russell Sage
dation) confounds some widely held
nptions. Edited by Richard B.
nan, a Harvard University labor
omist, the book summarizes five
s that were commissioned by
n's National Bureau of Economic
arch to compare U. S. labor mar-
with those in Western Europe, Canada, Japan, and Australia. The conclusion: In terms of improving standards of living, America has performed worse than most other industrialized countries. Wrote Workplace Editor Aaron Bernstein: "The book suggests the U. S. can learn as much from them as they can from the U. S."

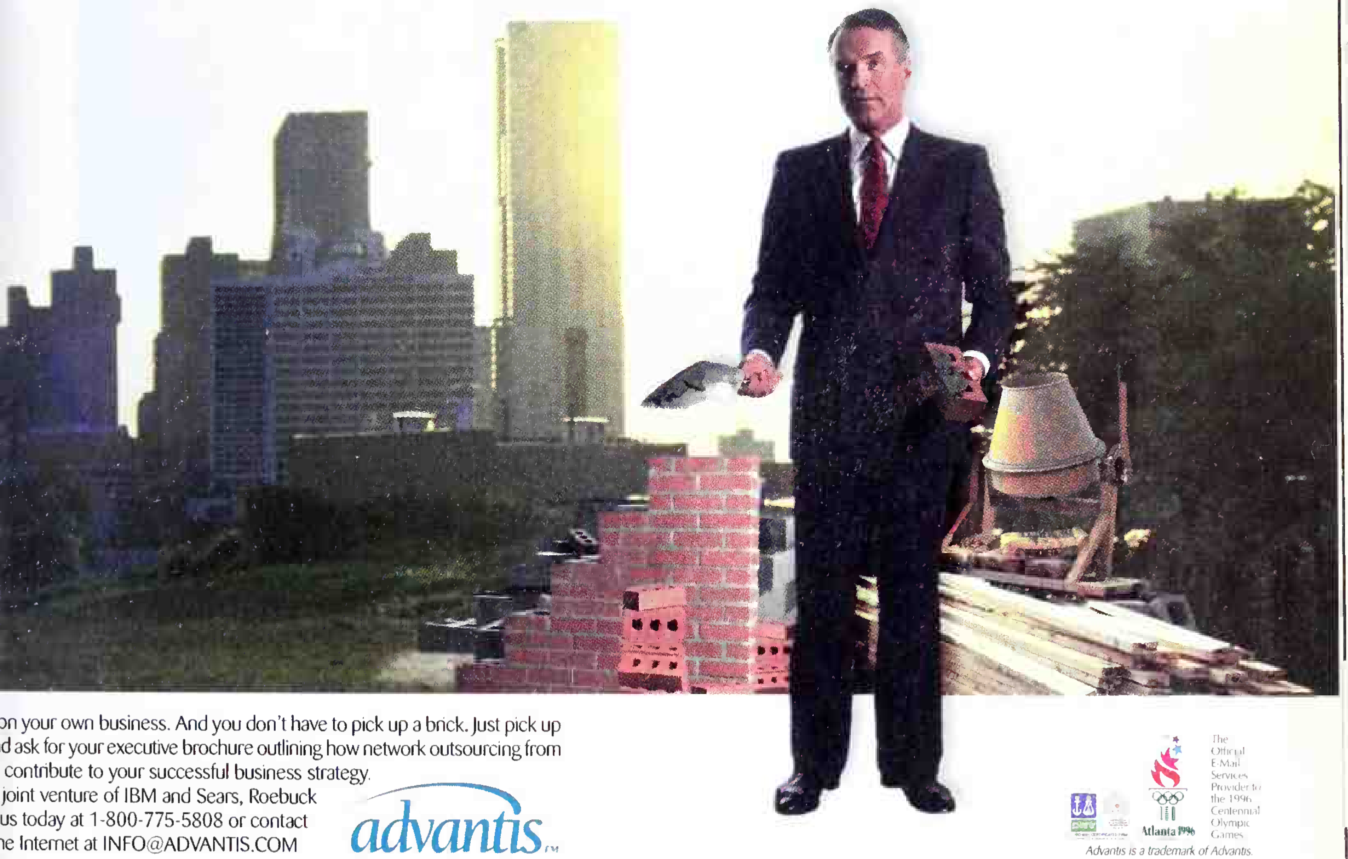
Among the lessons: Yes, America has created scads of jobs. But because Europe's productivity growth has topped America's for nearly two decades, its wages and benefits have grown faster. By the broadest measure of living standards, Europe has performed better. Such findings call into question the notion that Europe, burdened with high labor costs and a rigid structure, would do well to emulate the U. S. And the analysis of where the U. S. has fallen down lends credence to the Clinton Administration's push for apprenticeship and training programs, Bernstein noted. However, given the conclusions of *Working Under Different Rules*, "the U. S. may need to go much further to get the average American's living standard rising again."

Surely the quirkiest volume in this year's roundup of the best business books is *The Choice: A Fable of Free Trade and Protectionism* by Russell D. Roberts of the Olin School of Business at Washington University in St. Louis (Prentice Hall). Stealing a page from Frank Capra, Roberts dispatches 18th century economist David Ricardo back to earth. It's 1960, and the angel-economist is on a mission—to stop the election of a protectionist President. To achieve his goal, he befriends the chief executive of a TV manufacturing company threatened by imports, transports him to the future, and then shows him what America will be like in 1995, both with and without barriers.

Yes, it sounds flaky. But this 113-page defense of free trade "puts the complex macroeconomic issues surrounding the North American Free Trade Agreement and the emerging global economy into understandable terms," wrote Washington Correspondent Doug Harbrecht. "And it's fun to read—honest."

BY DENISE DEMONG

Demong edits the Books section.



on your own business. And you don't have to pick up a brick. Just pick up
d ask for your executive brochure outlining how network outsourcing from
contribute to your successful business strategy.
joint venture of IBM and Sears, Roebuck
us today at 1-800-775-5808 or contact
e Internet at INFO@ADVANTIS.COM

advantis™

Atlanta 1996

The Official E-Mail Services Provider to the 1996 Centennial Olympic Games

Advantis is a trademark of Advantis.

LG

The Fruit of Our Labour Is All For You.

Being BIG has its advantages. When you rank as one of the largest global corporations in the world, you can really make a difference.

And Lucky-Goldstar is just that. A big company creating a world of advanced technology where you, the customer, always come first.

Lucky-Goldstar currently operates in over 120 countries, in the fields of chemistry, electronics, trade, finance, construction and public service.

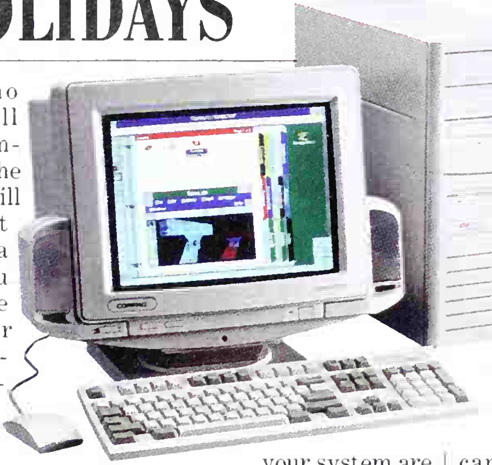
We're proud to say that for Lucky-Goldstar and our customers, the future has never looked brighter!

LUCKY-GOLDSTAR

Investing Our Past In The Future

EDITED BY STEPHEN H. WILDSTROM

HOME PCs FOR THE HOLIDAYS



The folks who make and sell personal computers expect that the Christmas season will put the icing on what has already been a good year. If you are planning to make the holidays happier by buying a new system, here's some advice on how to get the best value for your budget.

These days, you can do well for less than $2,000 whether you choose a Windows (or OS/2) machine or a Macintosh. For an extra $1,000, you can get a high-powered computer that's faster and may have a longer useful life.

Of course, Mac vs. PC is your first decision. Although Macs are relatively scarce in corporate offices, they have real appeal for home or small-office buyers. You can usually get a Mac to work right out of the box, while even PCs that come with Windows installed need some configuration. System 7, the Mac's basic software, is still the easiest to use operating system. Sharing your computer with kids who use Macs in school is another reason to pick Apple.

SOUND ADVICE. Still, compatibility with the office is a big reason why nearly 9 out of 10 buyers pick Windows machines. Though Macs can read PC disks, switching back and forth is a pain. While Apple has all but eliminated the price gap between Macs and PCs, many Mac programs and accessories still command a premium.

If you decide to go the PC route, the specifications of your system are considerably more important than your choice of brand. I believe the minimum processor for any multimedia use is Intel Corp.'s 486DX2 running at 66 megahertz. Insist on at least 8 megabytes of random-access memory and a hard disk holding 540 megabytes of data. A CD-ROM and sound card should be standard features, even in machines used mainly for business.

Fortunately, such a machine—a power user's dream just a couple of years ago—can fit within a $2,000 budget. Possibilities include several Compaq Presario models, the IBM Aptiva 850, Dell's Dimension 466V, and many others.

Some units come with monitors, while others let you select one. If the display is part of the package, check it out to make sure you're comfortable with the unit—sometimes you can change monitors for a nominal charge. You'll definitely want a 15-inch display. Avoid the temptation to save a few bucks by accepting the inadequate 4 megabytes of RAM that come with many packages. And check the processor type carefully: Intel's 50-Mhz 486SX chip is a lot slower than a 50-Mhz 486DX.

If your budget can take you to the $3,000 range, you can move up to a machine powered by Intel's blazing 90-Mhz Pentium chip. Cheaper machines using the new 75-Mhz Pentium won't hit the shelves until next year. Possibilities for $3,000 Pentiums include the Gateway 2000 P5-90, the Dell Dimension XPS P90, or Packard Bell's Mega-Power. If you shop carefully, you might be able to slip a couple of added features within a $3,000 budget. Possibilities include a 17-in. monitor, 16 megabytes of RAM, or a 1-gigabyte hard drive. (For Pentium ratings, see "Are you ready for a Pentium power trip?", BW—Nov. 21.)

Should you choose Ap-
ple, your options are
simpler. For under $2,00
can get a Macintosh Pe
ma 630CD, equipped w
megabytes of memory,
ROM player, and a 250-n
byte hard drive. Bec
Macintosh softwa
more compact, you
get away with a sm
disk than on a Win
machine. A $3,000
get will buy a uni
ing the new Pow
chip—either the P
Mac 6100/60 or the
forma 6115.

LIFESPAN. While no
solutely essential, a
dem and printer ar
most important acc
ries. A decent fax
dem that transı
14,400 bits a sec
shouldn't cost n
than $120. For a Winc
machine, you can get a
viceable ink-jet printer,
as the Canon BJ 200e, for
than $250, while a Hew
Packard LaserJet 4L wil
about $600. Comparable
ple printers range from a
$300 for a StyleWriter in
to $900 for a Personal La
Writer.

With the pace of chang
the industry being what i
it's hard to say when tech
ogy might render your
tem obsolete, but the odds
good that any of these c
puters will meet your n
for at least three or f
years. Merry computing.

WHAT YOU CAN BUY FOR... $2,000

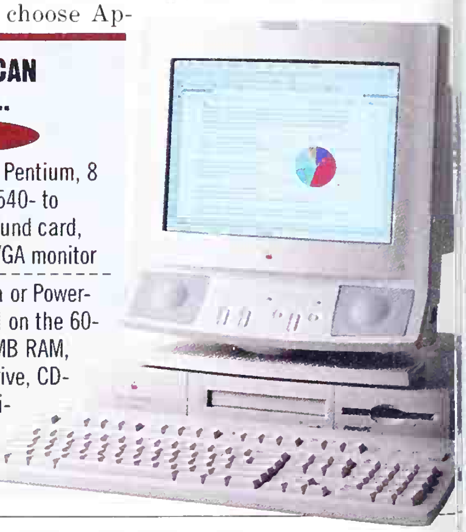
PC A 66-Mhz Intel 486DX processor, 8 MB RAM, 420- to 540-MB hard drive, sound card, CD-ROM, 15-in. super VGA monitor *(Shown: Compaq Presario 900)*

MAC A Performa based on the Motorola 68040 processor, 8 MB RAM, 250-MB hard drive, CD-ROM, 15-in. monitor

WHAT YOU CAN BUY FOR... $3,000

PC An Intel 90-Mhz Pentium, 8 to 16 MB RAM, 540- to 1,000-MB hard drive, sound card, CD-ROM, 15- to 17-in. VGA monitor

MAC A Performa or Power-Mac based on the 60-Mhz Power PC, 8 to 16 MB RAM, 250- to 340-MB hard drive, CD-ROM, 15- to 17-in. monitor *(Shown: Power Macintosh 6100/60)*



IGHT: PHOTOGRAPH BY JOHN GREENLEIGH/APPLE COMPUTER INC.

QUESTIONS? COMMENTS? techandu@mgh.com on Internet or fax (202) 383-2125

Give a drunk driver a nice place to crash.

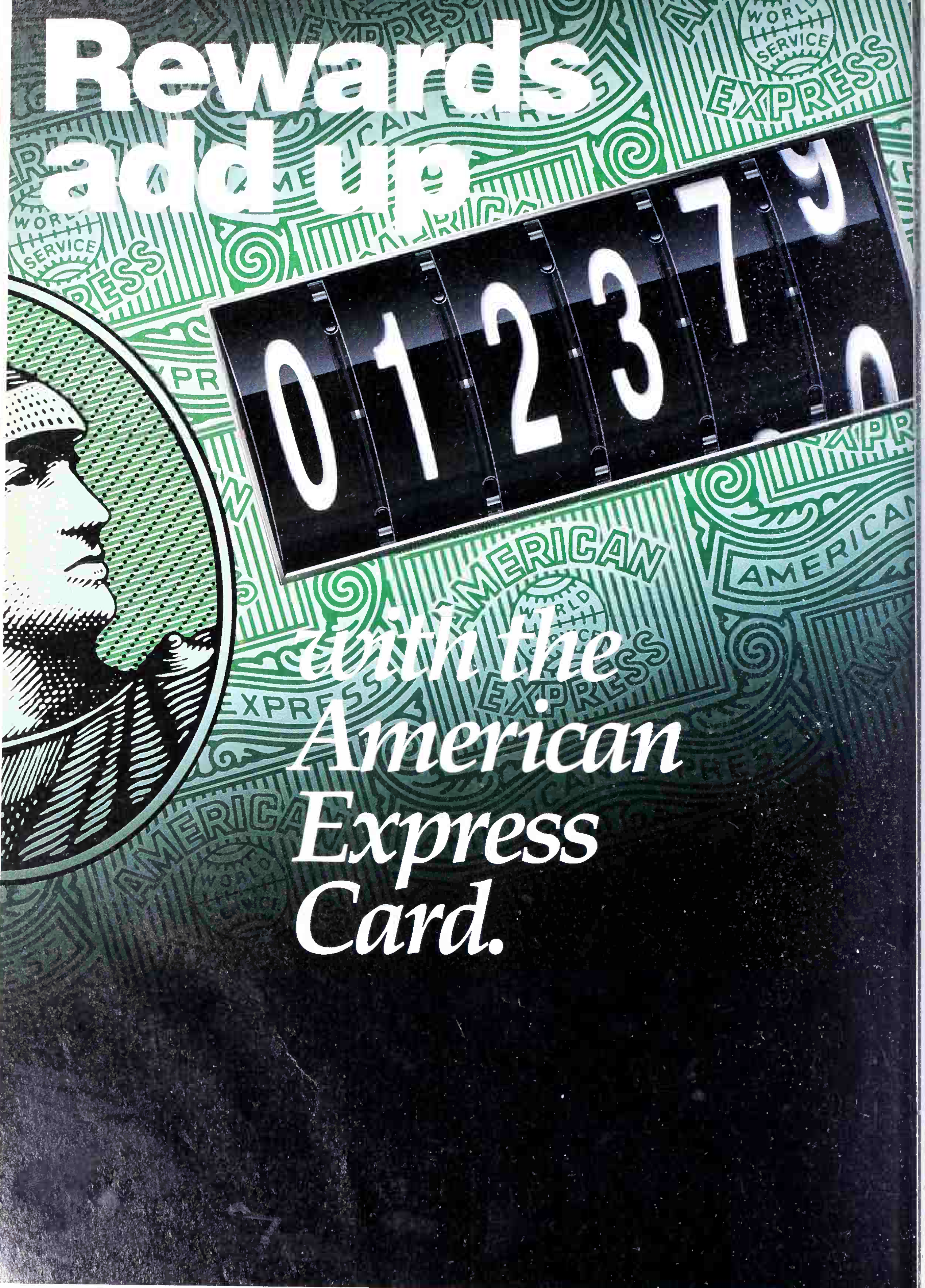
Given the choice between a soft landing on your sofa or a potential head-on collision, even the most ornery drunk will opt for comfort.

Allstate, in an ongoing partnership with the National Commission Against Drunk Driving, MADD, Techniques for Effective Alcohol Management and others, wants you to always keep an extra pillow handy. And make sure nobody you know ever, ever drives drunk.

You're in good hands.

Allstate

For more information, see an Allstate Agent or write to: Allstate, Dept. DD,
P.O. Box 4049, Schaumburg, IL 60168-4049. ©1994 Allstate Insurance Company, Northbrook, Illinois.


Rewards add up
01237
with the American Express Card.
AMERICAN EXPRESS
WORLD SERVICE

USAIR • CONTINENTAL • SOUTHWEST AIRLINES • AEROMEXICO • MEXICANA • MARRIOTT • ITT SHERATON • HILTON • WESTIN • STOUFFER RENAISSANCE •

Only The American Express® Card rewards you with such a choice of airlines to fly on, hotels to stay in, and experiences to enjoy.

It's all part of the *Membership Miles*® Program.

AMERICAN EXPRESS MEMBERSHIP MILES

Only as an American Express Cardmember can you enroll in the *Membership Miles* program and earn one program mile for every dollar you charge on the Card. And you can use those miles as you choose.

A choice of rewards

- Earn free flights faster than ever before simply by transferring *Membership Miles* program miles into any of six frequent flyer programs to redeem a reward or supplement your existing miles.*
- Get free hotel nights or upgrades by transferring program miles into the frequent guest program of any of five participating world-class hotel chains and resorts.
- Take advantage of a variety of Vacation Awards packages, including trips to Hawaii or Florida.
- Try one of our exclusive Unique Experiences, like tennis lessons from a top-ranked pro.

Earn program miles fast

To accumulate miles even faster, you can combine the spending on virtually all your enrolled Card accounts, including Personal, Corporate and Additional Cards.** You need only spend $5,000 in combined charges to begin redeeming program miles, and there is no limit to the number of miles you can earn. Best of all, the $25 *Membership Miles* annual program fee is waived the first year.***

Simply call us at 1 800 AXP-MILE (1 800 297-6453) toll-free to enroll in the *Membership Miles* program or to apply for the Card. Then start choosing the way you want to be rewarded.

AMERICAN EXPRESS
3712
95006
C F FROST

Don't Leave Home Without It.

DELTA AIR LINES USAir Continental SOUTHWEST AIRLINES aeromexico MEXICANA

Marriott HOTELS RESORTS SUITES ITT Sheraton Hilton WESTIN HOTELS & RESORTS STOUFFER RENAISSANCE

1 800 AXP-MILE. Call now to enroll or apply.

---

*Participating airlines and hotel partners in the *Membership Miles* program are subject to change. Partners are accurate as of 11/15/94.

**Some Corporate Cards, Optima Cards, and Cardmembers with foreign addresses may not be eligible for enrollment.

***The fee for some Corporate Cards may be $50 and terms may vary. For Platinum Card® members there is no fee for the *Membership Miles* program.

USAIR • CONTINENTAL • SOUTHWEST AIRLINES • AEROMEXICO • MEXICANA • MARRIOTT • ITT SHERATON • HILTON • WESTIN • STOUFFER RENAISSANCE •

DELTA • USAIR • CONTINENTAL • SOUTHWEST AIRLINES • AEROMEXICO • MEXICANA • MARRIOTT • ITT SHERATON • HILTON • WESTIN • STOUFFER RENAISSANCE •

Economic Viewpoint

BY RUDI DORNBUSCH

YOU CAN'T CUT TAXES AND BALANCE THE BUDGET

KATHERINE LAMBERT

UGLY TRUTH: Newt Gingrich's proposals simply won't work. In fact, they threaten to undo the unprecedented soft landing the Fed seems to be engineering

Rudi Dornbusch is professor of economics and management at Massachusetts Institute of Technology

The sheer political genius of the 10 theses nailed to the door of the House of Representatives by Martin Luther Gingrich is its mix of cliché and radicalism: reckless tax cuts, merciless trimming of bloated government, and tax breaks ranging from allowances for legitimate children to lower capital-gains rates. Who cares whether the Contract With America can be fulfilled? The public wants change, he who shouts loudest gets the floor, and Newt Gingrich gets a chance to undo 60 years of U. S. public policy.

There is a lot that's positive about Newt's testament. Tort reform to limit megasettlements in liability suits is an obvious example. Serious welfare reform that requires useful work is another. Crime fighting goes on the plus list, as does pruning down congressional procedures.

PROMISES, PROMISES. But there is one field where the contract goes perversely wrong: The promise of tax cuts and a balanced budget just isn't feasible. There are two acceptable outcomes. One is that, having served its political purpose, the tax-cut proposal proves to be mere talk. The other is that Congress actually cuts spending vigorously while taxpayers collect all the tax cuts and breaks they were promised. But a third possibility—and the probable outcome—is that there will be a tax cut without the spending trim. In today's economy, that would cause a big expansion, overheating, inflation, and high interest rates.

Cutting the deficit means laying our hands on $200 billion. But the contract's various tax cuts and tax breaks will reduce revenue by at least that much, so the spending cuts required to balance the budget will double, to $400 billion. That inevitably means taxing the middle class or cutting back its benefits. Why the middle class? As Willy Sutton observed of banks, that's where the money is.

But it isn't going to happen: The middle class is America, so going after the middle class would be political suicide. And going after the rich or the poor in pursuit of balanced budgets is not worth the trouble. Therefore, just forget the whole balanced-budget-limited-taxes package.

Even so, the notion of tax cuts isn't going to go away. Gingrich's radicals have seized center stage and can't abandon the politically potent idea. If they yield, they will be hooked off the stage, just as President Clinton was when he failed to deliver on his election promis
be a New Democrat.

That raises the dangerous possibilit
out-and-out competition between the Pr
dent and the GOP for tax cuts as the econ
heads into the next election. Most likely, w
otherwise might be budget improvements
be frittered away with a downpaymen
the big tax cuts ahead. But Congress ma
further: Why not espouse supply-side
trine and predict that cuts are the seed
plentiful tax revenues, adopt a so-called "
namic" budget forecast, and aim for ser
cuts in taxes?

It is worth remembering the rhetoric of
early 1980s: Tax cuts beget growth,
growth begets revenue. There is a virtu
merry-go-round, with free rides for every
We did not see it in the 1980s, and we w
see it this time around. It simply isn't t
that people who pay less in taxes save m
and work harder. They get to keep more,
in most cases that is the end of the st
Thus, the contract's American Dream Savi
Accounts or reduced capital-gains tax ra
are sure to be popular, but they bring littl
the supply side.

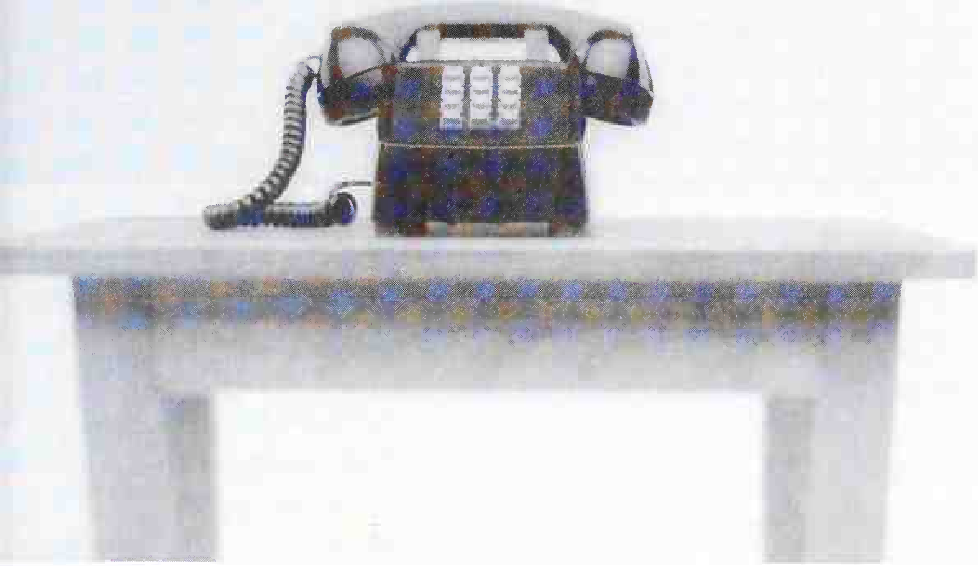
Of course, Congress might ditch deficit v
ries altogether. In other words, run open d
icits again, as in the early 1980s. In tim
crunch will result in spending discipline.

GOLDEN GOOSE. In an underemployed eco
my, tax cuts are splendid. But at full emp
ment, they are nice only if matched by rec
tions in spending. Either Congress legisla
major spending cuts, which I doubt, or
the Fed will bring them about by hiking in
est rates. On the macroeconomic side, the U
economy has done extremely well. Ther
no inflation to speak of (yet), growth has b
strong, there is full employment by alm
anyone's definition, balance sheets have b
somed in the sunshine of cheap money, defi
have declined, investment is up. The unpr
edented soft landing that is now being pilo
by the Fed holds out the promise that mod
ate growth in output, employment, real w
es, and profits could go on for years with
the setback of boom and bust.

Trimming entitlements and wasteful g
ernment programs—from farm subsidies
trade restrictions—remains the top priority
tax reduction now is the surest way of der
ing the American dream. It is a contract w
the devil.

Here it is.

Absolutely everything you need for your next big meeting.



teleconferencing] Pick up any telephone in The Westin and you can simulta-
onverse with people in up to 15 different locations around the world. Which means you
n have to leave your room to conduct your next big meeting, much less turn off the TV.
id to offer AT&T In-room Long Distance Service for your AT&T Calling Card, AT&T
Card and operator-assisted calls: for reservations call your travel consultant or (800) 228-3000.

AT&T
In-Room
Long
Distance
Service

AT&T

Helping you
along the way.℠

The Westin
Hotel,
Copley Place

Boston

The Westin
Hotel

Chicago

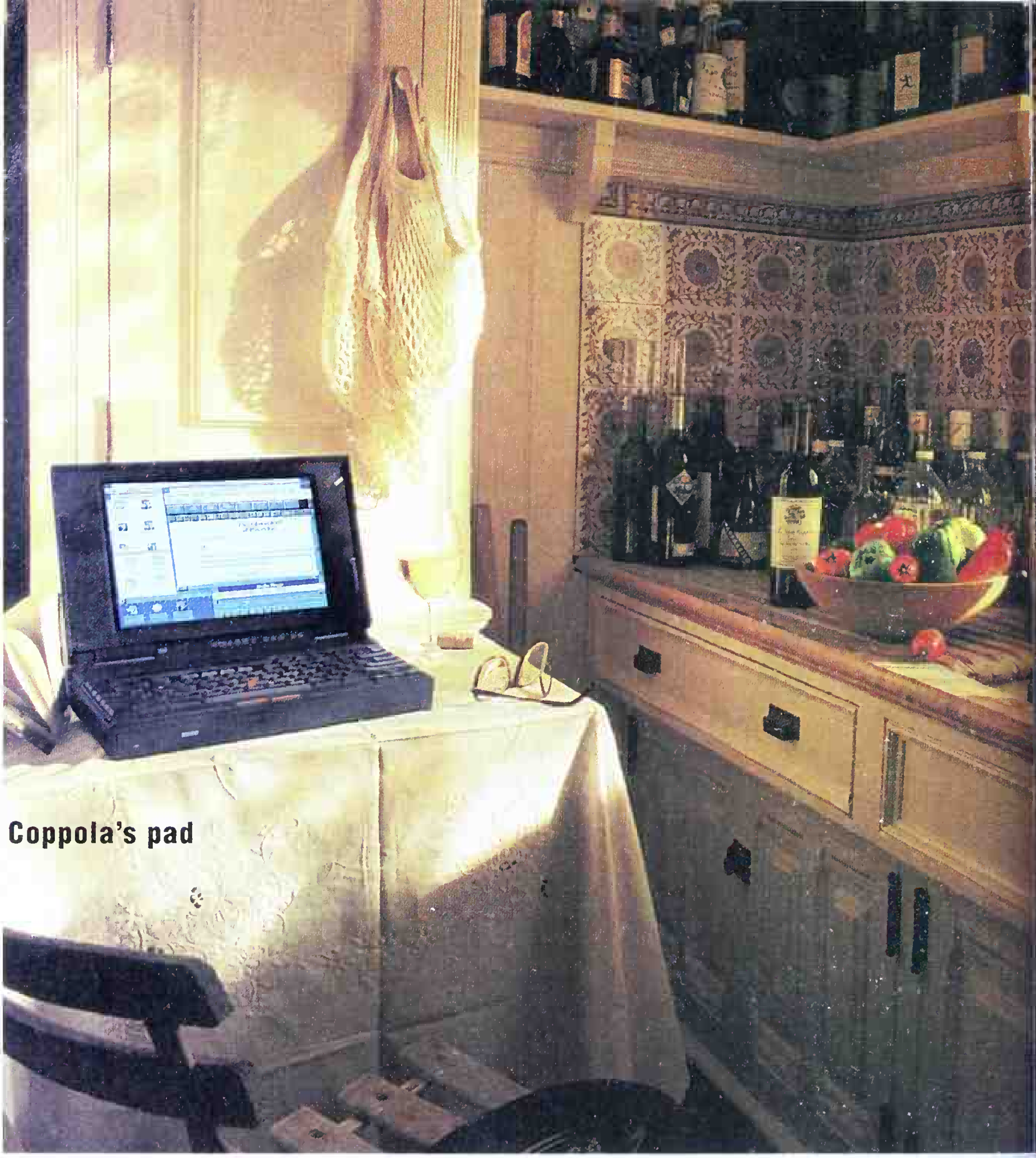
The Westin
Canal Place

New Orleans

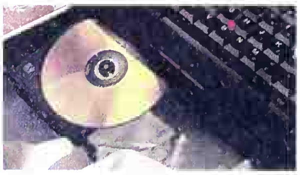
The Westin
St. Francis

San Francisco

WESTIN
HOTELS & RESORTS

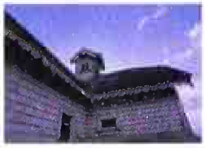


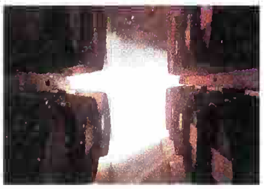
Francis Ford **Coppola's pad**



There is a difference™

IBM's statement of limited warranty is available on request (call 1 800 772-2227). Available only in countries where ThinkPad is sold and serviced by IBM. Registration required. Other restrictions apply. Available in US only. IBM m
representations or warranties regarding non-IBM products. EasyServ and There is a difference are trademarks and IBM and ThinkPad are registered trademarks of International Business Machines Corporation. ©1994 IBM Corp.





s *Ford Coppola*'s ranch, on a sweeping hillside in California's wine country, is a
hat nurtures the wide-ranging interests of a creative mind. Not unlike the new
hinkPad® 755CD in residence here. Although Mr. Coppola may retreat to the
ing room or the research library or the bungalow to work, like many of us, he
is best thinking at the kitchen table. And now all the power of a true multimedia
ne, with full-motion video with digital stereo sound, is available to him even there.

Mr. Coppola's IBM ThinkPad 755CD comes with:

Integrated 5.25″ **CD-ROM**

10.4″ black matrix TFT color screen (measured diagonally)

486DX4 100/33MHz processor

Removable hard drive

Fax/modem, answering machine, speakerphone

Software **motion video** acceleration

Built-in stereo speakers

3-year hardware warranty[1] with International Warranty Service[2]

EasyServ™ courier repair service[3]

Preloaded software and **CD titles**[4]

For information by fax, **call 1 800 IBM-4FAX** (key-in ID# 1622)

IBM®

Economic Trends

BY GENE KORETZ

WHERE HAS ALL THE LABOR GONE?

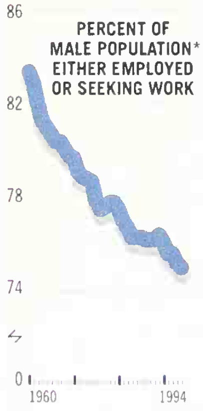
Stumped by a sluggish U.S. pool

The U.S. economy has grown 4.3% in the past year, generating more than 3 million jobs and pulling unemployment down to late-'80s levels. Yet labor-force growth lately has been unusually restrained: averaging a bit more than 1% a year, compared with 1.7% in the 1980s.

The sharp slowdown in labor-force growth stems from a puzzling tailing-off in the share of the working-age population active in the job market. Labor-force participation by women, who have been going to work in ever increasing numbers for decades, seems to have leveled off and in some cases actually fallen. And participation by men, which usually perks up after a recession, has continued its long-term decline (chart).

To some economists, all this suggests that there's a backlog of workers waiting in the wings who will help keep wages from heating up. In this view, unusually slow employment growth in the early stages of this recovery has simply deferred the normal cyclical rise in labor-force growth. As labor demand continues to pick up, more men and women will start hunting for work, slowing the fall in the jobless rate and forestalling a build-up of labor-cost pressures.

MEN SAY GOOD-BYE TO WORK



*16 and over DATA: LABOR DEPT

But others are not so sure. Economist Alan Reynolds of the Hudson Institute, for example, notes that, as a result of expanded tax credits (cash payments) to poor working households and higher taxes levied on the rich, both groups face marginal tax rates over 40%. Such high rates, he believes, have dampened work effort and labor-force participation by rich and poor alike.

Kevin M. Murphy of the University of Chicago thinks the economy's shifting skill requirements are the biggest argument against a large supply of potential workers ready to move into tightening labor markets. In a recent study, he and fellow economists Chinhui Juhn and Robert H. Topel found that labor-force participation by prime-age men fell by 1.6 percentage points from the early 1970s to the late 1980s. "Virtually all of the decline," he reports, "was among low-wage workers, especially the lowest 10%, whose participation rate fell 6.5 percentage points."

Murphy doesn't see any sign that this trend is slowing down. Pointing to a recent Labor Dept. report that more than half the jobs created in recent years have been in relatively high-wage occupations, he thinks that rising skill requirements in many sectors of the economy will continue to leave many unskilled workers out in the cold.

HUMMING IN THE HEARTLAND

Midwest job markets are tightening

One sign that U.S. wage pressures are far from quiescent is to be found in the Midwest, where the economy has benefited from surging auto and auto-related production and a rebound in export manufactures. The boom, says economist Mark M. Zandi of Regional Financial Associates Inc., has pushed the unemployment rate in the nation's heartland below 5%—its lowest since the 1960s. And wages and salaries in the third quarter were running 3.7% more than a year ago, compared with an average increase of 2.9% for the nation as a whole.

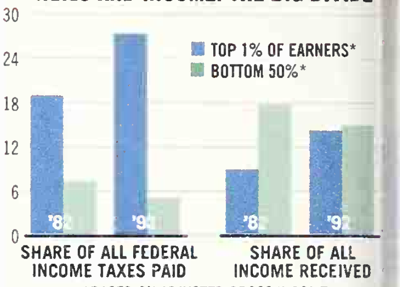
Zandi also notes that consumer prices in the Midwest are up 3.3% from their year-earlier level—more than in the Northeast, South, or West. And despite escalating wages, labor-force participation in the region remains below its 1989 high, suggesting that tight labor markets can expect scant relief from enhanced labor-force growth. "Unless the economy slows in coming months," warns Zandi, "we're likely to see the pickup in wages and prices spread."

RICH MAN, TAXED MAN

The tab for America's top 1% rises

At first glance, the data suggest that the wealthy are being asked to shoulder an inordinate share of the tax burden. A new analysis by the Tax Foundation indicates that the top 1% of earners coughed up 27.4% of all fede individual income taxes in 1992, up fr 19% a decade earlier. By contrast, bottom 50% of income earners paid j 5.1% of all personal income taxes lected by the Treasury in 1992, co pared with 7.3% in 1982 (chart).

TAXES AND INCOME: THE BIG DIVIDE



*BASED ON ADJUSTED GROSS INCOME

DATA: TAX FOUNDATION

The catch is that the rich are gett a lot richer. The top 1% took in $524 lion, or 14.2% of total adjusted gross come, in 1992, up from 8.9% in 19 Meanwhile, the income share of the l er 50% fell from 17.7% to 14.9%. Th the top 1% now rake in almost as mu as the entire bottom half of earne

EXTRA SPICE IN INDONESIA

Exports and oil push growth to 7%

Rising petroleum prices and an beat business environment are p ting zip into Indonesia's economy, ports David W. Carbon of J. P. Morgar Co. Growth should hit 7% this year a 7.5% in 1995, he predicts.

Even without the boost from oil, donesia's exports have picked up rece ly, thanks to robust growth in the U and a quickening European recove The coming rally in Japan will also ke the export mill humming. Japan is n Indonesia's chief overseas market, ta ing 30% of exports, says Carbon. Wha more, Indonesia's currency, the rupia is down 18% against the yen this ye

On the domestic side of the econon some $23 billion worth of foreign inve ment projects have been approved t year. And recent corporate tax cuts w provide a fiscal-policy stimulus.

Indonesia's biggest challenge will to restrain inflation, which is headi toward 10% this year. In line with Pr ident Suharto's decree that inflation kept to single digits, the central ba has already raised short-term inter rates a number of times since April.

ALAN BASEDEN

Climber seen at 24,000 feet on the icy east face of Everest.

The Inexhaustible Challenge of Everest.

Tibetans had long called it Chomolungma, "Goddess Mother of the World," but it wasn't until 1852 that British surveyors identified it as the highest point on the planet. Thirteen years later the mountain was renamed for Sir George Everest, Surveyor General of India from 1830 to 1843.

To early climbers, the great peak was doubly remote. Its sheer height made it as inaccessible as the mountains of the moon. Moreover, Tibet barred outsiders until 1920, and Nepal prohibited access until 1951.

The southern route was at last successfully climbed by Sir John Hunt's expedition in 1953. On the day that Edmund Hillary and Tenzing Norgay stood together on the roof of the world, it seemed Everest could challenge man no longer.

Earth's highest peak as viewed from Kala Pattar.

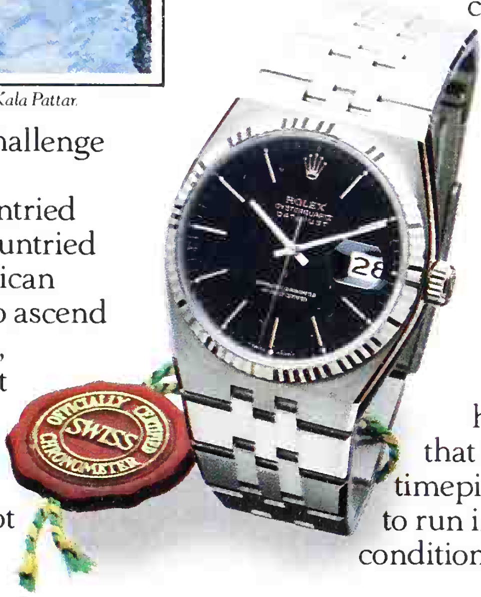
But there were still untried climbing techniques and untried routes. In 1963, the American Expedition was the first to ascend the west face and, in 1978, climbers achieved the first ascent without oxygen tanks, beginning the so-called "purist" approach.

One thing that cannot change is the simple fact of Hillary and Tenzing's breakthrough success. In its honor, 35 years later almost to the day, another team put a man on the summit of Everest. Unlike their famous predecessors, they climbed without extra oxygen and established a new route up the treacherous east face.

Sir Edmund Hillary, 1953.

Although they traveled different routes by different means, both teams marked the times of their historic Everest ascents with Rolex Chronometers.

As an interesting footnote to history, Tenzing's son reports that his father's timepiece continues to run in excellent condition.



ROLEX

Rolex Oysterquartz Datejust in stainless steel with 18kt white gold bezel and stainless steel Integral bracelet.
Write for brochure. Rolex Watch U.S.A., Inc., Dept. 428, Rolex Building, 665 Fifth Avenue, New York, N.Y. 10022-5383.
Rolex, ♛, Oysterquartz, Datejust and Integral are trademarks.

DEVOTES INCREDIBLE ATTENTION TO DETAIL

JUST LIKE A PARKER

PARKER
INSIGNIA

The PARKER INSIGNIA Laque Black shows our dedication to detail. The durable, deep gloss finish is highlighted by 14kt. Dimonite G trim, a gold-plating process we have patented. The refill in the Ball Pen is specially designed to be long-lasting and write cleanly and smoothly. Like all PARKER writing instruments it has a lifetime guarantee.

Ball Pen shown: $32* PARKER INSIGNIA collection includes a wide range of other finishes. Ball Pens and Pencils available from $16 to $100*
*Suggested retail price. For the store nearest you, call 1-800-BEST PEN. © 1994 Parker Pen USA Limited

usiness Outlook

AMES C. COOPER & KATHLEEN MADIGAN

T THIS RATE, SANTA'S ELVES ILL BE WORKING OVERTIME

U.S. ECONOMY As soon as Americans could clear away their Thanksgiving eys, they hit the malls with Christmas on their minds. ial reports suggest that the holiday season is off to a k start, and that's yet another sign that the economy packs the kind of momentum it has shown through- 1994.

n fact, the Commerce Dept. says that the economy even more punch in the third quarter than was orig- y reported. Real gross domestic product grew at an ual rate of 3.9%, instead of 3.4%. As it turns out, Com- ce had overestimated inventory growth, but the pace nal sales was much stronger. In particular, business in- ment grew twice as fast as first thought (table). Re- ons to the inflation measures were minor.

THER LOOK SHOWS STRONGER SUMMER

IRD QUARTER PERCENT CHANGE

	REVISION	INITIAL
	3.9%	3.4%
UMER SPENDING	3.3	3.0
NESS INVESTMENT	14.4	7.0
SING	-6.5	-7.2
RNMENT	7.1	5.9
XPORTS*	-$120.8	-$118.3
NTORY CHANGE*	$56.1	$64.5

ONS OF 1987 DOLLARS, ANNUAL RATES

DATA: COMMERCE DEPT.

Although growth is widely forecast to be slower in 1995 than this year, the extent of that slowdown—and the response by the Federal Reserve—will be determined largely by consumers. Households have been a driving force in this expansion since mid-1993, and for any lasting downshift in growth, consumers will have to dial back their energetic spending pace.

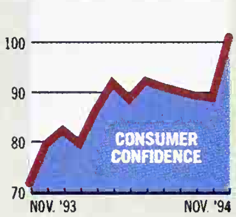
o far, though, even after a big increase in outlays last rter, shoppers show few signs that their batteries l recharging. What's keeping consumers going and g? For one thing, better income growth. Strong labor kets fueled big income gains in October. Consumers also feeling more confident about the economy, and have embraced the use of credit cards again—if only ccrue such goodies as discounts and frequent-flier s (page 42).

onsumers' spirits certainly looked more effervescent ovember. The Conference Board's index of consumer idence surged to 101.3, up from October's 89.1 (chart). leap was the largest one-month advance in almost two s and pushed the index to its highest reading since , 1990.

IFIDENCE in the economy's present situation bounced -by more than 17 points, to 108.3—last month, and ectations about the future jumped to 96.7, up from in October. The Conference Board said the year's in- st-rate hikes by the Federal Reserve have not yet dampened the mood of consumers and that a higher percentage of those surveyed thought employment gains would be stronger in the months to come.

The Republican Party's triumph in the congressional and gubernatorial elections may have brightened views on the economy's future. Few things boost consumers' spirits more than talk of a tax cut.

SPIRITS RISE AS THE HOLIDAYS NEAR



▲INDEX: 1985=100

DATA: CONFERENCE BOARD

This renewed confidence, especially over job prospects, is helping to support spending this quarter. Both the Mitsubishi Bank-Wertheim Schroder index and the *Johnson Redbook Report* found that retail sales increased strongly during the week ended Nov. 26.

And reports showed hefty gains in credit-card use and checks written on "Black Friday," as retailers call the day after Thanksgiving that opens the lucrative holiday season. Visa USA Inc. said charges on its credit cards for the combined Friday and Saturday period hit a record $1.9 billion, up 24% from last year, while MasterCard volume on Friday jumped 35%.

Of course, one week's data are not enough to label the season a big success, and this quarter is unlikely to match the fourth quarter of 1993, when real retail sales exploded at a 10.8% annual rate. But the early activity does suggest retailers will not be disappointed.

In a separate survey, the Conference Board reports that households plan to spend 7% more on gifts this year than last year. That increase, which is in line with most forecasts of a 6%-to-8% gain, means holiday sales should reach nearly $42 billion this year. That's a lot of espresso makers and Power Rangers.

ONE DOWNER for shopkeepers could be that 1994 will require heavier sales promotions than 1993. Stores went into the season with unusually large inventories, which will have to be moved out with various discounting schemes—cutting into profits.

Also, interest rates are not immaterial to shoppers. Higher rates are having a strong effect on the biggest consumer purchase of all: houses. Sales of existing homes eked out a 0.5% gain in October, up to an annual rate of 3.91 million.

Home-buying has dropped off, however, since its frenzied pace of late 1993. Resales fell 1% in both August and

ERIC HOFFMANN/BW

September, and the October total was 3% below the rate of a year ago. House prices are, on average, only slightly higher than their level of October, 1993.

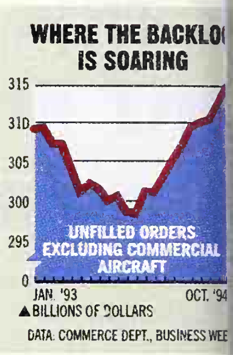
The slowdown in housing demand, along with the need to pay off Christmas credit-card bills, means that consumers may rein in their spending come the first quarter. But as long as the fundamentals—including jobs, incomes, and confidence—remain buoyant, the pace may not dip very much for very long.

RIGHT NOW, consumers are helping to keep manufacturers busy—and keep their order books full. Although bookings at durable-goods factories dipped by 1.5% in October, the volatile transportation sector more than accounted for the decline. Orders in all other major sectors rose—from metals to machinery to electronic equipment. Bookings began the quarter well above their third-quarter average.

Moreover, factories have a growing pile of unfilled orders. Outside the aircraft industry, the backlog has soared more than 5% so far this year, after a steady downtrend in previous years (chart). That's a key reason for this year's pickup in factory hiring. And it means that further gains in jobs and output are likely.

The Federal Reserve's annual revisions to industrial production and capacity did little to change that outlook. The changes in the monthly pattern of output were slight, especially in 1994, and the rate of capacity use for all dustry in October is now 84.6%, down only a shade fr the 84.9% recorded before the revisions.

Increased activity in manufacturing and other businesses continues to bump up the bottom line. The Commerce Dept.'s measure of corporate operating profits, adjusted for changing inventory values and depreciation, rose 12.9% for the year ended in the third quarter. Strong earnings growth is a major reason why companies continue to shell out big bucks for new buildings and equipment.



WHERE THE BACKLO
IS SOARING

▲BILLIONS OF DOLLARS

DATA: COMMERCE DEPT., BUSINESS WEE

Thanks to productivity gains, which are holding do unit labor costs, profit margins remain historically hi For nonfinancial companies, the ratio of operating earni to real output rose to 12.8% last quarter, up from 12.7% the second quarter.

To be sure, profit growth will slow sharply in 1995, only because the Fed is hard at work hiking interest rat in order to cool off consumers' yen to spend. And judgi by the strong start to the holiday shopping season, ev higher rates will be needed to force households to p back.

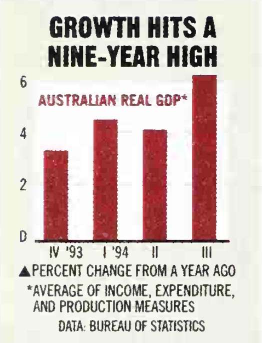
AUSTRALIA

MATILDA IS WALTZING A BIT TOO FAST

The land down under is bubbling over. Resource-rich Australia, heavily dependent on commodity exports, is thriving in the face of improving world demand and a favorable exchange rate. But its rapid growth is ringing inflation alarms.

Real gross domestic product increased by 1.3% in the third quarter, pushing the annual growth rate to 6.4%, the strongest performance in nine years and the fastest of any country in the industrialized world. Consumer spending leads the way, fueled by gains in jobs and real wages. Weekly earnings are growing about 4%, while inflation is a mere 2%. Business equipment investment continued to rise, lifted by a 17.5% annual pace of corporate profits.

The drought now ravaging eastern Australia produced last quarter's biggest drag on growth. Farm output plunged, and exports dipped slightly. But the export setback should be temporary, since the budding Japanese recovery is adding strength to the already vibrant Asia-Pacific region. The Australian dollar remains cheap, especially vs. the yen, giving Aussie exporters a big advantage. Meanwhile, imports jumped 8.5% in the third quarter, a sign of robust domestic demand.



GROWTH HITS A NINE-YEAR HIGH

▲PERCENT CHANGE FROM A YEAR AGO

*AVERAGE OF INCOME, EXPENDITURE, AND PRODUCTION MEASURES

DATA: BUREAU OF STATISTICS

Australia's ebullience should wane next year, however, and inflation is likely to move up. To thwart price pressures, the Reserve Bank of Australia (RBA) has already twice lifted a key interest rate by a total of 1.75 points, to 6.5%. In light of the GDP data, the central bank may hike rates by a further full point much sooner than the markets had expected—perhaps within days.

Given strong growth, Treasurer Ralph Willis appeared to give the RBA the green light on Nov. 30, saying the government would give "serious consideration" to tax increases, spending cuts, and interest-rate hikes. Some fiscal tightening in the May, 1995, budget already seemed likely in order for the government to cut its deficit to its goal of 1% of GDP by 1997. Officials are not eager to repeat the '80s price spiral, even at the cost of a slower economy.

ERIC HOFFMANN/BW

Hewlett Packard LaserJet 4V
00 READY
LETTER

Double time.

HP LaserJet 4V
Documents in half the time.

If your printer keeps you waiting too often, you're ready for the new HP LaserJet 4V printer. The one that can give you 16 pages per minute instead of the usual eight.

The LaserJet 4V handles a variety of paper sizes, including 11″ x 17″. It's got more memory. And it fits on a desktop. When you hit print, you get HP's true 600-dot-per-inch resolution. It's sharper. Crisper. Blacker. And only $2,449 U.S. list.

If you need to turn up the speed on your network, choose the LaserJet 4MV. Get your work in half the time it ordinarily takes. Just look in the Yellow Pages for the HP dealer nearest you.

You do your job. We'll do ours.
HP LaserJet Printers

HEWLETT®
PACKARD

information, call 1-800-LASERJET, Ext 8572 In Canada call 1-800-387-3867, Ext 8572 ©1994 Hewlett-Packard Company PE12460

HOLLYWOOD SCUFFLE

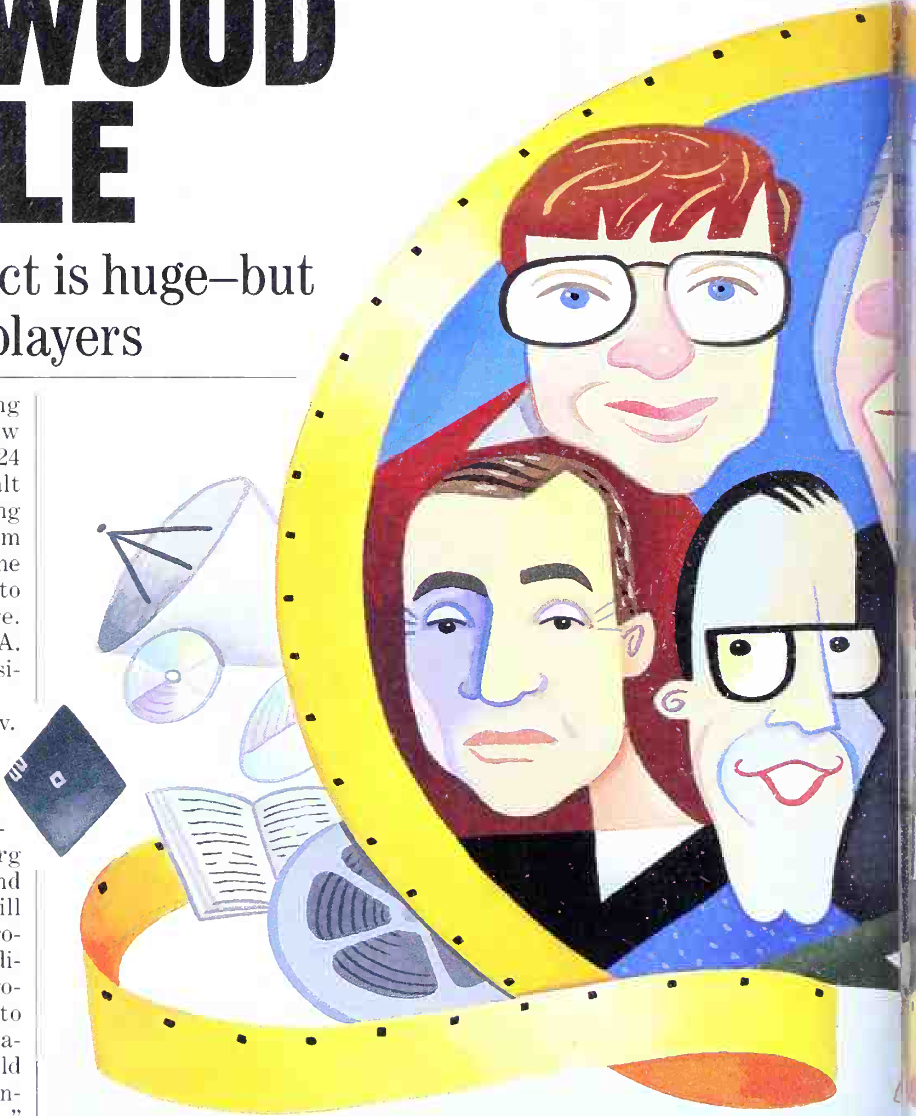
Demand for product is huge—but so is the roster of players

For Jeffrey Katzenberg, quitting Disney opened up a whole new world. Within hours of his Aug. 24 resignation as chairman of Walt Disney Studios, Katzenberg was fielding phone calls from such moguls as William H. Gates III and John C. Malone. Some simply wanted to talk. Others offered to invest in Katzenberg's next venture. First among the callers was Robert A. Iger, who was soon to be named president of Capital/Cities ABC Inc.

Iger's promptness paid off. On Nov. 28, Cap Cities announced it had bagged the "Dream Team." The network will start a television studio in partnership with the new entertainment company owned by Katzenberg and his teammates, David Geffen and Steven Spielberg. The two sides will kick in $100 million each to develop programs for network TV, cable, and syndication. Iger notes that the money is going into the shows themselves, not to build an elaborate studio lot or hire platoons of executives. "We want to build something for today's business environment," he says, "not yesterday's."

LOOSER REGULATION. Katzenberg & Co. are only the latest in a steady stream of players who are making yesterday seem like a long time ago in Hollywood. The prospect of a New Hollywood also has drawn the likes of cable-TV baron Ted Turner, Viacom chief Sumner M. Redstone, and Bell Atlantic Chairman Raymond W. Smith. All these heavyweights see—or think they see—a series of regulatory and technological trends that are converging to make the film and TV business virtually irresistible.

But the players who are remaking Hollywood are in for a bumpy ride. That's because the economics of entertainment are changing so rapidly. In the



ROBERT DE MICHIELL

TINSELTOWN: TAKE TWO

Five years after the Japanese invasion, a new cast of players is once again reshaping the entertainment industry

DAVID GEFFEN, JEFFREY KATZENBERG, STEVEN SPIELBE
This "dream team" is building
tertainment company from scra
Their first step: a partnership w
ABC to create a TV studio. Late
Katzenberg and his colleagues
to produce live-action and anim
films, music, and interactive me
products. The venture has draw
interest from cable titan John
Malone and Bill Gates.

Hollywood, seven major studios nated film and TV production, while ndful of networks delivered the pro- mming to mass audiences. Now, the ber of distribution channels is exploding, and the historic relationship between producers and distributors is eroding. Worse, consumers simply may not want to watch more TV or see more movies. The danger is that a Darwinian struggle will develop in which too many players fight over video-saturated viewers.

Spotting the next big hit, of course, will still guarantee success in show business. But several trends are intensifying the competition. First, government regulations that bar broadcast networks from owning TV programs are being phased out. That's what enabled Cap Cities to strike its deal with Katzenberg. It's also the reason that major TV producers such as Warner Bros. Inc. and Paramount Pictures are starting their own networks. Second, the rules that prohibit telephone and cable companies from invading one another's turf are quickly being eliminated, prompting the Baby Bells to deliver video services.

On top of those changes, emerging digital technology has vastly expanded the carrying capacity of cable and telephone networks. With hundreds of channels in the offing, the search is on for high-impact programming to break through the clutter. "Whether they want to own, buy, or invest, they have to come to us," says Tom Pollock, chairman of Universal Pictures, which made the blockbuster, *Jurassic Park*.

Hollywood's new players, however, are plotting strategies to transform the way future hits are delivered (table). Six of the seven Baby Bells, for example, have allied with Walt Disney Co. or Hollywood agent Michael Ovitz to buy or invest in programs that existing studios will turn out. The Bells plan to distribute the shows over their souped-up telephone networks. "The Ovitz partnership is really designed to make us some valuable connections in the creative business," says James G. Cullen, president of Bell Atlantic Corp., which has allied with Pacific Telesis Group and Nynex Corp. to develop TV programming.

GRAND GESTURES. Iger has a similar goal in linking up with Katzenberg & Co. He wants ABC to own more programs, preferably hot shows such as *E.R.*, the emergency-room drama that Spielberg's Amblin Entertainment currently produces for NBC Inc. Iger believes the Dream Team will be a powerful source for such creative programming concepts. ABC will need plenty of hits, because even in plain-vanilla broadcasting, the competition for viewers is escalating. Warner and Viacom Inc.'s Paramount studio are spending millions on new TV networks to compete with the Big Three and Fox. Indeed, Viacom on Nov. 30 announced that it will pay $100 million for a Boston TV station, WSBK, to bolster its United Paramount network.

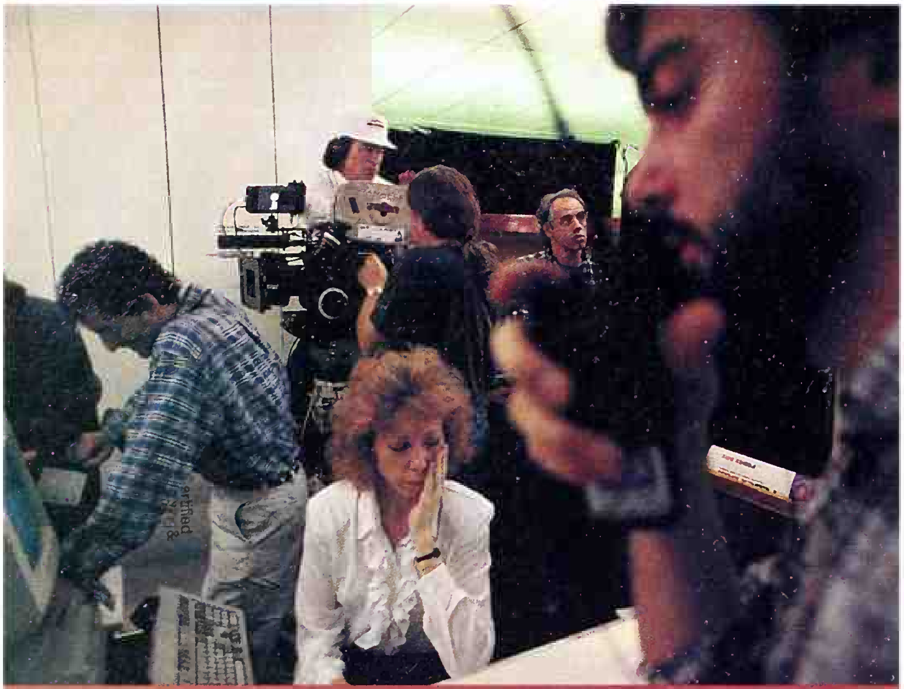
Iger says Cap Cities might be interested in some of the other legs of Katzenberg's new company, such as its multimedia unit. Katzenberg, who's not dropping hints, is also rumored to have talked about potential investments with Microsoft Corp. Chairman Gates and cable titan Malone, who is CEO of Tele-Communications Inc. Katzenberg also intends to produce music and live-action and animated films.

For some distributors, the need for content is so great that they've bought into Hollywood lock, stock, and barrel. Viacom Chairman Redstone paid $10 billion for Paramount Communications Inc. And Turner Broadcasting System spent $1 billion to buy and combine two mo-

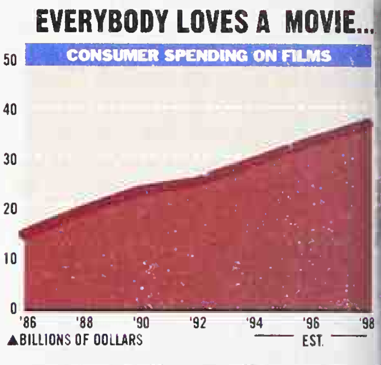
OVITZ, RAYMOND SMITH
ntic's Smith has teamed ific Telesis, Nynex, and tal- t Ovitz to develop video net- livered over phone wires. stern Bell, Ameritech, and h have allied with Disney in venture. In Disney's deal, the company may be a er of the video network. l help develop programs for Bell partners.

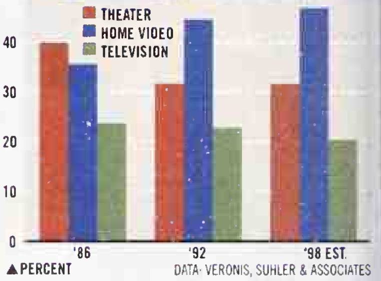
TED TURNER, SUMNER REDSTONE
Turner Broadcasting paid $1.06 billion in equity and assumed debt for New Line Cinema and Castle Rock, while Redstone's Viacom acquired Paramount Pictures for $10 billion.

BILL GATES
Microsoft's chief recently set up his own office in Hollywood. He's seeking ways to marry entertainment and software technology.



STUDIO WITHOUT A LOT: *Shooting New Line's* Amelia and the King of Plants





DATA: VERONIS, SUHLER & ASSOCIATES

vie-production companies, New Line Cinema Corp. and Castle Rock Entertainment. Turner has funneled millions more into ramping up production to feed its clutch of cable networks with fresh films. New Line recently plunked down $4 million to acquire a screenplay by *Lethal Weapon* writer Shane Black.

Such grand gestures raise the fear that Hollywood will chew up this new crop of players, much as it mulched Japan's Sony Corp. and other outsiders that bought studios. New buyers, such as Turner, hope to avoid the pitfalls of their predecessors by doing without studio lots and their high overhead. Others are considering buying only minority stakes in studios such as Sony's troubled Columbia Pictures.

JUST A VENDOR. Indeed, some observers predict that minority investors and owners of "virtual" studios will proliferate along with the number of distribution channels. "Distribution is so much easier to have today that the old barriers to creating a studio just don't exist any longer," says John S. Suhler, president of investment brokerage Veronis, Suhler & Associates Inc.

The field already is getting more crowded. Being able to compete without buying a studio outright has enticed foreign companies such as PolyGram to enter the business. Rather than buy a studio, PolyGram has spent $250 million over a three-year period to ally itself with such filmmakers as Jodie Foster. Next year, PolyGram intends to boost its production to 20 films from its current 15, according to PolyGram Filmed Entertainment President Michael Kuhn.

Still other players are dipping their toes into Hollywood—convinced that they need programming but unsure of the best way to get it. Microsoft's Gates, for example, opened a small Hollywood office to track industry developments and to look for business opportunities. He also recently hosted Katzenberg for a daylong visit to Microsoft's Redmond (Wash.) headquarters. "We are committed to supporting Hollywood in a big way," says Jonathan D. Lazarus, Microsoft's vice-president for strategic relationships. More recently, though, Gates has said he would rather be just a vendor, selling his software to companies that deliver interactive services.

Such an approach could serve Gates well. In the short run, Hollywood's new producers will thrive amid the frenzy of activity. With so many new distributors vying for content, the price for programming will be bid up to the rafters. But on the distribution side, t competition promises to be ferocio Distributors require increased con mer spending to bankroll their expa sion. Suhler predicts that consum spending on filmed entertainment w grow at a compound annual rate of 6. between 1993 and 1998. Even so, so observers doubt this is enough grow to sustain all the new players.

In the long run, the public's appetite may not keep pace with the moguls' expectations

Pollock is one of the skeptics. points out that Americans watch roug ly the same number of hours of tele sion per day as they did two decad ago. They also buy roughly the sa number of theater tickets per year, ev with a growing population. Entertai ment boosters say those numbers a understated because of the public's i creased consumption of home videos a video games. But all told, America aren't likely to devote significantly mo time to entertainment than they do no Says Pollock: "The pie doesn't ha much room to grow."

That's a sobering thought for Holl wood's new players. The industry m be booming now, but it could face wrenching shakeout in a few years new distribution services fail to cat on with consumers. At that point, hea ily leveraged studios and other produ ers may suddenly find demand for the product drying up. The New Hollywo could look downright Jurassic even b fore the sequel comes out.

By Ronald Grover in Los Angel and Mark Landler in New York

PHOTOGRAPH BY MARK PETERSON/SABA; CHART BY RAY VELLA/BW

ERICA'S NEW WATCHWORD: IT MOVES, PRIVATIZE IT

ticians are scrambling to contract out services

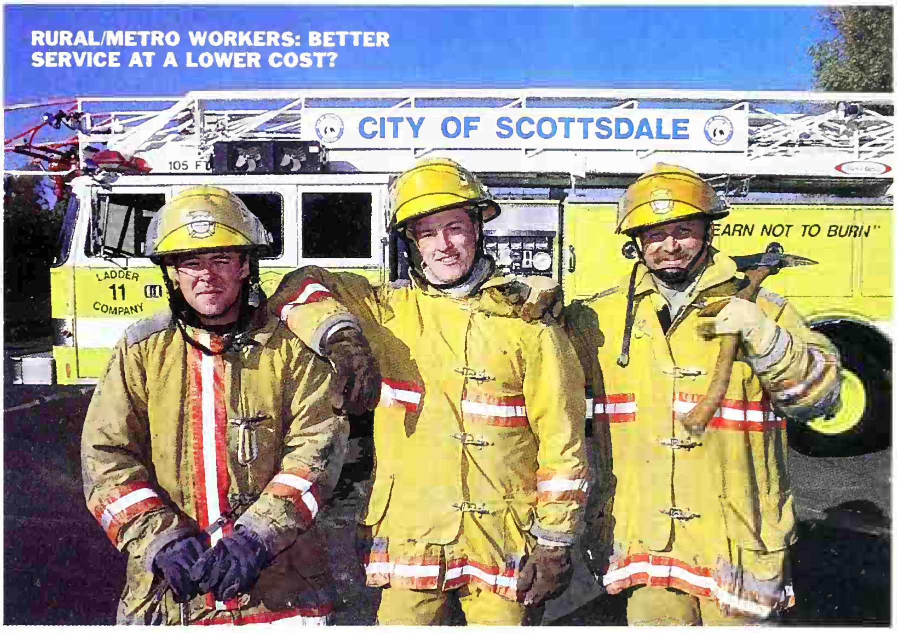
nerican Water Works Co. is wag-
ng a $300 million hostile takeover
oid—but it's not the usual corporate
The Voorhees (N.J.) water-supply
oany is fighting for control of the
a Margarita Water District, a pub-
ntity that serves homes across Or-
County, Calif. American Water
ed organize a voter-petition drive
ssolve the district and turn control
to the company. It vows to take on
listrict's debt and cut costs.

nerican Water is one of dozens of
oanies seeking to tap into voters'
ıst with government. Rural/Metro
n Scottsdale, Ariz., is snapping up
racts to run fire departments and
rgency medical services. Correc-
Corp. of America in Nashville and
ornia Private Transportation Co.
naheim, Calif., are building prisons
oll roads. "We work our people with
ness goals in mind," says Mark E.
ner, Rural/Metro's chief financial
er. "We know how to be efficient."
ow, with the Republican landslide
olete, more privatization is looming
olíticians from Syracuse, N.Y., to
Juan Capistrano, Calif., fall all over
ıselves to shrink government.
ve been trying to drive down the
of doing business," says Indianapo-
ayor Stephen Goldsmith, who has
atized the city's water-treatment
ties and is attempting to do the
with the local airport. Now, says
smith, the need to slim down is
urgent than ever.

ZEPPELIN. The federal government
be exempt. There's talk of reorga-
g the House Government Opera-
Committee to include a new sub-
nittee on privatization that would
to hand over to private companies
ything from air traffic control tow-
government printing shops. Pro-
nts are busy dusting off the 1988
gan Administration report to "The
ident's Commission on Privatiza-
to give impetus to their drive. "It's
tellectually vibrant as ever," says
stopher Cox (R-Calif.).

hat will the GOP target? One obvi-
lunker is the national helium re-
e, a government-run operation
nally set up in the 1920s to ensure
ure helium supply for wartime dir-
es. Now, it supplies NASA and the
agon—and has piled up more than $1 billion in debt, according to the Office of Management and Budget. The Republicans also may consider such long-standing edifices to bipartisan pork as the Bonneville Power Administration in Oregon and the Tennessee Valley Authority.

Down the road, Republicans have set their sights higher. One key goal: allowing package-carriers such as Federal Express Corp. and United Parcel Service of America Inc. to compete with the U.S. Postal Service for first-class mail delivery. Many experts agree such steps could reap savings of about 25%. "It's not a matter of private vs. public," says Emanuel Savas, professor of public affairs at Baruch College in New York. "It's a matter of competition vs. monopoly."



RURAL/METRO WORKERS: BETTER SERVICE AT A LOWER COST?

DON STEVENSON

DOWNSIZE OR ELSE Fearing major subsidy cuts from a Republican-controlled Congress, many states have started sharpening their own axes

Such thinking is driving change around the globe. Chile, Argentina, Colombia, and Peru now allow workers to invest their social security payroll deductions into privately managed funds. Earlier this year, the Netherlands held an initial public offering for 25% of the Dutch postal and telephone system. And France, long a bastion of nationalized industry, has sold off $10.3 billion in state companies this year, including oil producer Elf Aquitaine, the nation's biggest company. All told, European countries plan to privatize some $250 billion of assets over the next decade.

Washington Republicans, though, can derive inspiration much closer to home. Massachusetts' Transportation Dept. has slashed its budget by one-third, to $77 million, by bidding out road maintenance to private companies. In Michigan, Governor John Engler has agreed to sell the state's workers' compensation fund to Blue Cross Blue Shield of Michigan for $291 million. Mayors from Philadelphia to Los Angeles are fighting to allow private companies to compete for trash collection, public golf courses, even zoos.

For privatization proponents, the logic driving such deals is irrefutable: Government should get out of businesses they're not much good at. By focusing on the bottom line, says Rural/Metro's Liebner, his company provides better service at a fraction of the cost of traditional government-run services. In Scottsdale, fire losses have dropped by 84% since 1985, the year Rural/Metro first required homeowners to install in-home sprinklers. Such efforts aren't a magic wand for efficient government—but they're not a bad start.

By Eric Schine in Los Angeles, with Richard S. Dunham in Washington and Christopher Farrell in New York

THE ECONOMY

DEJA VOODOO ALL OVER AGAIN?

The GOP wants forecasts to show tax cuts paying for themselves

In Washington's fiscal Wonderland, where things are rarely as they seem, a nasty battle is brewing over budget estimating. And arcane as the dispute may appear, it could well decide the fate of ambitious Republican proposals to cut taxes for businesses and families.

The budget forecasters are fighting over the proposed tax cuts in the GOP's Contract With America. Using traditional estimating methods, the White House insists the cuts would cost $300 billion over the next five years and must be paid for with offsetting revenue increases or spending cuts. Anything less, the Clintonites insist, would be a return to deficit-boosting voodoo economics.

But Republicans say the tax cuts can pay for themselves. They believe the longtime "static" system for scoring tax cuts is wrong, and they're promoting "dynamic" revenue estimating. According to this approach, new tax breaks generate so much economic activity that instead of cutting into government revenues, they produce a windfall for the Treasury. To prove it, the GOP wants to try to move to a two-track system, where congressional estimates of the impact of proposed tax changes are scored by both methods.

MIGHTY EYESHADES. Republicans are eager to change forecasting models because they know the power of budget estimates on policy. For instance, President Bush's capital-gains tax cut vanished in 1989 when congressional green eyeshades concluded the cut would cost $2 billion a year. The drain—just 0.2% of the $1 trillion the Treasury collects annually—gave Democrats enough ammunition to sink the plan.

This time, the stakes are much higher. According to Fiscal Associates Inc. President Gary Robbins, who advises House Republicans and is a leading proponent of dynamic estimating, the GOP tax agenda would increase the U.S. gross domestic product by a staggering $2.7 trillion over the next five years. Robbins, a former Reagan Treasury official, argues that the GOP capital-gains tax proposal would generate $126 billion in new revenues by spurring massive economic growth. The provision would cut the top capital-gains rate in half, to 14%, and ad
gains for inflation.

Sound like a lot? A proposal for
more generous business deprecia
write-offs for capital investments w
have an even greater effect, Robb
reckons. Such a change would boost
economy's annual growth rate from 2
to 4.5% over five years and genera
mind-numbing $420 billion in new
revenue. The twin moves, Robbins s
would more than pay for GOP rever
draining tax breaks, such as a $500-
child credit for families, a phaseou
the "marriage penalty," and a bigger
heritance-tax exemption.

BIG-BANG THEORY. Robbins was abl
produce the eye-popping numbers
making some fairly ambitious assu
tions. For instance, his model figu
that the depreciation cha
would cut the cost of capita
the U.S. by a huge 16%. A
like most economists, he re
ons that investment-driv
changes produce far more ba
for the buck than, say, the cl
credit, which would do lit
more than spur consumptio
much of it for products p
duced overseas.

But Robbins' analysis d
not just take into account
way people adjust their beh
ior in response to a tax chan
It also measures the effects
tax policy on the overall ec
omy. His method is, to say
least, controversial. "Robbi
numbers are absolutely prep
terous," huffs Joel L. Prakk
an economist with the St. Lo
consulting firm Laurence M
er & Associates. Even so
supporters of Reagan's tax c
have doubts. Economist M
chael K. Evans, for one, ca
Robbins' estimates of the be
efits of the depreciation cha
es "wishful thinking."

Critics of the dynamic m
el itself contend that the effe
of tax changes are usually r
atively small. "It's impossi
to measure with any precisi
what the effects are going
be," says Alan J. Auerbach,
economist at the University
California-Berkeley. Indee
the effects of even huge char
es in tax law may be impossi
to measure accurately. For i
stance, economists are st
squabbling over the impact
the Reagan Administratio
1981 tax cuts.

A TALE OF TWO BUDGETS

Will proposed tax cuts in the GOP's Contract With America cost the Treasury billions or generate vast new revenues? Here's how various estimates stack up over five years:

IN BILLIONS OF DOLLARS	DYNAMIC MODEL	STATIC MODEL
CAPITAL-GAINS TAX CUT	+$126	–$56
INCREASED DEPRECIATION FOR CAPITAL EQUIPMENT	+420	+5
EXPANSION OF IRAs	+10	–18

DATA: JOINT COMMITTEE ON TAXATION, FISCAL ASSOCIATES INC.

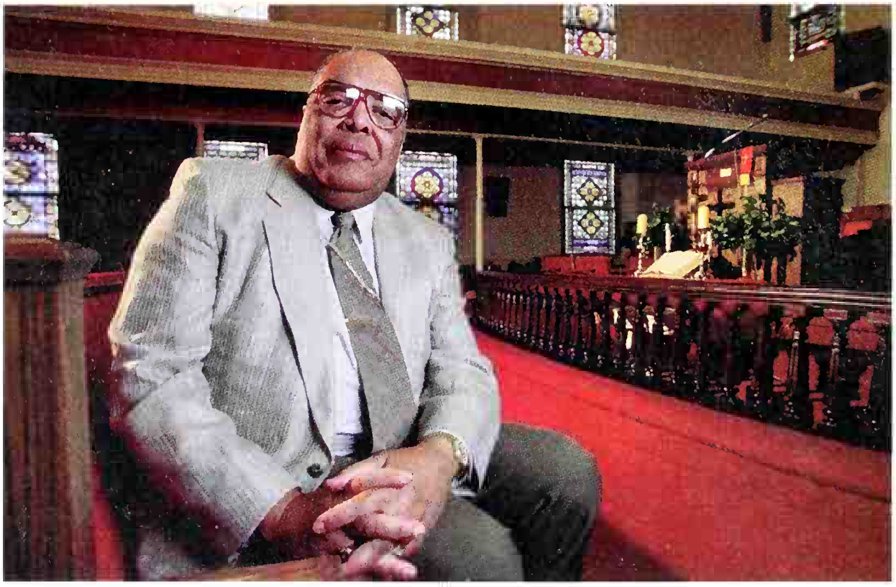
That's one reason official revenue es-
ators at the Treasury Dept. and on
pitol Hill take a more conservative
proach. They look only at the impact
a change on taxpayers' behavior. For
tance, if the government raises the
oline tax, fuel consumption may drop.
But government estimators have
ed away from figuring the macro-
nomic impact of these changes. That's
ause traditional forecasters insist
y can't quantify the impact of a tax
on employment, lower interest rates,
faster growth. With deficits already
h, they fear a wrong guess would
e lawmakers the leeway to bust the
lget with more tax breaks. Notes
asury Dept. economist J. Bradford
Long: "Any time the amount of tech-
al knowledge is small and the ideolog-
content is extremely high, you're
ing for danger if you include it in the
lget process."

n the dynamic-vs.-static estimating
ate, the Clinton Administration may
e a surprising ally—Wall Street.
ders would love a capital-gains tax
but they're already worrying that a
t to dynamic estimating would wipe
the budget discipline needed to pre-
t budget-busting tax giveaways.
s Allen L. Sinai, chief economist at
man Brothers Global Economic Ad-
ors Inc.: "There's no tax cut that pays
itself. It's a fiction." And John G.
ski, senior economist at Moody's In-
tors Service, frets that tax-policy
s already "may have pushed bond
ds up and stirred new worries in the
k market."

AGIC POTION." Senate GOP deficit
vks, including incoming Budget
nmittee Chairman Pete V. Domeni-
R-N. M.), are also wary of the dy-
nic school. But House Republicans
e to replace Congress' top revenue
mators—Congressional Budget Of-
Director Robert D. Reischauer and
nt Tax Committee Staff Director
n L. Buckley—with dynamic scor-
. The current pair "are mixing this
gic potion somewhere up in the
ne of the Capitol," says incoming
use Budget Committee Chairman
n R. Kasich (R-Ohio). "And it isn't
king very well."

o avoid spooking the markets, Re-
licans figure they must initially pre-
e both a traditional and dynamic es-
ate for their tax proposals. Should
enues exceed the official forecast,
GOP would be able to make a strong
e for further tax cuts and a switch in
thodology. Until then, though, they'll
ly have to finance tax cuts the tough
: with hard cash.

*By Howard Gleckman, with Dean
ust and Richard S. Dunham, in
shington*



BISHOP ELLIS: *Rebuilding the confidence of members is crucial*

NONPROFITS

RUDDERLESS AT THE NAACP

The cash crunch is easing, but direction is needed

Two months ago, the National Association for the Advancement of Colored People was still reeling from the August ouster of its executive director, the Reverend Benjamin F. Chavis Jr. Chavis, who had pledged $330,000 of the group's funds to an out-of-court settlement in a sexual-harassment suit, left the NAACP with a deficit now pegged at $4 million. The financially strapped organization had to furlough 80 workers, and, unable to pay its bills, couldn't even get access to a computerized list of contributors maintained by outside vendors. "We had no resources to even raise money by direct mail," says Gilbert Jonas, the group's chief fund-raiser.

But the venerable civil-rights organization wasn't left to die. On Nov. 18, the Ford Foundation released a $250,000 grant it had held up during the Chavis controversy; the same day, the NAACP announced a nine-point recovery plan, meant to encourage other donors. On Nov. 22, 16 Christian and Jewish organizations pledged to raise $5 million—a hefty chunk of the NAACP's $15 million annual budget. And on Dec. 6, CEOs will take their checkbooks to the group's annual corporate fund-raiser in New York, which is expected to match last year's $300,000 in donations. "We're on an upward climb," says Earl T. Shinhoster, the group's interim senior administrator.

Still, the NAACP is far from stable. The 85-year-old institution now is searching for direction. While many younger blacks are disenchanted with what they view as a stodgy outfit, Chavis' efforts to attract them by forging links with black separatists angered older members who fear a departure from the NAACP's integrationist tradition. With three-quarters of its funding coming from members, the NAACP's long-term viability depends on finding a niche acceptable to all generations.

DRILLED? Some insiders say a major housecleaning is imperative. Dissidents are mounting a campaign against Chairman Dr. William F. Gibson, a Greenville (S. C.) dentist who has headed the board since 1985. "I hold him responsible for much of the organization's difficulties," says Julian Bond, a veteran leader who is running for a board seat in December. He and other dissidents aim to draft Myrlie Evers, widow of slain civil-rights leader Medgar Evers, to replace Gibson at their annual meeting in February. Gibson, who is recovering from an illness, couldn't be reached for comment.

A leadership change could reassure business donors. The NAACP is less than $1 million shy of its $5 million goal for corporate and foundation fund-raising, Jonas says. But "it has been a little more difficult to get corporate support," concedes Toys 'R' Us Inc. Chief Executive Michael Goldstein, a top fund-raiser.

In the end, though, winning back the confidence of members is key. "We need an organization that is going to speak to the needs of black people," says Bishop Frank J. Ellis of the Church of God in Christ, one group that has pledged support. Now, the NAACP must figure out exactly what those needs are.

By Catherine Yang in Washington

AS GOOD AS BREAD: *Half of all U.S. supermarkets let shoppers charge it*

CONSUMER DEBT

SORRY, WE DON'T TAKE CASH

Credit cards' business soars as consumers snap up premiums

Talk about a vibrant Thanksgiving shopping weekend: MasterCard spending exploded, up 34.8% from last year. Visa charges increased 24%. But it wasn't just holiday gifts these credit-card shoppers scooped up. They also bought pork chops. And movie tickets. And fillings for their teeth.

After a fling with frugality in the early '90s, Americans are back in love with their credit cards—and not just because the economy has improved. Credit-card marketers keep offering consumers more reasons to whip out plastic. They're coaxing businesses—from supermarket chains to the family dentist—to accept the cards. And by offering airline miles or rebates, they're providing more incentive to use credit cards in place of cash or checks.

"EVERYTHING." Consumers are responding big-time. This year, market leader Visa USA Inc. expects its sales to expand 23.4%, to $280 billion. That's the biggest gain ever, easily surpassing the 17.5% jump in 1990. MasterCard International Inc. foresees a similar gain. Meanwhile, total installment debt, including auto loans, should rise 12% in 1994, according to DRI/McGraw-Hill.

One convert to the increasingly cashless society is Marie Françoise Razzieri, 48, a San Francisco mother and homemaker. She had never used a credit card but recently applied for a Mileage Plus Visa card from United Airlines Inc. The reason? "I want to get some trips," she says. "I am going to charge everything: food, groceries, at the gas station, tuition—everything."

Razzieri isn't alone. Consumers love rebate products such as United's, known in the business as co-branded or affinity cards. MasterCard now has 49.6 million of them outstanding, up 42% from a year ago. Meanwhile, new issues of plain-vanilla cards without rebates will increase only 5%. More people are shopping with more plastic: Andersen Consulting says the average spender held seven credit cards in 1989. Today, that purse or wallet carries 11.

Department stores such as Nordstrom Inc. and Bloomingdale's Inc. began offering rebate Visa cards this year, as interest in their private store-brand credit cards continued to fade. Even supermarkets are getting into the act. Cincinnati-based Kroger Co. already offers a MasterCard that gives credit toward food purchases. Giant Food Inc., a supermarket chain in the Washington area, is negotiating with MasterCard. Such deals will help push grocery
charge volume for Visa and MasterCa
to $9 billion this year, up from $3.9 b
lion in 1992.

More kinds of businesses acce
cards. MasterCard expects discount
such as Wal-Mart Stores Inc. a
Price/Costco to take its plastic ne
year. Even the U. S. Postal Service w
begin accepting Visa and MasterCa
nationwide. Credit cards "will get in
utilities, government [services], hou
ing, mortgage, car payments," sa
Thomas O. Ryder, president for esta
lishment services worldwide at Ame
can Express Co. "If you think about t
way people spend money, those are
opportunities for plastic."

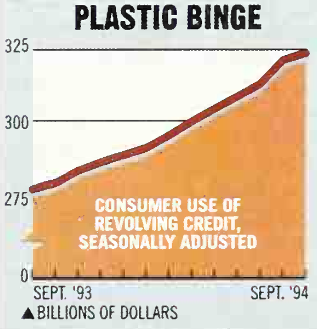
DEEPER IN DEBT? All this new plastic
likely to boost spending by consume
but it's too soon to gauge the exact e
fect. Of course, new opportunities
charge also mean new opportunities
sink into debt. But card issuers insi
that consumers are getting better
managing debt, and indeed delinque
cy rates are at low levels. Also, the
say, a big chunk of charges gets pai
the same month. A year-old study do
for Visa by Yankelovich Partners In
for example, shows that 72% of grocer
charges are paid by the month's en

But critics note that most consume
don't use separate cards for food an
luxury items. When the economy get
worse, they say, it will be tempting t
roll over charges for essentials mont
after month. "It certainly gives the
an opportunity to get into more troubl
than they have in the past," says Mar
M. Zandi, an economist at Regional Fi
nancial Associates Inc.

All the action is not likely to mak
card issuers much richer. Increased com
petition has lowered the return on equi
ty on such operations to 20% or 25%
down from 30% to 40% a few years ago
says Joel Friedman, a consultant at An
dersen. By the end of the decade, he ex
pects that figure to b
down to 15% to 20%
"This is no longer th
jewel it once was, but i
sure beats lending t
Brazil," Friedman says
Perhaps frequent charg
ers will use their fre
miles to fly dow
there—and then put the
rest of the trip on thei
cards.

By Russell Mitchell
in San Francisco, with
bureau reports

PLASTIC BINGE



▲BILLIONS OF DOLLARS

DATA: FEDERAL RESERVE

AILING

IE BIG BARGAIN SEMENT

pricers are hurting as artment stores grab share

acey Parker had long been a die-
ard devotee of off-price shopping,
bsessively scouring Boston's
e's Basement and Marshalls for
ins. This year, though, she discov-
something new: "Department
s are often just as competitive,"
ays. And the gift wrap is nicer.

-price retailers grew quickly in the
lecade by selling name-brand cast-
or less. Now, department stores are
ng back with lower prices of their
and manufacturers' outlet stores
ealing away other consumers. The
: With the critical Christmas sell-
eason under way, many off-price
s are reeling from the stiffest com-
on they've seen in years.

me-store sales at some of the na-
big off-pricers, among them TJ
Stores and Marshalls, were vir-
flat in the first nine months of the
while department-store sales
d a respectable 4%. In the fourth
er, off-price sales likely will inch

WORCESTER COMMON: *Outlets are also making inroads*

up just 1%, figures Goldman, Sachs & Co. "Everyone's gunning for the moderately priced apparel segment," says retail analyst Forrest Fontana at Putnam Investments. "And the department stores are winning."

SCALING BACK. The problem: After opening thousands of stores since the late 1970s, the off-price segment "may be reaching saturation levels," says Goldman Sachs analyst Richard N. Baum. Department stores, meanwhile, have consolidated dramatically, many emerging leaner and more efficient—and ready to compete on price. And sales at outlets—like the 85 stores at the huge new Worcester (Mass.) Common—will increase by about 19% this year, says Bear, Stearns & Co. analyst Dana Telcey. Although still a small part of the retail industry, outlets compete for value-conscious customers with many of the same products.

Off-pricers don't necessarily buy the doom-and-gloom. Bernard Cammarata, chairman of TJX Cos., the nation's largest off-price retailer, blames the "off year" on a poor fashion cycle. He predicts an industry comeback next year and is planning to build 40 to 45 new TJ Maxx stores a year in 1995 and 1996.

But Filene's Basement Corp. is scaling back growth plans, reducing to three the six new stores it planned to open next year after a 45% drop in third-quarter net profits. Filene's Basement and the others are losing customers like Nina Belasquez, a south Florida outlet shopper. "To get the best prices, you've got to go to specific places for specific things," she says. Her next destination: a department store.

By Geoffrey Smith in Boston, with bureau reports

AILING

BBING FOR E BIG APPLE

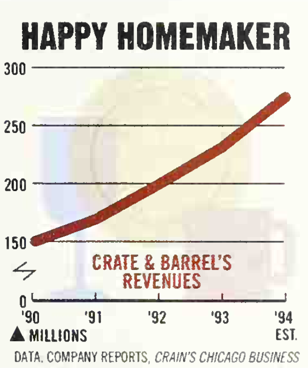
e & Barrel ventures into hattan—very carefully

you live in New York, Cleveland, or
y number of other major cities,
u may never have shopped Crate
rrel. But in areas where the pri-
y held chain is established, it draws
from customers for its service and
ic, offbeat mix of glass and cook-
. "It's one of the few companies
routinely goes off our consumer-
tance charts," says Chris Ohlinger
rvice Industry Research Systems,
cinnati firm that tracks consumer
ment about retailers. "They have
tance on the scale of Santa Claus."

e question now: Can the trendy
from Northbrook, Ill., make it in
ig Apple? In March, Crate & Bar-
ill open its first New York store.
planned location: 59th and Madi-
the heart of Manhattan's tony
ping district. CEO Gordon Segal,
who tightly controls the workings of the $275 million company, says that he spent four years searching for a location before settling on the 54,000-square-foot space. Two more stores will follow this summer in White Plains, N. Y., and Short Hills, N. J.

SLOW GROWTH. Crate & Barrel will attempt to woo demanding New York shoppers with its hallmark glittering displays of stemware and place settings, piped-in classical music, and highly trained salespeople. "We weren't motivated to build a big chain," Segal explains. "We just wanted to build a beautiful store."

Polite salespeople? Beautiful displays? That could spell trouble for Bloomingdale's and R. H. Macy & Co., New York's traditional headquarters for upscale housewares. So why hasn't Crate & Barrel moved into the New York market until now? Segal has studiously avoided overexpansion, even as rivals such as Williams-Sonoma, Pier I Imports, and the Bombay Co. pursued fast-growth strategies.



DATA: COMPANY REPORTS, *CRAIN'S CHICAGO BUSINESS*

In the past 32 years, Crate & Barrel has opened just 55 stores. Even so, its revenue has grown at a 19% compounded annual rate over the past decade.

Segal says he couldn't have opened stores any faster, maintaining that it takes at least three years to train a store manager or display person in the Crate & Barrel style. Even new top-level executives must agree to spend their first three months working on the sales floor or stocking the backroom. "We don't have a concept constraint," Segal says. "We have a people constraint."

Does putting his rep on the line in New York make Segal nervous? Pier I Imports Inc. CEO Clark A. Johnson doubts it. "Gordon has been on a glide path for a great many years," he says. Segal admits to being tense, but not about his move into New York. "If you're not nervous, you have no business being in retail," Segal says. He may not be a New Yorker, but at least he's got some attitude.

By Susan Chandler in Northbrook, Ill.

PHOTOGRAPH BY DAN HABIB/IMPACT VISUALS, GRAPHIC BY ALBERTO MENA/BW

RENTAL CARS

IT ONLY HERTZ WHEN ENTERPRISE LAUGHS

A car-rental rival has leapfrogged the industry leader

Tough luck: First, Shannon J. O'Donnell nearly totaled her 1986 Cadillac on Nov. 9. Then she discovered that her insurance company provides just $20 a day to pay for a replacement rental. Turns out $20 was enough. Enterprise Rent-A-Car Co. delivered a 1995 Ford Taurus to her suburban Chicago driveway the same day, and O'Donnell signed the rental papers in her kitchen.

A car-rental outfit that makes house calls? That's just one secret behind the rapid growth of St. Louis-based Enterprise, the privately held company that shook up the industry in late November when *Auto Rental News* named it No. 1 in the U. S.—bigger than Hertz Corp. The trade publication based its rankings on the size of Enterprise's fleet (232,000 vs. Hertz's 215,000) and the number of office locations (2,000 vs. 1,175).

The news drew outrage from Hertz's Park Ridge (N. J.) headquarters. "The answer is a flat-out no, they're not bigger than us," says a Hertz spokesman, who contends that Enterprise inflates its figures by, among other things, including leased cars. But Enterprise CEO Andrew C. Taylor is crowing: "I guess we snuck up on them."

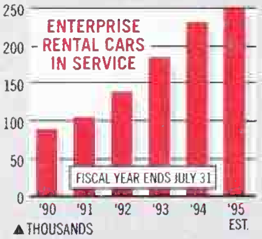
DOWNTOWN TRADE. In truth, Hertz and Enterprise barely compete, except for bragging rights. While Hertz, Avis, Alamo, and the like specialize in airport rental cars for business and leisure travelers, Enterprise has made its mark in the low-budget insurance-replacement market. More than two-thirds of its $1.85 billion in projected revenues this year (vs. $2.1 billion for Hertz and $1.7 billion for Avis) comes from a market the majors don't play in—rentals to people whose cars have been wrecked or stolen.

The economics of that market are different from conventional rentals. While Hertz operates at expensive airport and downtown city locations—some open 24 hours—Enterprise works mostly daylight hours from storefronts and shopping strips nationwide. It also keeps costs manageable by tying the monthly pay of about one-fourth of its 18,000 employees to profitability.

NO. 1? *"I guess we snuck up" on Hertz, says CEO Andy Taylor*

Another cost-saving technique: Enterprise's cars are older. Hertz and Avis obtain their vehicles through buyback programs negotiated with the big auto makers, returning them for new ones after six months or so. Enterprise buys its fleet from a variety of manufacturers, often favoring models that are about to be discontinued or redesigned. And it keeps its cars for about 18 months before selling them. Helped by such tactics, Enterprise claims its consumer rates are up to 30% lower than what rivals charge.

A GROWING ENTERPRISE



DATA: COMPANY REPORTS

There are other differences, too. While Hertz and Avis plow a fortune into national advertising, Enterprise limits its TV time and relies mostly on grassr marketing. Much of its business co from referrals, and Enterprise look ter the insurance agents and adjus who point customers its way. It offe roughly 25% discount on personal tals to the insurance trade, as wel an occasional golf outing, Taylor s It also maintains close ties with car dealers, body shops, and gara sometimes paying rent to mainta booth on the premises. Enterprise m agers even deliver breakfast to re ral sources. "One of our biggest s methods is doughnuts," Taylor jol

Enterprise started its rental b ness with 17 cars in the early 19 and founder Jack C. Tay now 72, expanded the b ness slowly. By 1980, company had 6,000 ren cars and revenues of million. Since 47-year- son Andrew took over CEO in 1990, the pace of pansion has increased, fu ed mainly through ba debt, private debt, and invested profits. There no franchises or public ferings in sight. Accord to the company, it has po ed a profit every month 20 years.

LOCAL RIVALS. Can Ent prise keep up the pace? far, its growth has come ma ly at the expense of the fr mented collection of indep dents that compete f insurance-replacement d lars. And rivals such as E gene Blum, advertising dir tor at Rent-A-Wreck America Inc., based in Owings Mills, M wonder if Enterprise's rapid expansi won't cause glitches in its performan

Taylor thinks he has the risks und control, partly because he has no pla to target the highly competitive airp market. But as the company expan it will compete increasingly with He and Avis for "local" bu ness—customers w need a car for errands short trips. Outracing t majors in that market where renters don't ke their cars nearly as lo as insurance customers will be tough. But so f Enterprise shows no si of wanting to pull out the fast lane.

By Greg Bur
in Chica

PHOTOGRAPH BY MARK KATZMAN CHART BY ERIC HOFFMANN/BW

BREITLING

1884

MAG
FMS1
NAV
330
15
S
21
WX
S
CRS
030
*LL11
DIS 5.7
HDG
210
BREITLING
NAVITIMER

LD NAVITIMER

AVITIMER: ON COURSE AND ON TIME. With
ne a crucial aspect of air travel, the watch
s long been viewed by pilots and
vigators as their basic personal instrument.
en in this age of sophisticated navigation
tellites and radio beacons, compact
mputers like the NAVITIMER's continue to
ect routine flight calculations.
day, NAVITIMER mechanical chronographs
th built-in slide rule rank as the premier
strument at a pilot's service. Based on a
sign voted official watch of the Aircraft
vners & Pilots Association in 1952, current
AVITIMER models all incorporate BREITLING'S
novative slide rule. Relentlessly improved
er the years, NAVITIMERS are amazingly
nple to use, water-resistant, and their trim
od looks remain as unmistakable as ever.

Selfwinding mechanical chronograph calibrated to 1/5th of a second.

30-minute and 12-hour totalizers.

Power reserve in excess of 42 hours.

Easy-to-read calendar.

Aviation-type slide rule also suitable for weight, measure and currency conversions.

Case water-resistant to 30 m (100 ft) with glareproofed cambered sapphire crystal.

Made in steel, in steel and 18K gold and in solid 18K gold.

Available with three types of leather strap with choice of tang-type buckle or folding clasp, or else with a "PILOT" bracelet.

AUTHORIZED BREITLING AGENT:

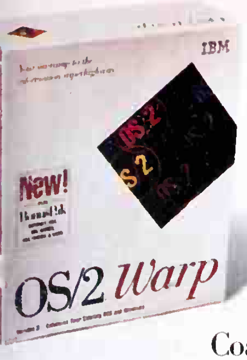
TRADITIONAL JEWELERS

Fashion Island
Newport Beach, California 92660
Tel: (714) 760-8035 • 1-800-766-8035

NSTRUMENTS FOR PROFESSIONALS

PHIL JACKSON HAS BEEN WARPED SINCE THE START OF THE SEASON.

THE WORD "TECHNICAL" DOESN'T FAZE HIM.



Before any basketball coach tries to emulate the winning ways of Coach Phil Jackson, they

ay want to take a peek inside his computer.

If they did, they'd see that Phil can do

ne pretty neat things. Like use his computer

review video

last night's

me against

w York. At the exact same time that he's

mailing a respectful appeal to the League.

course, being a game day, he's also, at

e same time, using a Windows™ graphics

ogram to jot down plays.

They might also note that Phil never has

worry about totally losing it (his programs,

t is) if an application ever goes down. And that Phil can get on the Internet and other on-line services incredibly fast and easy, so he can get up-to-the-minute stats and injury reports.

In short, they'd see that Phil has OS/2 Warp, a new multitasking operating system that gives DOS and Windows* programs amazing versatility. (And anyone who's ever seen Phil coach, knows he likes versatility.)

Now, just so there's no confusion, Phil's not letting anyone take a peek inside his computer.

OS/2 Warp is available for under $90. (Or for just slightly more than the cost of a court-side seat.) To get warped, stop by your local software dealer, or call 1 800 3 IBM-OS2. Ask for a free demo disk.

ne new 32-bit, multitasking, multimedia, Internet-accessed, crash-protected, Windows-friendly, totally cool way to run your computer. **OS/2® WARP**

IBM®

2 Warp is available from your software dealer. It is also available from IBM for $89 by calling 1 800 3 IBM-OS2.
ler prices may vary. OS/2 Warp consists of OS/2 Version 3 and BonusPak. IBM, Operating System/2 and OS/2 are registered trademarks of the International
ness Machines Corporation. The OS/2 logo is a trademark of IBM. Windows is a trademark of Microsoft Corporation. *On systems with Windows installed.
94 IBM Corp.

WEATHER

THE FARMERS' ALMANACS START A STORM

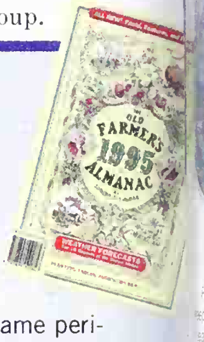
Winter-from-hell forecasts spur a blizzard of foul-weather sales

Pam Johnson has seen the future, and it's frosty. In October, she went snow-shovel shopping after seeing the *Old Farmer's Almanac* prediction of huge snowfalls for the winter of 1995. "After reading that," says the 32-year-old Nashua (N.H.) nurse, "I decided if it's going to snow real hard, I'm going to have a good shovel." Johnson wasn't the first in line, either: She bought one of the last four shovels in the store.

Call it the Almanac Effect. The nation's several Farmer's Almanacs all are predicting a tough winter this year. The *Old Farmer's Almanac*, the best-known, forecasts "near record amounts of snow" for "the upper Great Plains, Great Lakes, New York, New England, and much of the Appalachians as well as the higher elevations of the western part of the country."

GREAT WHITE WAY, 1993: EVEN NEW YORK FEELS THE "ALMANAC EFFECT"

Let It Snow!



SALT The Salt Institute says $263 million worth of road salt was sold in the first six months of 1994, up 42% over last year.

SNOWMOBILES The International Snowmobile Industry Assn. says sales since Apr. 1 have risen 46% from the same period in 1993.

SNOWBLOWERS Toro's snowblower sales are up 120% over last year, to 250,000 units.

SNOWPLOWS Employment at snowplow maker Fisher Engineering has tripled in less than two years, to a total of 290 people.

Of course, no one knows how many people really believe the almanacs. But some companies think that such prophecies—plus the memory of last year's heavy snows—have sent consumers scrambling to buy anything that clears the white stuff. "There's a certain amount of panic in the market," says Michael Thuecks, a vice-president at Ariens Co., which expects to triple its snowblower sales this year. "We love the Farmer's Almanac."

And why not? Sears, Roebuck & Co. says it expects to double its snowblower sales this season. Toro Co. says sales for its quarter that ended Oct. 28 rose 52%, to $206 million—with half the increase coming from booming snowblower sales. The International Snowmobile Industry Assn. reports that sales of the gas-powered trailblazers are up 46% so far this year, after five years of slushy 4% increases. And widespread shortages of road salt last winter have prompted local governments to stock up: The Salt Institute estimates that producers sold 12.5 million tons of rock salt in the first six months this year—up 23% from the year-ago period. Even snowplow sales are up.

So just how accurate is the almanac? Depends on which one you mean. In addition to the *Old Farmer's Almanac*, published in Dublin, N.H., there's the Lewiston (Me.)-based *Farmers' Almanac*, and, out of New York City, *Harris' Farmer's Almanac*. Plus other almanacs are published regionally.

RIGHT AS RAIN? As a bunch, the almanacs are rarely unequivocal—and admit to being frequently fallible. Despite missing the warm early winter of 1993, "we did get the rest of the winter nearly right," says John Pierce, publisher of the *Old Farmer's Almanac*. And Peter E. Geiger, editor of the *Farmers' Almanac*, acknowledges missing a big storm in April. "But we had all the storms in January, February, and March," he says. And the early winter? "We may have called for a couple of storms in November and December th didn't occur," says Geiger.

Hit or miss, there's a big and anxio audience for the almanacs' forecasts. T *Old Farmer's Almanac* distributed sor 4.5 million copies of its 1995 editio *Farmers' Almanac* expects to ship son 5 million this year. With consumers bu ing on their prognostications, even son Chrysler Corp. and General Moto Corp. dealers have started mentionii the forecasts in ads pitching Jeeps ai Cadillacs with traction control.

Of course, many manufacturers attri ute their blustery sales to factors oth than the almanacs' predictions—whi are based on sunspots and historic weat er patterns. Bombardier Inc., manufa turer of Ski-Doo snowmobiles, figures i sales are way up because of pent-up d mand left over from the recession ar because "as baby boomers age, they'i getting tired of cross-country skiing says Anthony I. Kalhok, president of th Montreal company's consumer products group. And a lot of experts believe consumer are out buying shovels and plows thi year mainly because stores ran short dur ing last year's severe winter.

Still, whether the almanacs are righ or wrong, consumers ignore them a their peril. Sam Giovanelli, a 63-year old Island Park (N.Y.) retiree, wen down to his local Sears to buy a snow blower back on Oct. 12. His first choic was sold out, but the store promise only a four-week wait on another mod el. Now, seven weeks later, he's stil waiting. "They're saying it'll be in the end of this week or early next," he sighs If he had only read an almanac, Giova nelli might have known enough to star his snowblower shopping around the middle of July.

By Gary McWilliams in Bosto

THE FAST LANE.
At highway speeds, variable-ratio power steering with a specially tuned spool valve delivers quick response and more control.

DOG SLED TRAILS.
Tires specifically tuned for Blazer give you improved handling and traction in all kinds of weather, plus a quiet ride on all kinds of roads.

BAD ROADS.
uperior steering also keeps r tracking straight and true, the face of potholes, cross- inds and uneven roads.

BACK ROADS.
Front and rear urethane jounce bumpers eliminate that "launch" feel from going over even the bad bumps.

NO ROADS AT ALL.
Blazer is built on a rigid boxed frame to give you better driving control, maneuverability and a solid feel.

COUNTRY LANES.
Second generation short- and long-arm (SLA) independent front suspension smoothes out the bumps.

WASHBOARD ROADS.
Available DeCarbon monotube shocks control the jitters in the manner of Camaro and Corvette for a smooth, controlled ride.

PANIC STOPS WITHOUT THE PANIC.
Standard 4-wheel anti-lock brakes give you more controlled stops, especially where the deer and the antelope play.

HAIRPIN CURVES.
Front and rear stabilizer bars eep you in control, reducing body lean as you go around the bend for flatter cornering.

HOW *does* IT KNOW?

HOW CAN OUR EXCLUSIVE DRIVER CONTROL SYSTEM GIVE YOU MORE CONTROL ON ANY ROAD, UNDER ANY CONDITIONS? TAKE A NEW CHEVY BLAZER FOR A TEST DRIVE AND YOU'LL KNOW.

NEW BLAZER
LIKE A ROCK

r a free brochure or video call 1-800-950-0540.

e Chevrolet Emblem, Blazer, Camaro and Corvette are registered trademarks and Chevy is a trademark of the GM Corp. ©1994 GM Corp. All Rights Reserved. Buckle up, America!

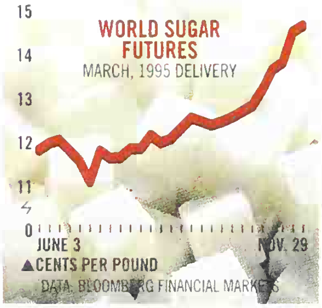
In Business This Week

EDITED BY KEITH H. HAMMONDS

THE DEMOCRATS' 10-POINT PLAN

WITH THE WHITE HOUSE IN postelection paralysis, it's no surprise that other party players are looking to provide policy guidance. First up: the centrist Democratic Leadership Council, which provided the policy underpinnings to President Clinton's New Democrat campaign in 1992. On Dec. 5, the group is scheduled to issue a 10-point blueprint billed as an alternative to the House Republicans' Contract With America. On the DLC agenda: a welfare reform plan and a "cut and invest" budget that would reduce subsidies to industry and use some of the savings to invest in education and worker training.

CLOSING BELL


WORLD SUGAR FUTURES
MARCH, 1995 DELIVERY

DATA: BLOOMBERG FINANCIAL MARKETS

SUGAR HIGH

First coffee, now this: Poor harvests combined with speculative buying have sent sugar futures soaring. Contract prices reached 15.16¢ on Nov. 28, up 37% from July. Historically, higher prices have scared off commercial buyers. But Algeria jolted the market with a huge purchase in mid-November. Now China, which, like Russia and Cuba, has had a paltry crop, is said to be buying heavily. Even with demand so robust, though, investors should beware: Sugar "usually goes down faster than it goes up," notes Smith Barney analyst Walter Spilka.

A CHANCE FOR BANKS TO BRANCH OUT BIG

YES, THERE IS A SANTA Claus—for bankers, anyway. On Nov. 28, the Office of the Comptroller of the Currency announced that it will allow federally chartered commercial banks to enter new businesses. Proposed rules would cut red tape and could give banks more flexibility to push into the sale of securities, among other operations. The OCC also announced that it will slash the fees it charges banks to cover examinations. Observers say the moves were prompted in part by the growing chorus of large banks that are considering switching to a state charter.

THE UP-SANTA FE DEAL CHUGS ALONG

UNION PACIFIC FINALLY forced Santa Fe Pacific to the bargaining table. On Nov. 29, Santa Fe again delayed a shareholder vote on its plan to sell out to Burlington Northern, saying its directors and shareholders needed time to weigh alternatives, notably UP's hostile $3.2 billion offer. Meanwhile, Santa Fe executives will meet with UP to try to "clarify and improve" its cash and stock offer. The Interstate Commerce Commission approved UP's plan to put Santa Fe shares in trust until the purchase is approved. But regulators still could scotch the deal if they require UP to sell off lines.

TO BELL ATLANTIC, A BUM MESSAGE

WHO WILL BUILD THE INFObahn? Bell Atlantic figures it can pay independent subcontractors to install and maintain fiber-optic cable. That has enraged the Communication Workers of America. In mid-November, union members started venting their anger by wearing T-shirts emblazoned with a cartoon depicting Bell Atlantic employees as Info Highway "roadkill." The company suspended as many as 1,200 workers without pay on Nov. 23 and 24. Vows CWA international vice-president Vincent Maisano: "There will be more fashion statements." Maybe not: The *Philadelphia Business Journal*, which first published the roadkill cartoon, has demanded that the union pull its shirt.

HEADLINER

TWO DAYS ON THE HOT SEAT

Glen Hiner called it "a watershed event for me." On Nov. 28-29, more than two years after charges surfaced that General Electric had tried to fix industrial-diamond prices with rival De Beers, Hiner, ex-head of GE Plastics and now CEO of Owens-Corning Fiberglas, gave his testimony: The allegations, first brought by fired GE diamond chief and Hiner subordinate Edward Russell, are "fantasy."

Hiner isn't charged in the antitrust case, but the Justice Dept. argues that he set the stage for a conspiracy by meeting with De Beers officials in 1989 and 1991. Hiner said the meetings were legitimate discussions about business practices by a De Beers distributor and about a possible technology exchange. Sometimes chuckling, sometimes testy, Hiner said there was no talk of pricing.

It wasn't an easy two days for the defense witness. The U. S. raised the notion that Hiner left GE in 1992 involuntarily; he denies it. GE backs Hiner. The company has moved for an early acquittal, but unless the judge approves, the jury will decide.

By Zachary Schiller

CITIBANK'S 'SCREEN PHONE' FIGHT

THERE'S A NEW BATTLE brewing in the market for home-banking services. On Nov. 21, Citibank sued Online Resources, a manufacturer of inexpensive telephones wit CRT screens that let customers do their banking fro their living rooms—chargin that the company was infringing on three Citi patents. Cit has launched "screen phones of its own, in such major markets as New York and Chicago. Online vows to countersue. At stake is a tiny bu rapidly growing market. Th company whose screen phon becomes the industry standard stands to win big.

ET CETERA . . .

- Big Blue changes: Ford's Alexander Trotman joins the board; Paul Rizzo retires.
- General Magic found five new equity partners, including Mitsubishi and Northern Telecom.
- Hasbro acquired John Waddington, the British game maker, for $78 million.
- Akio Morita, 73, left Sony, the electronics giant he founded, for health reasons.

NOW

Revolutionize the way you work. Print, copy, and fax without leaving your desk. Optimize productivity and performance.

YOU

Canon has created a totally new concept in digital office equipment systems that redefines productivity and performance. The Digital Imaging System GP55 Series. It's the culmination of Canon's technological vision that is designed to meet your needs now and in the future. It functions on your network as a 30-ppm, 400 dpi laser printer that can staple, sort, and duplex. It's also a digital copier and can serve as a Group 3 Fax. All this without ever having to leave your desk.

The GP55 Series does it all — with a unique, optional Multi-Device Controller (MDC) that gives you the flexibility to configure function boards to suit your needs. And since the GP55 Series utilizes parallel processing technology, it can perform more than one function at a time. But best of all, the GP55 Series interfaces with standard network protocols and page description languages. So now everyone on your LAN can sit behind their desk and benefit from the power of Total Document Management. Which makes this a true instrument of efficiency and productivity — with the reliability you've come to expect from Canon.

As usual, Canon's advanced technology moves you further ahead. When the rest say you can't, Canon says you can.

For more information, call **1-800 OK CANON.**

CAN

994 Canon U.S.A., Inc

Canon

NO ONE KNOWS what FORM INFORMATION will TAKE.

But we've already spent MILLIONS making very, very educated guesses.

Every night, The Philadelphia Inquirer broadcasts its own local program based on the next day's newspaper. In California, the San Jose Mercury News reaches consumers via computer through America Online. At our Information Design Lab, Knight-Ridder people are pushing beyond today's technology to create the information pipelines of the next century. Knight-Ridder also serves subscribers in more than 100 countries with Dialog, the world's leading online source for business and professional information. And Knight-Ridder Financial provides real-time and archival market data to subscribers around the world. ■ At Knight-Ridder, we know how fast the world of information is changing. And we're investing substantial resources to be able to lead those changes. We're committed to providing the information people want — in whatever format they want it — while maintaining our century-long traditions of accuracy, reliability and journalistic excellence. Traditions that give meaning and credibility to mere information. ■ No matter what form it takes.

© Knight-Ridder, Inc.

KNIGHT-RIDDER

EMEMBER CLINTON'S INDUSTRIAL POLICY? . K., NOW FORGET IT

he Republican takeover of Congress may please most business execs, but John L. Simonds is worried. He heads a San Diego consortium that's developing high-capacity comput- torage systems. The group—whose members include IBM, vlett-Packard, and Eastman Kodak—receives millions from of the Clinton Administration's favorite industrial-policy rts, the $431 million Advanced Technology Program. But , the ATP tops the GOP hit list of technology programs to h. "That would be a serious blow," says Simonds.

Ie'd better brace himself: The cuts won't end with ATP. ıse Republicans, led by incoming Budget nmittee Chairman John R. Kasich of Ohio GOP Whip candidate Robert S. Walker of nsylvania, are taking aim at all Adminis- ion efforts to spur U. S. commercial tech- ogies. Other targets include the Pentagon's to create a U. S. flat-panel-display industry, ulti-agency program that funds research on ercomputers, and advanced networks and ıstrial research at the national laboratories. programs cost just a few billion dollars, their symbolism is big: They represent Clin- s high-profile attempt to promote high-tech ıstries.

WALKER: *Lifting the ax*

ANGERED PETS. The GOP sees a better way vin Corporate America's heart than through t it calls misguided industrial policy. "Our priority is to ıte the right climate," explains Representative Sherwood Boehlert (R-N. Y.), a key House Science Committee mem- By that, he means ending subsidies to develop commer- technologies and using the money for tax cuts and cred- 'or investment and research and development. Although approach would hurt some R&D mavens such as Simonds, vast majority of executives prefer the GOP philosophy. nile our industry certainly needs R&D funding, the broad- enefits of a capital-gains tax cut would help the economy e," notes Jerry R. Junkins, CEO of Texas Instruments Inc. That's why businesses aren't "going to fall on their swords" to save ATP, says William G. Morin, technology policy chief at the National Association of Manufacturers.

Administration officials admit that saving their pet programs will be tough. "If this is about politics and ideology, we are not going to make a lot of progress," says Arati Prabhakar, director of the National Institute of Standards & Technology, which runs ATP.

Still, the GOP hit squad faces obstacles. For one, proponents are already doing chameleon acts, recasting programs as examples of R&D that the GOP favors: support for basic research and national defense. Take flat-panel displays. A few months ago, companies were trumpeting the Defense Dept.'s $587 million flat-panel initiative as a boon to the U. S. economy. Now, they're labeling it as a national security imperative that allows the military to buy screens at an affordable price.

What's more, GOP ranks are far from united. While ideologues such as Walker want to rub out all traces of industrial policy, moderates such as incoming Senate Budget Committee Chairman Pete V. Domenici back government-industry collaborations, particularly when they aid the vast national laboratories in his state, New Mexico. Also, some programs on the hit list, such as the effort to develop advanced computers and networks, really do involve the kind of basic research the GOP favors. "Some of my colleagues are not as conversant as we would like them to be on these subjects," admits Boehlert, who backs the computer initiative.

That's the kind of high-tech program that should survive, so long as it wears the right set of policy clothes. But there's no avoiding a harsh reality for Clinton: His great industrial policy experiment is heading for a dramatic slowdown.

By John Carey

CAPITAL WRAPUP

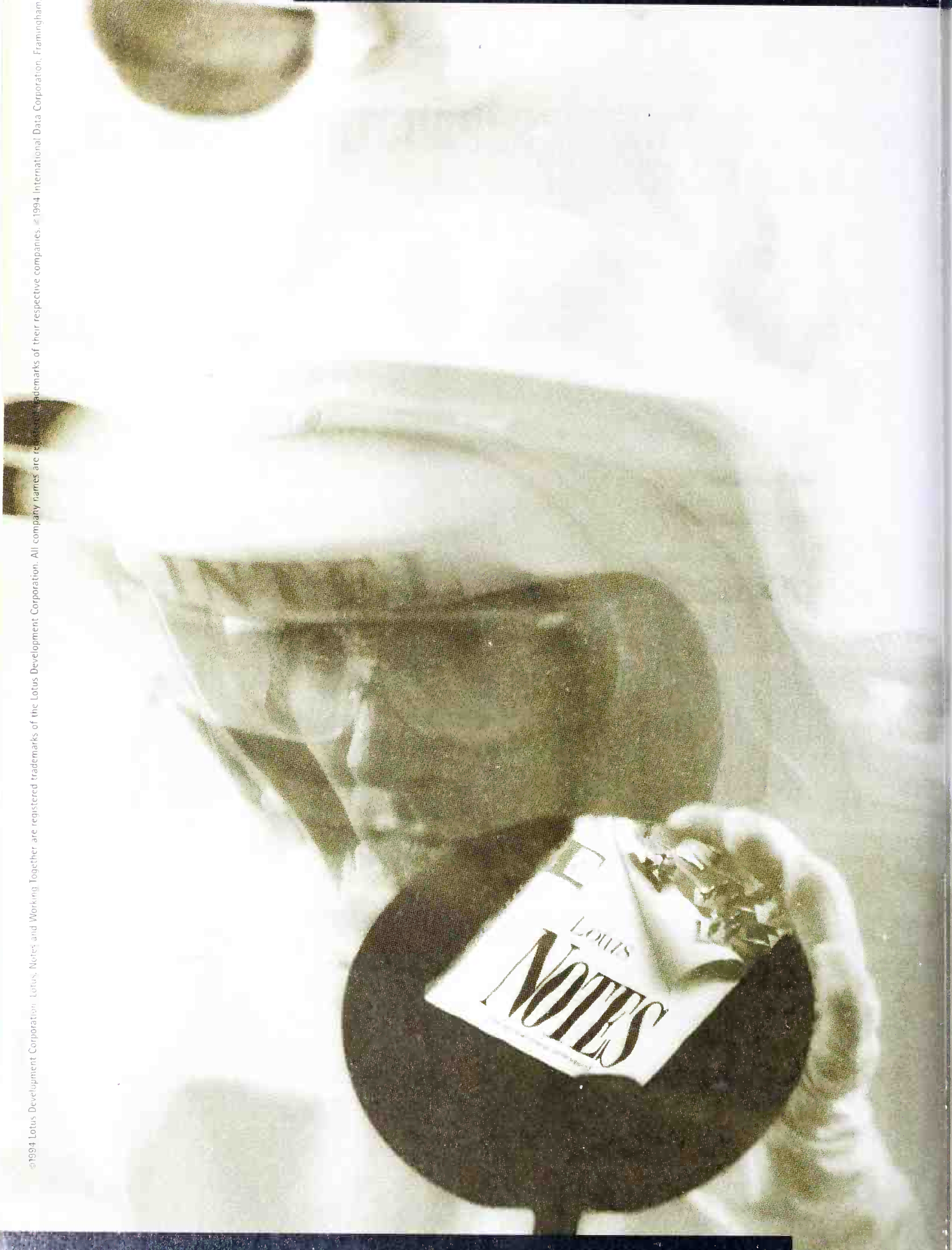
RADE DEPARTURE

Deputy Trade Representative Rufus . Yerxa—the chief U. S. negotiator r the new General Agreement on ıriffs & Trade—plans to leave his ost early next year. Yerxa, 43, who in 81 became trade counsel to former ouse Ways & Means Committee nairman Dan Rostenkowski (D-Ill.), ill return to his roots in Seattle—a teway to Asia—to practice trade w. Meanwhile, despite rumors to the ntrary, the other deputy USTR, Charne Barshefsky, insists she is not leaving the government. But friends say that she has considered quitting because of frustration over the Administration's inability to reach a far-reaching trade agreement with Japan. Talks continue in autos and a few other sectors.

YELLEN SPEAKS

▶During her first four months on the Federal Reserve Board, Janet L. Yellen has been the invisible central banker, avoiding public appearances and press interviews. But Yellen at last is emerging to position herself as an inflation hawk. She may have learned from the debut of another new Clinton appointee to the Fed, Vice-Chairman Alan S. Blinder, who got into trouble with remarks that made him look soft on inflation to Wall Street. Yellen, also suspected of being an inflation dove, isn't taking any chances with the Street. In an interview with BUSINESS WEEK, the former University of California-Berkeley economist says: "I don't want the inflation rate higher when I leave here than it is now."

"There are two kinds of companies. The quick and the



©1994 Lotus Development Corporation. Lotus, Notes and Working Together are registered trademarks of the Lotus Development Corporation. All company names are registered trademarks of their respective companies. ©1994 International Data Corporation, Framingham, MA

The power of Notes is the power of a smarter, faster organization.

For our free Executive

Grove, CEO

12·2·94

INTEL

SANTA CLARA, CA

In the microprocessor world, speed rules.

Intel stays ahead by using Lotus Notes®.

Now, their employees around the globe are linked and loaded.

Now, critical product information gets revised and distributed worldwide in real time.

Now, time and distance are no excuse.

The universe truly is getting smaller.

Faster, too. Remember the dinosaurs.

Lotus®

Working Together®

eo and a copy of the IDC report on Return on Investment with Notes, call 1-800-828-7086, ext. A357. In Canada, call 1-800-GO-LOTUS.

CHINA

A TIDAL WAVE OF CHINESE GOODS

Exports from the mainland are soaring–and sparking anger in Washington

SUPERHERO HEAVEN: *Shoppers ogling Chinese products at a Toys 'R' Us in Paramus, N.J.*

For China, 'tis the season to be jolly. Just ask Laura Paull of Vernon Hills, Ill., a suburb north of Chicago. Of the three gifts in her shopping cart at Toys 'R' Us, two are made in China. "I just assumed they were made in the U. S.," she says, frowning at the Chinese-produced $49.99 Turbo Blaster Raceway and a $1.99 Matchbox truck she's buying for her 8-year-old son. "I'm surprised," says the 39-year-old substitute teacher.

She shouldn't be. U. S. imports of Chinese-made goods have been escalating sharply. Not only is China exporting the usual toys, athletic shoes, and clothes, but it's also shipping products that command higher prices such as tools, auto parts, electronic gear, microwave ovens, and even personal computers. Because U. S. demand is so great and Chinese ports so jammed, big importers such as Wal-Mart, Toys 'R' Us, and The Gap are relying on air shipments to get the goods to market fast enough. "The retailers are flying it in like crazy," says Paul Fitzpatrick, senior vice-president of Tower Group International, a unit of McGraw-Hill Inc.

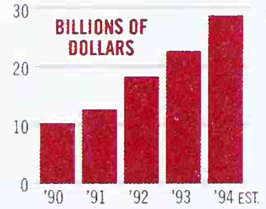
THE PRICE IS RIGHT. The surge of Chinese goods to the U. S. doesn't make everyone happy, however. The problem is that even though America's exports to China also are growing at a healthy 12.5% clip, that's not nearly enough to counterbalance what China expert Nicholas Lardy calls a "staggering" flood of imports from the mainland. As a result, the U. S. trade deficit with China will widen 27.7%, to a record $29 billion this year (chart), second behind only Japan. Part of the explanation is that Chin is stacking the deck agains imports.

But another key reason i the pickup in the U. S. economy. With consumer spending on the rise, buyers from the largest U. S. retailers are seeking the cheapest goods available and finding them in China. For example, Wal-Mart Stores, which imported $1 billion in direct shipments from China and Hong Kong at wholesale prices in 1993 is increasing those purchases by 25% this year, according to Jeffrey Fiedler, an AFL-CIO executive who tracks the company's shipments from Asia. Wal-Mart declined to discuss its China purchasing. Kmart Corp., also a major importer, says it has not seen any shifts in its China purchases. Most U. S. buyers in Hong Kong, however, agree that the price is right in China.

The export push is destined to continue past the holidays because China is a magnet pulling manufacturing in and displacing exports from other countries. Now that the Clinton Administration has delinked progress on human rights from China's most-favored-nation trade status, manufacturers from not only Hong Kong and Taiwan but also the U. S. and Japan are shifting more factories to China. "People have stopped talking about diversifying their sources to countries like Thailand and Indonesia," says William K. Fung, managing director of Li & Fung (Trading) Ltd., which will sell $100 million worth of Chinese garments, toys, and handbags to the U. S. this year.

Take Nike Inc. China

THE MOUNTING U.S. DEFICIT WITH CHINA



DATA: U.S. COMMERCE DEPT., BW

U.S. demand is so high and Chinese ports so jammed that retailers are flying the goods in

ʼ accounts for
ıt 30% of all Nike
ufacturing world-
e, up “a couple
:entage points”
ı last year, says
rles D. Brown,
ʼs general manag-
ır China. Growth-Link Overseas Co.,
xclusive manufacturer for Nike in
ıa, has just expanded its production
; from 12 to 20. It says it now makes
llion pairs of athletic shoes a month
s factories in Fujian province. Nike
so set to expand production in Chi-
vith another manufacturer in Fu-
industry sources say.

side from labor-intensive goods, Chi-
s also beginning to make more so-
ticated products. “There has been
ructural change in Chinese exports,”
s Huan Guocang, an economist at
Morgan in Hong Kong. He notes
increased export of diesel engines,
trical machinery, and industrial
lware. Moreover, Chinese enterpris-
re tackling the lower end of the con-
er electronics chain: At an Odd-Job
ling discount store in New York, for
nple, shoppers can find mini-stereo
ems that are made in China by MXC
vn Ltd. at a bargain-basement price
99.99.

'T FORGET JOBS. Foreign companies
contributing to the increasing so-
tication of China’s exports. AT&T is
ufacturing corded and cordless tele-
ıes in Guangdong province for ex-
to the U. S., and California’s AST
earch Inc. is selling Chinese-assem-
PCs. As a result, the Chinese are
eloping strength in some surprising
-tech niches. A Sony Corp. joint
ure in Shanghai is exporting optical
ponents to makers of compact-disc
ers, and Astec (BSR) PLC, a Hong
g company, is shipping power sup-
s for PCs from China.

ı the U.S., China’s mounting trade
vess is attracting an unusual array
ritics, ranging from labor and hu-
rights activists to newly ascendant
ublicans. Organized labor such as
AFL-CIO is worried about the impact
merican jobs.

he criticism from Republicans will
e from a different direction. This
ıary, when the new Republican-led
gress takes over, insiders expect
ator Jesse A. Helms (R-N. C.), the
y head of the Senate Foreign Rela-
s Committee, and Senator Frank H.
kowski (R-Alaska), who will proba-
ıead the Asian subcommittee, to use
trade issue to attack the Chinese
munist leadership. Both are long-
backers of archrival Taiwan. The
ton Administration is worried that
Republicans will shift the U.S. trade
focus to China, away from Japan, which still enjoys a larger trade surplus with the U. S.

Perhaps the most crucial decisions will occur in shopping aisles. In the Toys ‘R’ Us in Vernon Hills, Sally Powers, a mother of three, is buying for one of her children the Original Cootie made by Milton Bradley Co. She is pleased by the $3.99 price tag but also surprised to find it is made in China. “Having something made in the USA creates jobs and it helps the economy,” she says. But those concerns don’t stop her from making her purchase.

So it seems that millions of Americans will enjoy bargain prices on gifts made in China. That may be just the beginning of a much broader China export boom.

By Joyce Barnathan in Hong Kong, with Douglas Harbrecht in Washington, Ann Therese Palmer in Vernon Hills, and William J. Holstein in New York

AND YOU THOUGHT JAPAN’S TRADE HURDLES WERE HIGH

It’s a nuisance that U. S. grain producers have learned to tolerate. A small percentage of their annual wheat crop is contaminated with TCK smut, a fungus. While plant experts say there is no chance of the smut being spread, bureaucrats in China disagree. Alone among nations, China refuses to accept any U. S. grain unless it’s fungus-free.

Has Beijing gone green? Not really. The ban is part of an effort to insulate China from foreign competition, say U. S. trade officials. From a confusing tariff system to onerous licensing rules, China is emerging as the greatest creator of trade barriers. “It’s pretty blatant,” says Marcus Noland, an expert on Asian affairs at the Institute for International Economics.

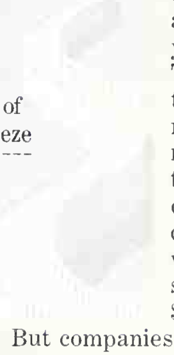
The rocky transition to a market economy is one culprit in keeping out U. S. goods. For instance, the byzantine duty system differs from province to province, and import quotas often go unpublished. Moreover, to cool off its overheated economy, China this year began forcing state enterprises to give Beijing their foreign exchange earnings. Companies that get Beijing’s O. K. can get 50% back to buy foreign goods. “There’s a conscious slowing down of imports,” says Ian Perkin, chief economist at the Hong Kong General Chamber of Commerce.

China has made some progress in opening its markets. It recently slashed tariffs on fertilizers, lead, zinc, and 231 other products. And it abolished quotas and import licenses on 283 more items, including coffee and civil aircraft. But it continues to protect autos, electronics, and machinery through quotas. Other imports such as chemicals must be registered, another deterrent to trade.

CHINA’S MANY BARRIERS TO IMPORTS

- Shifting, confusing tariff system
- Tricky licensing, regulatory structure
- Suppressed demand among state enterprises because of Beijing’s credit squeeze
- Strict quotas on products like autos, electronics, and machinery

DATA: BUSINESS WEEK



What to do? America’s key leverage is its veto power over China’s GATT application. Also, by yearend, the U. S. Trade Representative’s Office will name companies marked for retaliation unless Beijing cracks down on copyright piracy, which costs U. S. software makers $400 million a year.

But companies hoping to win contracts fear sanctions would create more friction. “There’s a fear the Administration may be pushing too far too fast,” frets Richard A. Bresher of the U.S.-China Business Council. China may be closed to many U. S. products, but it has opened enough to make a crackdown threat too scary for many in U. S. to swallow.

By Douglas Harbrecht in Washington and Joyce Barnathan in Hong Kong

ALAN RASEDEN/BW

SOUTH KOREA

FORD, TOYOTA, VOLKSWAGEN, FIAT, KIA...KIA?

The Korean carmaker launches a risky bid to be a global player

Introducing a new car line in the crowded U. S. market has to be one of the riskiest ventures around. But South Korea's Kim Sun Hong did just that last February. The chairman of Kia Motors Corp. started selling low-priced Sephia subcompacts through a chain of new dealerships in Western states. This month, the dealers will get their first shipments of a second Kia car, the Sportage, a sleek sport-utility vehicle.

THE NEW SPORTAGE: *A sleek entry in a hot sector*

SOLO TURN

Unlike Korean rival Hyundai, which is part of a deep-pocketed *chaebol*, Kia is independent and publicly traded

Such bold tactics are key to Kim's growth strategy. As he sees it, to survive in the auto business, you have to be a global player able to produce at least 1 million vehicles a year. But achieving that status has trapped Korea's No. 2 vehicle maker in a vicious circle. With high costs for expansion and consumer financing, the company is forced to borrow heavily. Kia's debt hit $3.3 billion last year, up 68% in two years. This year, the company's estimated interest costs of $384 million will nearly equal its operating profits.

BUDDY SYSTEM? If Kim's strategy does not pay off soon, he may need to find a rich partner. Unlike archrivals Hyundai Motor Co. and Daewoo Motor Co., which are both part of *chaebol*, or huge conglomerates, Kia is an independent, publicly traded company. Although Ford Motor Co. owns a 10% stake in Kia and Japan's Mazda Motor Corp. holds 8%, their roles have so far been mostly limited to technological assistance.

Even as he looks to expand abroad, Kim is in a tough fight at home against market leader Hyundai. Kia is being hurt by a major shift in the car market, which has been growing at an average clip of 14.7% a year since 1991. While there is still a demand for entry-level subcompacts, the new Korean affluence has brought a rapid increase in demand for sedans with more horsepower, a market nearly monopolized by Hyundai's Sonata II and Grandeur models.

Despite offers of cut-rate consumer financing, Kia saw its unit sales drop 14% in the first 10 months of this year. As a result, some analysts have revised their 1994 estimates of Kia earnings downward. Analyst Don Lee of Barclays de Zoete Wedd in Seoul considered Kia's first-half performance "so disappointing" that he cut his estimate of full-year net income by 40%, to $27.5 million on sales of about $6.8 billion. Kia's stock price has dropped 36% in seven months, to $18.25, the lowest in its history.

THE SEPHIA: *Kia sells in 12 Western states–for now*

Kia is responding to the shift
speeding development of its own m
powerful sedan. It now plans to de
the code-named G-car early next ye
"We're in fine shape," says Kia Pre
dent Han Seung Jun, who expects
sell 350,000 cars domestically next ye
up 40% from this year. Kia is confide
the new sedan will pose a strong ch
lenge to Hyundai's best-selling Sona

But Kia's long-term growth will
pend on its success in overseas marke
including the U. S. Kia has long suppli
Ford with a small car to sell in the U.
For nearly 10 years, it was the Festi
and since late last year, it has been t
Aspire, a subcompact designed by M
da. Now, Kia has 88 dealers in 12 We
ern states selling the Sephia, a versi
of the Aspire. Sephia's base price
$8,495, about $1,000 less than a Chry
ler Neon, but it's without such po
ular features as air bags.

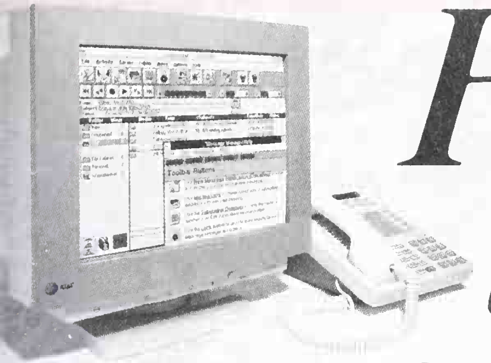
SPORTING NEWS. Kia's sales in t
U. S. are off to a slow start, and
will take two or three years to bui
a national sales network. But t
Sportage, priced at $14,000 a
competing with Isuzu's Rodeo a
the Jeep Cherokee, should he
boost showroom traffic and sales

Kim is also eager to develop ne
markets in Europe and Asia. He r
cently signed agreements to asser
ble Kia cars in Germany, the Ph
lippines, Iran, and Indonesia. H
has also lined up distributors in E
rope, where imports of Kia cars a
taking off. Its shipments to Euro
this year are expected to be up mo
than 50% from last year's 21,836. T
export surge is being helped by the 8
to-10% price advantage Kia cars enjo
over comparable Japanese models su
as the Honda Civic and Toyota Tercel.

While the going may be rough no
Kim believes his company will be mu
stronger when its expansion progra
winds up in 1997. By then, Kia's capa
ity will be 930,000 autos per year, u
from 650,000 units in 1993. The heart
the expansion is a $2 bi
lion state-of-the-art pr
duction and testing faci
ity on Korea's wes
coast. With the ne
plant and further im
provement in design
styling, and quality, Ki
just may be able to mov
upmarket in Korea a
well as overseas.

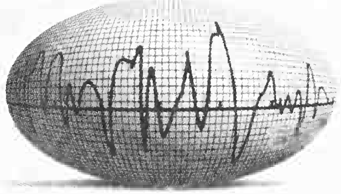
*By Laxmi Nakarm
in Seoul, with Larr
Armstrong in Lo
Angeles*

See and respond to multi-media messages from your desktop.

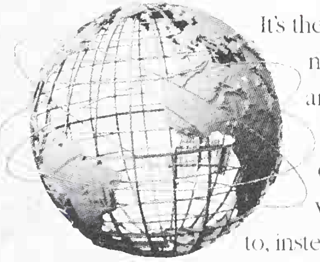


How do you *take* 30 orders, fax 30 receipts, and work *with 3 foreign offices* before you wake up?

Use voice response to let customers help themselves.



Do business anytime, anywhere with a global network.



It's the new office. But it's not what you think. It's an office without walls or desks. Without the rules of time or place. It lets you work the way you *want* to, instead of how you have to.

It can all happen, with AT&T's INTUITY™ Multi-Media Solutions. An ever-expanding communications framework that plugs you into all the latest technology as it happens.

INTUITY Solutions let you market to your customers in innovative ways. Free you from routine tasks. Open your office to the rest of the world. And to the future.

AT&T can do all these things for you today. And with the integration of fax, interactive voice, data and video, you'll be able to do things you never imagined.

Call AT&T Global Business Communications Systems at **1 800 325-7466, ext. 531**. Find out how INTUITY AUDIX® Solutions and INTUITY CONVERSANT® Systems can help set you free.

AT&T. Where innovation leads.

AT&T

© 1994 AT&T

A MUST IN WASHINGTON: *Foreign V*
make sure that they see Harkin

TRADE FINANCE

WHO IS RUTH HARKIN AND WHY IS SHE SO POPULAR?

Her tiny OPIC agency is a big player in dealmaking worldwide

As Vice-President, Al Gore is used to playing second fiddle. But it wasn't President Clinton that visiting Russian dignitaries were clamoring to see at a fall luncheon Gore hosted in their honor. As the guests shook his hand, the amused Veep recalls, they kept asking: "Where is Mrs. Harkin?"

Could they really mean Ruth R. Harkin, president of one of the most obscure agencies in Washington, the Overseas Private Investment Corp.? You bet. Under Harkin, OPIC's art deco offices have become a must-visit for VIPs of nascent market economies from Haiti to Ukraine, all hoping to lure American private capital. OPIC's loans, guarantees, and political risk insurance support a rapidly growing portfolio of far-flung U. S. ventures abroad, from a laundromat chain in South Africa to a power plant in Turkey. Since 1993, the agency's budget has ballooned nearly tenfold, to $94 million for fiscal 1995.

Although that sum seems small, it can be leveraged to support $2 billion in loan guarantees. And OPIC makes a profit to boot. The 23-year-old federal agency's rise to prominence outside the Beltway partly reflects a shift in U. S. priorities. While the Clinton Administration isn't eliminating handouts, it thinks trade and investment initiatives are better ways to stretch the shrinking foreign assistance budget. And OPIC's mission dovetails with Clinton's belief that foreign policy should serve domestic interests. "What loose change we have should be used in ways that directly benefit Americans and American companies," says Harkin.

IMPORTANT FAN. The Republican takeover of Congress will accelerate that trend. While Senator Jesse A. Helms (N. C.), the incoming chairman of the Foreign Relations Committee, has vowed to hack away at the U. S. Agency for International Development, he's a fan of OPIC. So are such probusiness Republican moderates such as Mitch McConnell (Ky.), the incoming chairman of the Senate appropriations subcommittee that oversees Harkin's age

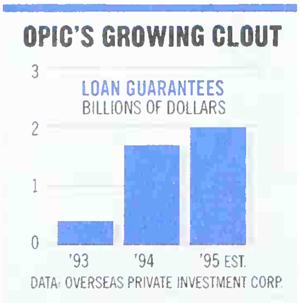
As the wife of Senator Tom Har
(D-Iowa), Harkin enjoys more clout t
her position might normally justify.
has used her political muscle to posit
OPIC at the forefront of U. S. initiative
the former Soviet Union, South Afr
the Middle East, and Haiti. Her repu
tion for responding quickly to quer
from Congress or policymakers
helped make the agency a player. Wh
Deputy Secretary of State Strobe T
bott called to ask if OPIC could pitch
on aid to Haiti, Harkin's office faxed b
a plan for $100 million in financing a
risk insurance by 2:30 p.m. the same d

The 50-year-old Harkin sees lucrati
opportunities for U. S. companies in t
global infrastructure boom. To ena
OPIC to participate in such megaproje
she increased the $50 million ceiling
the agency's per-project financing to $2
million and doubled its insurance limit
$200 million. Another Harkin innovati
is an expanding stable of OPIC-backed p
vate equity growth funds. They are see
ing investments in South African mini
projects, Polish merchandising venture
and environmental cleanup faciliti
around the world. Next up: a pitch to g
U. S. business involved in defens
conversion projects in the former Sovi
republics.

USER-FRIENDLY. OPIC's hands-on approa
goes beyond merely doling out mon
and insurance. Like Commerce Secr
tary Ronald H. Brown, Harkin routinel
ferries planeloads of American exec
tives on investment missions abroad-
she has logged more than 100,000 mil
over the past year—and lobbies finan
ministers and prime ministers to secu
deals on their behalf. Says Harkin: "It
important for government entities t
know we're keenly interested in th
American investor."

U. S. business appreciates the effor
and OPIC's user-friendly attitude. "The
approach is, 'Let's do it, and how can w
do it sooner?'" says the president of
major American power company that i
negotiating, with OPIC'
help, to construct a $14
million electric power an
desalinization facility i
Gaza. At a time when
Republican Congress vow
to make government wor
better with less, OPIC coul
very well emerge as a rol
model for federal agencies

By Amy Borru
in Washingto



DATA: OVERSEAS PRIVATE INVESTMENT CORP.

You'll Swear The New InTech System From Lincoln Has A Mind Of Its Own.

Actually, It Has Three.

INTRODUCING THE LINCOLN INTECH SYSTEM.

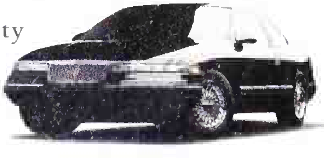
The new InTech System is precisely what its name implies: intelligent technology. A system that constantly checks and re-checks powertrain and suspension functions to help deliver miles of worry-free driving. You'll find this technology on both the Lincoln Mark VIII and Lincoln Continental.*

1. POWERTRAIN A 32-valve InTech V-8 engine and a computer-controlled 4-speed automatic transmission work in tandem to provide quiet, responsive power. For additional peace of mind, the impressive V-8 has been designed to run for 100,000 miles before its first scheduled tune-up.†

2. SUSPENSION Another example of advanced intelligence is the computer-managed, 4-wheel independent air-suspension system for a more stable ride and better handling. The load-leveling feature automatically compensates for changes in passenger seating and trunk loads.

3. CHASSIS A four-wheel Anti-lock Brake System and speed-sensitive steering round out the smart thinking. ABS helps you maintain steering control during hard braking. Speed-sensitive steering increases or decreases responsiveness depending on how fast you're going.

Look closely and you'll see that the new InTech System has plenty of street smarts.



---

*1995 Continental available January 1995

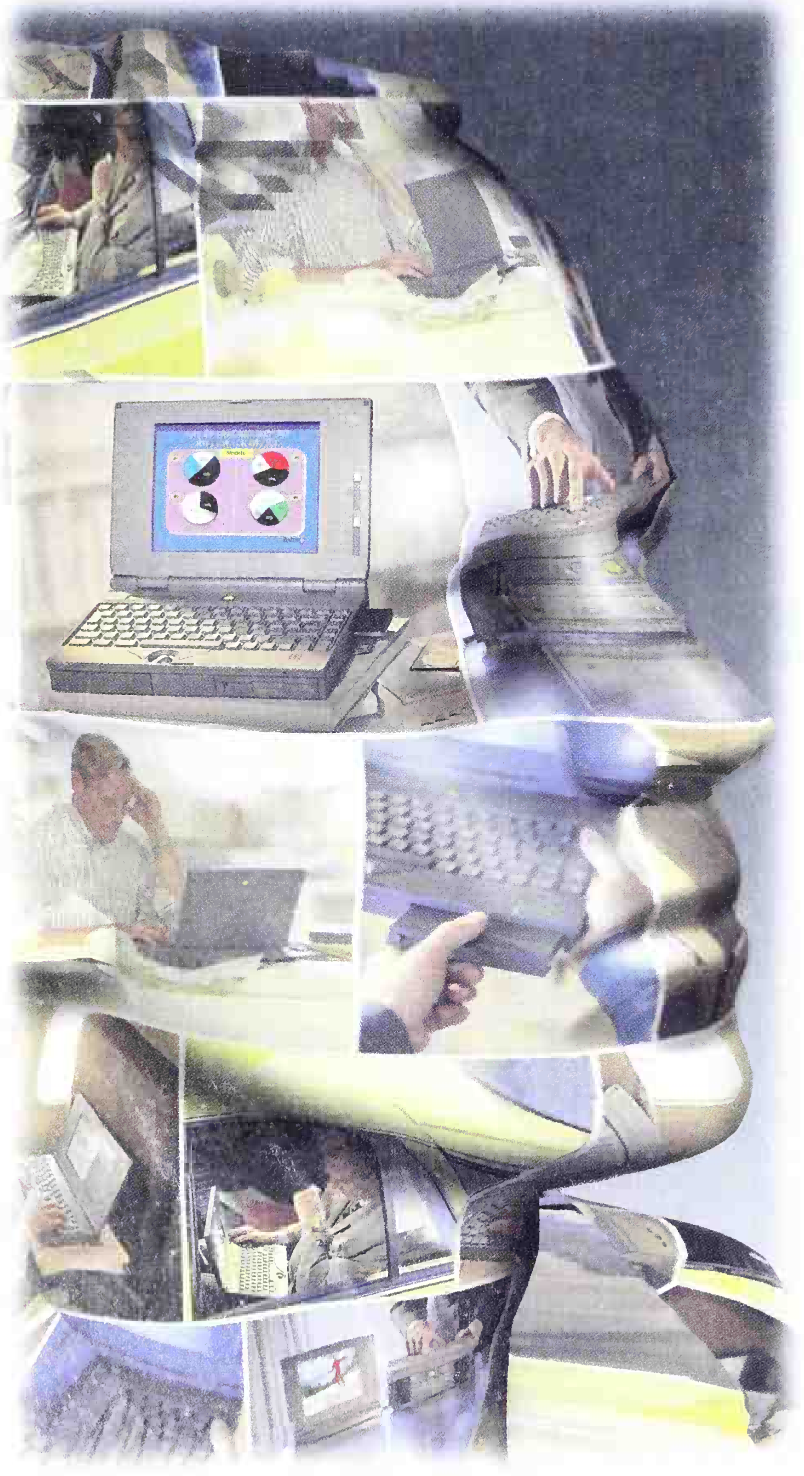
†Available on Mark VIII models produced after 10/17/94

LINCOLN

What A Luxury Car Should Be

SERGIO DORANTES/SYGMA

Z·NOTEFLEX. The One Computer For All Of You



Decisions, decisions. Finding a notebook computer is simple. Finding one to handle all the things you do, isn't.

Zenith Data Systems' Z-NOTEFLEX, however, delivers everything you need—high performance, long battery life, upgradability and modularity—in a notebook that won't be obsolete tomorrow.

For example, when you're away from the office, remove the floppy drive and insert a second battery pack and, wham, twice the computing time!

But that's ZDS for you. Who else would build a computer versatile enough to tackle every part of your job?

After all, Connected Computing—making computers and people work better together—is just what Zenith Data Systems is all about. Call now to learn why the Z-NOTEFLEX is the one computer for you, wherever you go, whatever you do.

Z-NOTEFLEX™
Up to IntelDX4™ 100MHz processor
Up to 520 MB hard drive
16-bit business audio
Active-matrix, color LCD
Two Type-II PCMCIA slots*

FLEXSITE
LCD video display stand

FLEXBAY
Battery charging bay
Floppy drive bay

FLEXDOCK
Enhanced port replicator
Two Type-III PCMCIA slots*

FLEXSHOW
MPC2-compliant
Double-speed CD-ROM drive
Amplified stereo speakers
Two Type-III PCMCIA slots*

intel inside®

1-800-289-1279, Ext. 5160

ZENITH
DATA SYSTEMS
Make The Connection™

Copyright © 1994 Zenith Data Systems Corporation. Zenith Data Systems Corporation is a Bull company. *Z-NOTEFLEX supports two Type-I, two Type-II or one Type-III PCMCIA card and FLEXDOCK and FLEXSHOW support two Type-I, Type-II or Type-III PCMCIA card. Z-NOTEFLEX, ZDS and "Make The Connection" are trademarks of Zenith Data Systems Corporation. IntelDX4 is a trademark and the Intel Inside logo is a registered trademark of Intel Corporation. Specifications are subject to change.

EDILLO WILL NEED MORE MUSCLE O TAKE CHARGE IN MEXICO

arlos Salinas de Gortari is a tough act to follow as President of Mexico. He quashed triple-digit inflation, pushed through the North American Free Trade Agreement, attracted billions in foreign investment. But along with se successes, he left some major headaches for his hand- ked successor, Ernesto Zedillo Ponce de León.

edillo's inauguration on Dec. 1 comes after a year of tur- l that started with a rebellion in the state of Chiapas and uded two major political assassinations. The tensions have upted the economy, spooked foreign in- tors, and pushed the peso to the brink of a tically embarrassing devaluation. All this ves Zedillo with an unenviable job. He will e to deal with some of the unpleasant social e effects of Salinas' bold reforms while keep- Mexico on its modernizing course. But he 't have much money to throw at problems. l what used to be a key instrument of the sidency, the long-ruling but now divided In- utional Revolutionary Party (PRI), could ve to be more of a liability than an asset.

ARE THE WEALTH. Zedillo's challenge is to ke a strong enough showing in the first few eks to win the respect of Mexicans and win k the confidence of foreign investors. If he's cessful, he may gain enough leeway to stim- e the economy and take steps to spread the benefits of eco- ic liberalization to the middle classes and the poor. He also ht take economic reform to another level—letting pri- e interests into some sacred preserves of Pemex, the state nonopoly, and privatizing CFE, the state electric company.

edillo made a good start with the Cabinet he announced Nov. 29. The financial markets will likely be comforted by tapping several respected Salinas-era officials including mer Commerce Secretary Jaime Serra Puche, who will d the powerful Finance Ministry.

But Zedillo also took a bold step by becoming the first PRI leader to include the opposition in his Cabinet. He named Antonio Lozano, a member of the conservative National Action Party, to the sensitive post of Attorney General. This move seems to signal Zedillo's intent to pursue political reform and try to improve the image of the badly tainted PRI. "Zedillo's main task will be to gain credibility, because the party that backs him has lost it," says political scientist Lorenzo Meyer of the Colegio de México in Mexico City.

ZEDILLO: *Unenviable job*

Zedillo has already put a team of modernizers to work on a major reorganization of the PRI, whose corruption and undemocratic practices have become an embarrassment. But taking on the PRI will be risky. For one thing, Zedillo is beholden to the party's old guard for his election. What's more, in some states, drug lords and other corrupting influences have gained vast sway over the PRI. They are capable of almost anything if they think their interests are threatened. For example, it is already widely believed that antireform elements of the party were involved in the assassination of the first PRI presidential nominee, Luis Donaldo Colosio, a noted reformer, in March, and the killing of PRI Secretary General José Francisco Ruiz Massieu in September.

Lozano's mandate will presumably be to clear the air with an impartial investigation. But such an inquiry poses risks for Zedillo. If there proves to be substance underlying the speculation, his power base might be damaged.

The stakes in Zedillo's establishing himself as a strong leader are high for the U. S. as well as Mexico. Salinas made big strides toward improving Mexico's image as a true economic partner for the U. S., not just a source of immigrants and other woes. Zedillo, a Yale-educated economist, wants to put his own stamp on reform. But if he gets outmaneuvered, reform could bog down, dragging Mexico backward.

By Geri Smith in Mexico City

GLOBAL WRAPUP

RITAIN TO VOTE ON EUROPE

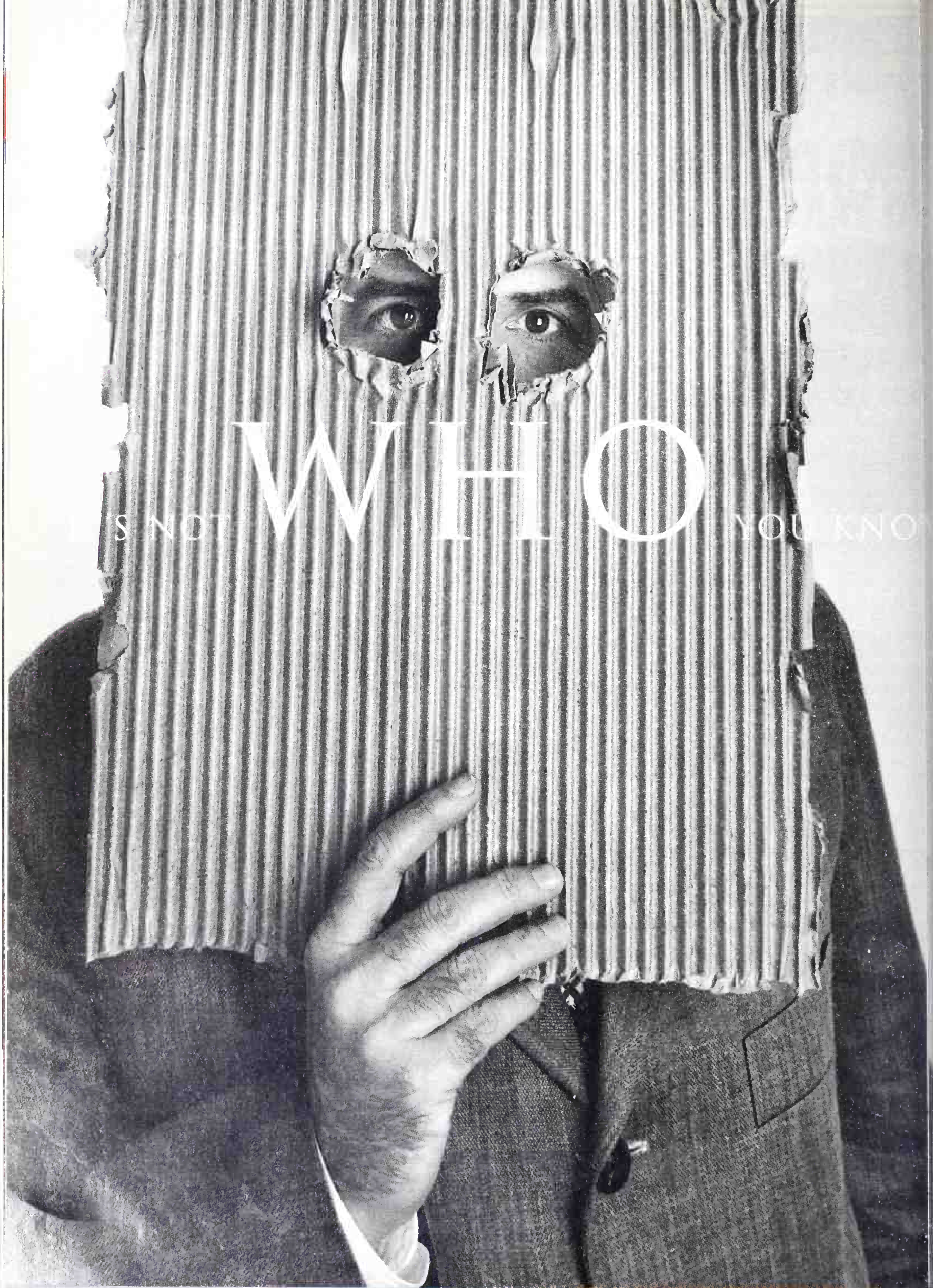
Now that Norway has voted 52% to 3% against joining the European nion, pressure is building to give the ritish a say on whether to stay in. he government has resisted such a st, but now, Prime Minister John ajor may yield. One possibility: a eferendum on the next phase of Euro- ean political and monetary union.

Why the about-face? Major's popu- rity is the lowest of his career. He ails the opposition Labor Party by 0 points in polls. Technically, he leads a minority government, having just excommunicated eight Euroskeptics from the Conservative Party for failing to back his bill upping Britain's payments to the EU. So he will have to rely on fringe parties such as the Ulster Unionists to pass legislation.

Major sees dangling a Europe vote as a way to unify his party and boost his ratings. He must call elections by 1997—if he can survive that long.

EUROS CHALLENGE MICROSOFT

▶ Germany's largest PC maker, Vobis Microcomputer, is trying to break Microsoft Corp.'s lock on the market for personal-computer operating software. Some smaller European computer makers are following suit. Frustrated by Microsoft's aggressive licensing tactics, Vobis recently began shipping all of its PCs with IBM's OS/2 Warp operating system in addition to Microsoft's dominant Windows. Vobis CEO Theo Lieven aims to flood the market with OS/2 systems to encourage software developers to write programs for it. The hope is that computer buyers and PC makers will feel they have a choice between the two operating systems.


'S NOT
WHO
YOU KNO

S WHAT YOU KNOW.

THE DAYS OF GETTING SOMEWHERE IN THE BUSINESS WORLD BECAUSE YOU KNOW THE "RIGHT PEOPLE"—WHOEVER AND WHATEVER THEY ARE THIS WEEK—ARE ENDING.

HALLELUJAH.

Today's businesses, at least the really good ones, put the emphasis on using your bean. Because some businesses say that a good idea can come from anywhere and some businesses really believe it and set themselves up so that good ideas—wherever they come from—can be shared.

Those aforementioned really good businesses may have private offices and walls, but where it really counts—attitudinally, technologically and interactively—minds are open, people are accepting and, like the neighborhoods we remember, people help each other out the best they can, when they can.

Some of this is because of computer technology and new technologies for communication, but most of it comes from people realizing that hoarding information in an important pile on the credenza doesn't make an executive more powerful.

Our business applications are designed along these lines of thought. For example, Microsoft® Office is a family of software business tools designed to share information and work seamlessly together. Charts and files can easily be imported from one application to another. And each is easy to use, because once you've learned one application, you can use them all.

The new Microsoft BackOffice is an integrated information system built on Windows NT.™ It does more than tie computers together. It facilitates the flow of information so ideas can whiz around the office quickly, from the top down and, perhaps more importantly, from the bottom up.

And since Windows™ makes using a computer so easy, you can use more of that bean of yours doing your job and less of it figuring out how to do it.

The result is an office that optimizes efficiency and encourages the most productive kind of communication.

The kind where everybody shares what they know with who they know.

Microsoft®

WHERE DO YOU WANT TO GO TODAY?™

©1994 Microsoft Corporation. All rights reserved. Windows and Windows NT are trademarks of Microsoft Corporation for its operating system products. Microsoft is a registered trademark and Where do you want to go today? is a trademark of Microsoft Corporation.

Start

A THIRD FRONT IN THE COLA WARS

Private-label king Cott launches a blitz against Coke and Pepsi

NICHOL AND PENCER: *Exploring Virgin territory in Britain with Richard Branson*

British billionaire Richard Branson can afford to buy all the market research he needs. But last summer, the Virgin Group chairman conducted his own blind taste test at his children's school, pitting a cola produced by Toronto-based Cott Corp. against Coke and Pepsi.

When roughly three-quarters of the kids preferred Cott, Branson set up a joint venture with Cott to launch Virgin Cola. By the time the new soda hit British stores in mid-November, Branson had orders for 35 million cans—and already, the brash executive predicts that "within 3 to 4 years, Coke and Virgin Cola will be vying for market dominance."

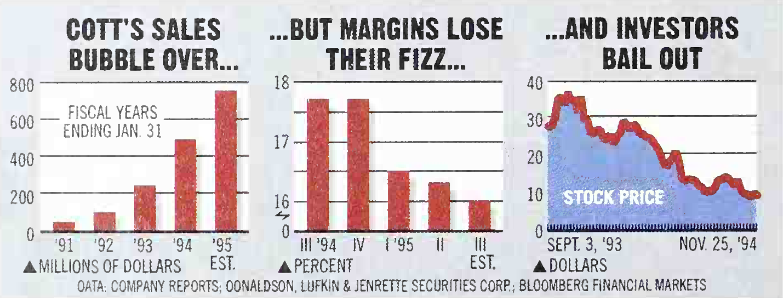
Preposterous? Maybe. But over the last four years, Cott has transformed itself from an obscure regional bottling company into a leading private-label player by creating dozens of store-brand sodas that compete with Coca-Cola Co. and PepsiCo Inc. as never before. This year, Wal-Mart Stores Inc. will sell over 1 billion 12-ounce servings of s drinks produced by Cott and s under its Sam's American Cho label. In Canada, Cott has grab a 23% share of all sodas sold supermarkets. And in Brita Sainsbury Classic Cola, which bottled by Cott, now accounts over 60% of the cola sold by Sainsbury PLC, Britain's top f retailer.

"PARASITES." Those success should push Cott's sales past $7 million in its 1995 fiscal year, er- ing Jan. 31, up from $49 milli just four years ago. Analyst W- liam Leach of Donaldson, Lufk & Jenrette Securities Corp. es- mates that earnings will hit $ million—a far cry from th $700,000 earned in 1991.

But now Cott faces a steppe- up battle for survival. Though Co and Pepsi dwarf the upstart, th are launching a fierce countera- tack to halt private labels. Cott a other private-label bottlers a "parasites," Coca-Cola Preside M. Douglas Ivester told a rece industry meeting. But "on our tu the parasite is nothing but a ti bug, waiting to be crushed."

Cott is hardly shrinking from th fight. Chief Executive Gerald N. Pe cer has now set his sights on becomin a broader private-label powerhous Even as it rapidly expands its sodas i the U.S. and abroad, Cott is adding bee "New Age" beverages, and foods to it menu. Leading the charge will be Pres ident David Nichol, wh was lured to Cott las summer after buildin North America's mos successful line of qualit private-label product the President's Choic line sold by Loblaw Cos Canada's top supermar ket, and 12 U.S. chains

Still, the counter attack is drawing blood



DATA: COMPANY REPORTS; DONALDSON, LUFKIN & JENRETTE SECURITIES CORP.; BLOOMBERG FINANCIAL MARKETS

BY ROB WAYMEN; CHARTS BY ERIC HOFFMANN/BW

ith roughly a 2.5% share today, Cott ıs helped propel private labels to a .5% share of the $20 billion U.S. ıpermarket soft-drink business—up om 9.5% in 1990. But now brands are gaining ground. "For the past six onths, we've seen share declines for ivate label," says Paul Clancy, direc- ır of market strategy for Pepsi Cola orth America. "We've neutralized their owth."

So far, most of the pain has been felt y smaller private-label bottlers—not ott, whose revenues grew by 64% in ıe first half. But its profits are being it. Coke and Pepsi have slashed prices) retailers by as much as 30% in re- ions where Cott is strong. Coke has lso increased payments and other in- entives to retailers to get them to dis- lay its products more prominently. Ieeting the price cuts has taken a toll n the much-smaller Cott. While earn- ıgs rose 55% in the first half, to $19 ıillion, Cott's gross profit margin fell to 6.3%, from 17.7% a year earlier. With he price of aluminum soaring, margins re expected to slip below 15% next ear.

All this has pummeled Cott stock. It ow trades at around 10, down from last ear's high of 37—and the heavily short- d stock could drop further. "Investors ave seen that Coke and Pepsi can make ott's life difficult," says Jennifer Solo- ıon, an analyst with New York-based rokerage Josephthal, Lyon & Ross Inc.

HELF RESPECT. If it's losing investors, ott may yet be winning the all-impor- ant battle for retailers' hearts and ıinds. For one thing, it has given them newfound feeling of clout over the na- ional brands. Having a strong store rand "has improved the way Coke and epsi deal with us," says Dave D'Arez- o, a grocery group manager for Weg- ıan's Food Markets Inc. in Upstate Iew York. And because Cott's products ost less than Coke or Pepsi, "we can ive consumers value and still earn bet- er margins than on national brands," ays Gary Smith, vice-president for pri- ate-label marketing at Safeway Inc., ne of Cott's largest customers. By 1999, nalyst Leach expects Cott to hold 8% of he U.S. supermarket soda sales.

Still, Cott has no presence in huge arts of the $50 billion U.S. soft drink ıarket, such as vending machines and ountain outlets. To broaden its appeal, ott is following Coke and Pepsi into Iew Age beverages such as iced tea, ruit-based drinks, and spring water. ınd it is casting an eye on the lucra- ive $10 billion fountain business. "Why ouldn't McDonald's consider paying 0% less than Coke for Cott's cola?" sks Pencer. A McDonald's spokesman coffs at the idea. "Coke and McDonald's

How to buy something different for everyone.

American Express Gift Cheque
THE AMERICAN EXPRESS GIFT CHEQUE

Simple. Buy the American Express® Gift Cheque. It's different things to different people because it allows them to buy practically anything, virtually everywhere. Packaged elegantly, it is a truly distinctive and memorable gift. Available at participating American Express® Travel Service Offices, banks, credit unions and AAA Clubs. For a location near you, call **1-800-335-4895**. For more information on corporate orders (over 20 Cheques) call **1-800-700-7618**.

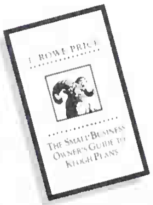
AMERICAN EXPRESS **Gift Cheques**

DEC. 31 DEADLINE

REDUCE YOUR 1994 TAXES WITH THE SIMPLIFIED KEOGH

The T. Rowe Price Simplified Keogh®: Tax advantages and flexibility. Professionals, self-employed individuals, and small-business owners: You may be able to contribute pretax income of up to $30,000 to your retirement account. And you can defer taxes on your contributions and any earnings until withdrawal. You can choose from 42 no-load mutual funds to invest in.

Comprehensive, yet easy to implement and run. The T. Rowe Price Simplified Keogh has a short, easy-to-complete application and step-by-step setup instructions. Running it is easy and cost-effective. And when you have investment questions, a simple phone call to our retirement specialists will get you answers.



Call today for a free kit
1-800-831-1240

Invest With Confidence
T.RowePrice

T. Rowe Price Investment Services, Inc., Distributor. KEO024376

are a winning combination," he says.

Cott is also looking farther afield for growth. In Japan, where cola prices are sky-high, Cott's beverages now make up over half of the canned soda sold by its first customer: the 5,000-store Ito Yokado chain. And Cott is eyeing dozens of other countries. But with 80% of its operating earnings coming from overseas, Coke will likely fight back with price cuts just as at home.

Already, with the North American price war hammering margins, Cott's ability to expand on its own is limited. That's why it's now seeking out wealthy partners. The 50-50 joint venture with Branson is the first such deal. Under it, Cott will handle bottling and distribution, while Virgin will handle advertising and promotion. By Christmas, Virgin Cola will be sold in over 3,000 British retail outlets. And next year, Branson plans to expand Virgin Cola to the U. S., Japan, and other markets.

To Coke's president, a private-label bottler is "a tiny bug, waiting to be crushed"

Nichol is also trying to sweeten Cott's appeal with retailers who want to build their own private-label pantries. He is now developing a line of top-quality foods—such as ground coffee, prepared lasagna, and cookies—that will be marketed by Cott's existing retailers under own-store labels. Eventually, Cott might produce up to 200 of such items.

But with private-label food sales also showing signs of peaking, that market isn't likely to be any easier. Nichol concedes that Cott is facing a "fight of massive proportions." One taste of battles to come: After Cott ventured into private-label beer in 1992, Canada's two major breweries launched low-priced brands of their own. Then John Labatt Ltd. paid Loblaw $28 million to wrest the contract to brew its President's Choice beer away from Cott. Although it has launched a rival label, Cott admits that margins in its brewing business have plunged more than 40%. With competitors waiting around every corner—and now well aware of what the private labeler can do if given free rein—Cott will have a harder time avoiding the wrath of giants.

By William C. Symonds in Toronto, with Paula Dwyer in London

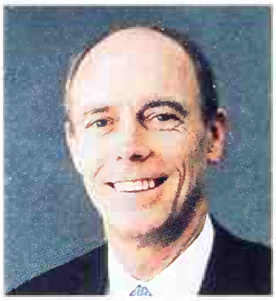
MANAGERS

FUTURE BOSSES OF AMERICA

A new list of likely CEOs-to-be is surprisingly diverse

MERCK'S LEWENT
What glass ceiling?

DISNEY'S NANULA
Youth will have its day



ITT'S ENGEN
His phone is ringing

Wanted: rising management talent to head major corporations. Candidates must currently hold an officer-level position, be less than 53 years old, and have never been a chief executive of a large company. Likely start date: anytime between now and 2002.

That, in a nutshell, was the assignment John R. Sibbald gave his fellow headhunters. The Chicago executive recruiter polled his colleagues to locate the hottest executives around these days. Call the result a list of America's most-hunted heads, the managers whom recruiters identify as the most likely future CEOs of large U. S. corporations.

The list includes 250 up-and-comers in manufacturing, services, communications, health care, and nonprofits. Sibbald gave BUSINESS WEEK a "short list" of the 50 most-cited executives in manufacturing, services, and communications (table). He figures that most of them will grab the top spot at a major company—not necessarily their current employer—in the next five to eight years.

FAVORITE PICKS. If he's right, then Corporate America's corner office will soon be occupied by a more diverse bunch. The top-50 list includes eight women, such as Merck & Co. CFO Judy C. Lewent, Mattel President Jill E. Barad, and Seagram Beverage Group President Ellen R. Marram. Women also account for 14% of the spots in the full catalog of 250, which will be published in the latest edition of Sibbald's book on headhunters, *The New Career Makers*. The list also includes a handful of black executives, including Kenneth I. Chenault, pres dent of American Expre Travel Related Services; Barry Rand, executive vic president of Xerox Cor and Richard D. Nanul newly named president Disney Store Worldwid Walt Disney Co.'s retaili arm. At 34, Nanula is al the youngest on the lis where the average age is 4

To assemble his colle tion, Sibbald asked hea hunters to identify the personal choices of pote tial CEOs, either for the current employers or ot er organizations. More tha 600 handed over their f vorite picks. To make th full list, a candidate nee ed six separate nomina tions. It took eight votes t make the top-50 tally, an the most-cited executive– whom Sibbald won' name—got 14. "This is no exactly a heavyweigh prize for accomplishment but it's an authoritativ recommendation in a semi serious format," says Da vid A. Lord, editor of *Exec utive Recruiter News* "Executive recruiters ar good judges of talent.

They're also good judg es of the fairly obvious. Th list includes some of Cor porate America's most fa miliar names, such as Pep siCo's Roger Enrico Coca-Cola's M. Douglas Ivester, and RJR Nabisco's H. John Greeniaus. But there are some surprises—chief among them that General Electric Co., which has long been considered a top breeding ground for future chief executives, has just three contenders among the 250. The company boasting the most management talent, according to Sibbald: PepsiCo Inc., which has no fewer than nine up-and-comers.

So, are the phones of executives at psico and other hunting grounds out to start ringing off the hook? ney're going to be approached by a more executive recruiters and other ployers," says Sibbald. "They're go- ; to be on everybody's call list." And it means their employers may need work harder to ward off poachers, ures Steven A. Seiden, president of w York-based recruiters Seiden As- iates Inc. "It might put boards and os in a more appreciative mood of eir in-house talent," he says.

Many of Sibbald's rivals, though, say ; list won't have much impact. These ospects, they note, landed on the tal- because they're already desirable tar- ts. "These people are probably get- ig so many calls already they might t even notice the difference," says ord. Nor are employers likely to see em differently, says Dayton Ogden, o of SpencerStuart. "Nobody is go- g to take more or less account of some- dy's ability to run a company based on is book," he says. "It's interesting and s fun, but I don't think it will have a ajor impact on anybody's career or on y company's succession plans."

OCUSED." The winners of Sibbald's co-to-be pageant seem to agree. "It's ttering, but it has very little signifi- nce," says D. Travis Engen, 50, exec- ive vice-president of ITT Corp. "Quite ankly, I've been so focused on what's ing on inside the company that I did- : have any sense that I'd be visible to at group of people." Engen admits at he already gets frequent calls "gen- ally aimed at filling a job" but shrugs em off. William J. Razzouk, a 47-year- l executive vice-president at Federal xpress Corp., was clearly pleased to ar he was included. "Anybody that ould tell you that it wouldn't make em feel good to see their name on this t would be lying," he says.

Arthur D. Collins Jr., COO of Medtron- Inc., a maker of cardiovascular devic- , chuckled at the news. "I guess first all I'm surprised and flattered," he ys. Collins, 47, came to Medtronic two- d-a-half years ago after working at obott Laboratories for 14 years. "I've t a big job to do right now, and I'm not en looking at the future."

Disney's Nanula was also surprised be on the list. A Harvard University BA who joined Disney in 1986, he be- me CFO in 1991 and was recently med president of Walt Disney's 335- ore retail operations. Of Sibbald's ok, he says: "It sounds like awfully ring reading." But think how much ore boring it will be for executives hose names aren't on the list.

By Lori Bongiorno in New York, with reau reports

The Top 50 Hot Prospects

Executive recruiter John Sibbald asked more than 600 colleagues to name the managers most likely to become CEOs. To make this list, an executive needed at least eight nominations.

EXECUTIVE	TITLE	COMPANY
HERBERT ALLISON	Executive VP	Merrill Lynch
JILL BARAD	President and COO	Mattel
BRENDA BARNES	COO	Pepsi-Cola N.A.
ROBERT BARNUM	President and COO	American Savings Bank
LARRY BRADY	President	FMC
DANIEL BURNHAM	President and CEO	AlliedSignal Aerospace
KENNETH CHENAULT	President	American Express Travel Rel. Svces.
LEWIS COLEMAN	Vice-Chairman and CFO	Bank of America
ARTHUR COLLINS	COO	Medtronic
GARY DICAMILLO	President	Black & Decker Power Tools and Access.
JOHN EDWARDSON	President	United Airlines
D. TRAVIS ENGEN	Executive VP	ITT
ROGER ENRICO	Chairman and CEO	PepsiCo Restaurants International
LAURA ESTES	Senior VP	Aetna Life Insurance & Annuity
THOMAS FAULDERS	VP and CFO	Comsat
LUCIE FJELDSTAD	President and CEO	Fjeldstad International
CHRISTOPHER GALVIN	President and COO	Motorola
H. JOHN GREENIAUS	President and CEO	Nabisco Foods
JANET GURWITCH	Executive VP	Neiman Marcus
THEODORE HALL	Director	McKinsey & Co.
FRED HASSAN	Senior VP	American Home Products
M. DOUGLAS IVESTER	President and COO	Coca-Cola
DURK JAGER	Executive VP	Procter & Gamble
LESTER KNIGHT	Executive VP	Baxter International
SUSAN KRONICK	President and COO	Rich's/Goldsmith's
RICHARD LAPPIN	President and COO	Farley Industries
JUDY LEWENT	Senior VP and CFO	Merck
PAUL LUSTIG	President and CEO	Sara Lee Bakery Worldwide
ALEX MANDL	Executive VP	AT&T
PHILIP MARINEAU	President and COO	Quaker Oats Company
ELLEN MARRAM	President	Seagram Beverage Group
HAROLD McGRAW III	President and COO	McGraw-Hill
MARTIN McGUIN	Vice-Chairman	Mellon Bank
JAMES McNERNEY	President-Asia	General Electric
LEO MULLIN	President and COO	First Chicago Corp.
ROBERT NAKASONE	President and COO	Toys 'R' Us
RICHARD NANULA	President	Disney Store Worldwide
WILLIAM PEREZ	President and COO	S.C. Johnson Consumer Products
FREDERIC POSES	President	AlliedSignal Engineered Materials
COURTNEY PRATT	Executive VP	Noranda
A. BARRY RAND	Executive VP	Xerox
WILLIAM RAZZOUK	Executive VP	Federal Express
GARY ROGERS	President and CEO	General Electric Plastics
STEPHEN SANGER	President	General Mills
RICHARD SEVCIK	Group GM	Hewlett-Packard Systems Tech. Group
EUGENE SHANKS JR.	President	Bankers Trust
KEVIN SHARER	President and COO	Amgen
CHRISTOPHER SINCLAIR	President and CEO	PepsiCo Foods & Beverages International
CHRISTOPHER STEFFEN	Senior Executive VP	Citicorp
RICHARD WAGONER	President-NAO	General Motors

DATA: JOHN SIBBALD ASSOCIATES INC.

Cover Story

INSIDER T

Greed is still the motive, of course, but most of the action has shifted from Wall Street to Main Street

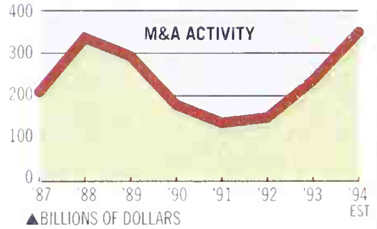
There comes a time in the life of every independent oilman when he decides to leave his wells behind. For Harry C. Johnson, that time was last summer. Having lost out on bids for two energy companies, the chairman and president of Red Eagle Resources Corp. decided his outfit was too small to compete against better-heeled rivals. So on Aug. 30, Johnson announced that he would sell the Oklahoma City oil and gas producer he had founded in 1977 to competitor Lomak Petroleum Inc. for $38.3 million. "It was a shock to everyone who knew me that I parted with my baby," says the laconic 62-year-old former roughneck.

Well, maybe not everyone. Red Eagle's stock shot up 16%, to $5.50, the day before the $7.94-a-share deal was made public. And trading volume in the stock on Aug. 29—16,500 shares—was more than triple the norm. The American Stock Exchange promptly launched an inquiry. "Where there are a lot of people involved in a deal," Johnson sighs, "you have to believe in the tooth fairy to think there isn't leakage."

Insider trading. The term conjures up images and people of the 1980s: Investment bankers in handcuffs, arbitrageurs in hot water, a beardless Ivan F. Boesky, a defiant Michael R. Milken, an uncontrite Dennis B. Levine, and a fire-eating latter-day Thomas E. Dewey, Rudolph W. Giuliani. But even as most of those fabled characters fade into history and the legacy of tough enforcement lives on, insider trading is alive and well—and growing.

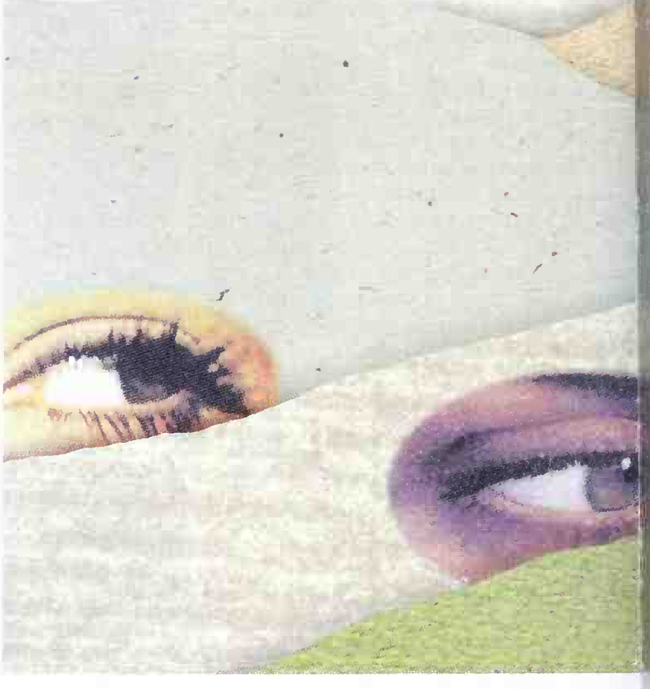
The motive, greed, is the same. So, too, is the renewed merger mania that is, again, going hand in glove with insider trading. But the cast of characters is different. Today, even as regulators keep a sharp eye on Wall Street, most of the action has been on Main Street. It seems plain that beefed-up regulatory surveillance and stiffer sanctions have done little to stem the tide. A BUSINESS WEEK investigation, which included a detailed examination of the trading surrounding every large bid this year, reveals that the paw-prints of insider trading—unexplained runups in stock prices and/or trading volume—accompanied a startling number of the largest deals of 1994 (pages 72-76).

AS MERGERS COME ROARING BACK...

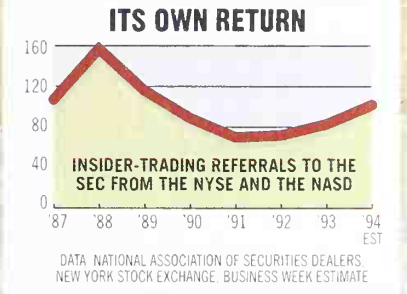


▲BILLIONS OF DOLLARS

DATA: SECURITIES DATA CO., BUSINESS WEEK ESTIMATE



RADING


160
120
80
40
0
INSIDER-TRADING REFERRALS TO THE SEC FROM THE NYSE AND THE NASD
'87
'88
'89
'90
'91
'92
'93
'94 EST

...INSIDER TRADING STAGES ITS OWN RETURN

DATA: NATIONAL ASSOCIATION OF SECURITIES DEALERS, NEW YORK STOCK EXCHANGE, BUSINESS WEEK ESTIMATE

©RICO LINS STUDIO

One of the biggest contrasts from the 1980s is that insider trading has gone Middle American. Corporate executives, their friends and relatives, their lawyers and their consultants, are taking up the slack from brokerages and investment banks. For Wall Street pros, memories of colleagues being hauled off to jail and subjected to costly legal onslaughts are all too fresh. But in corporate boardrooms, the lure of making a quick buck is often too strong to resist—and ignorance of the regulators' trade-watching acumen is rife. "There are surveillance cameras in banks, and people still rob them. There's just too much temptation," shrugs James M. Cangiano, head of market surveillance for the NASDAQ over-the-counter market.

ROGUE RUNUPS. Government numbers only hint at the pervasiveness of insider trading. In the fiscal year that ended on Sept. 30, the Securities & Exchange Commission brought a record 45 insider-trading cases, up from 34 last year and exceeding the previous peak of 43 brought in 1989. And the ground is being laid for even larger numbers in coming years. Referrals of suspected insider trading to the SEC by the New York Stock Exchange and the National Association of Securities Dealers (NASD), which monitors trading on the NASDAQ market, are rising (chart).

A FISHY SMELL

In 1994, one out of three big merger deals was preceded by suspicious trading

A far more chilling picture emerges from the playpen of the insider traders, the market itself. BUSINESS WEEK analyzed the stock trading activity that took place before each of the 100 largest deals of 1994. The conclusion was stunning: One out of every three of the merger deals or tender offers was preceded by stock-price runups or abnormal volume that couldn't be satisfactorily explained by publicly available information. Some of the deals were preceded by suspiciously heavy trading, others by unexplained price runups—and some by both price and volume surges, such as the largest takeover bid, American Home Products' bid for American Cyanamid. Some of the companies —notably Monk-Austin and Associated Natural Gas— saw the trading surge at the time and were alarmed by it.

True, companies involved in deals often cite favorable market sentiment, takeover speculation, or other rumors for such trading flurries. But SEC officials are skeptical. Where there's smoke—runups—too often there's the inferno of insider trading. "We believe generally if there is a price and volume runup, somebody somewhere knew" about undisclosed news, says SEC Enforcement Chief William R. McLucas.

Insider trading has long raised troubling questions about the fairness of the markets, and this latest wave is no different. It could encourage the belief that the market is rigged against small investors. "Misuse of insider information makes the markets unfair," says Stephen L. Hammerman, vice-chairman and general counsel of Merrill Lynch & Co.

To be sure, insider trading never disappeared altogether. Before the current merger boom, corporate officials or the friends and family members they tipped off kept the SEC busy, mostly in cases involving the sale of stakes in companies ahead of bad-news announcements. In May, for instance, the SEC charged Oded Aboodi, an informal financial adviser to Time Warner Inc., with selling 20,000 Time Warner common shares and buying preferred shares in 1991 before the company announced a poorly received shareholder stock-rights plan. Aboodi settled charges that he avoided $413,700 in losses by agreeing to pay $931,000 in penalties and interest without admitting or denying wrongdoing. His attorney says Aboodi declines to comment on the case.

BUSY MORNING. However, these days, the enforcement focus is on 1980s-style insider trading—the pre-merger kind—where runups preceding deals are often a tipoff to illegal profiteering. A good example is the suspiciously propitious climb in Brock Candy Co. stock. Late on Aug. 29, trading was halted in Brock's stock, and the company disclosed that it was negotiating the possible sale of the company. The t ing halt came after an unexplained runup of 14% from the vious day's closing price. A spokesperson for the combi company, Brach & Brock Confections Inc., confirms that SEC has inquired into the trading, but declines to comm further.

One intriguing subplot of the Brach-Brock wedlock is Robinson-Humphrey Co., an Atlanta brokerage that was vising Brock on the possible deal, also was handling a sig icant amount of the preannouncement trading. Robins Humphrey filed data with AutEx, a unit of Thomson Finan Services used by traders to advertise their presence in market, that showed it handled 55,000 shares that morni David C. Prince, Robinson-Humphrey's general counsel, s the firm has examined its trading in Brock, and "we d feel any improprieties have occurred."

Even when corporate execs move heaven and eart keep merger talks quiet, news sometimes dribbles out. W modem manufacturer Megahertz Corp. was negotiating w U. S. Robotics Inc. earlier this year, discussions were h either in hotel rooms near O'Hare International Airport o conference rooms at Megahertz' Salt Lake City headqu ters. Visiting U. S. Robotics executives even left their suit home so they wouldn't stand out among Megahertz' casu clad employees.

Still, the stock turned up in BUSINESS WEEK 's review deals with hefty stock moves before a deal announcement. Oct. 18, the day before the transaction was made public, tr ing in Megahertz stock surged to more than double its da average, and the stock price moved up more than 10%. M

Runups Before Deals: Chicanery Or Coincidence?

BUSINESS WEEK examined the 100 largest mergers so far this year. Of the 100 target companies, 34 showed runups in either price or volume—or both—that can't be satisfactorily explained. Each of the 34 companies was contacted by BW. Their explanation or comment, if any, is below:

TARGET COMPANY / ACQUIRER	DEAL SIZE IN MILLIONS OF DOLLARS
AMERICAN CYANAMID / AMERICAN HOME PRODUCTS Stock in the target rose from 60⅝ to 63 in heavy trading on the day before American Home launched its hostile $95-a-share bid.	$9,267.2
GERBER PRODUCTS / SANDOZ Takeover rumors were rife before Sandoz launched its $53-a-share bid for Gerber on May 23. Volume was huge—over a million shares on May 6—before the rumors hit the media.	$3,689.9
GRUMMAN / NORTHROP Massive trading in Grumman shares and options preceded Northrop's bid for the company on Mar. 10. Trading in Grumman was also heavy prior to the Mar. 7 bid from Martin Marietta.	$2,104.0
RELIANCE ELECTRIC / GENERAL SIGNAL A day before the ill-fated merger agreement on Aug. 30, volume in Reliance stock reached 180,000 shares—twice the usual level. Reliance's director of investor relations, Steven Van Oss, says the company did not detect any "unusual stock trading patterns" on that day.	$1,508.6
INTUIT / MICROSOFT The deal was announced officially on Oct.13, but the action began days before. Intuit shares rose from 40¾ to 42 on Oct. 7, in heavy volume, for no apparent reason. Share prices rose, under heavy volume, even before a trade publication, *InfoWorld*, reported the impending deal on Oct. 10. Company officials cannot explain the predeal trading.	$1,471.0
SYNOPTICS COMMUNICATIONS / WELLFLEET COMMUNICATION Shares of SynOptics rose from 13⅝ to 15¼ in heavy tradi the trading day before the merger was announced on July	$
NEUTROGENA / JOHNSON & JOHNSON Trading in both the stock and options of Neutrogena was usually brisk in advance of the company's Aug. 10 disclo that it was in talks regarding possible sale of the compan shareholder suit alleges insider trading. Citing the suit, N trogena declines comment.	
SCIMED LIFE SYSTEMS / BOSTON SCIENTIFIC SciMed stock rose from 47¼ to 48½ in heavy volume–1.5 lion shares–shortly before the stock swap with Boston Sci tific was announced at the end of the trading day on Aug.	
ASSOCIATED NATURAL GAS / PANHANDLE EASTERN In the days before the merger was announced, on Oct. 10 Associated stock climbed 10% in huge trading. Harold Lo a spokesman for Associated, says the runup "concerned u greatly. We don't know what caused it."	
DIAL PAGE / NEXTEL COMMUNICATIONS A poor earnings report pummeled Dial Page shares on Jul But the shares came roaring back in the days before the ger was announced on Aug. 5.	
HOOK-SUPERX / REVCO DS (ANAC HOLDING) The target company's shares rose in heavy trading on the before the merger announcement on Apr. 4.	

> “We believe generally if there is a price and volume runup, somebody somewhere knew” about undisclosed news
>
> —WILLIAM McLUCAS, SEC enforcement chief

ertz Finance Vice-President Karl S. Ryser Jr. says some re-nt good news may have been a factor but adds that the mpany can’t fully explain the activity. “I am very concerned at it may have leaked,” he says. U. S. Robotics won’t com-ent on the price movement.

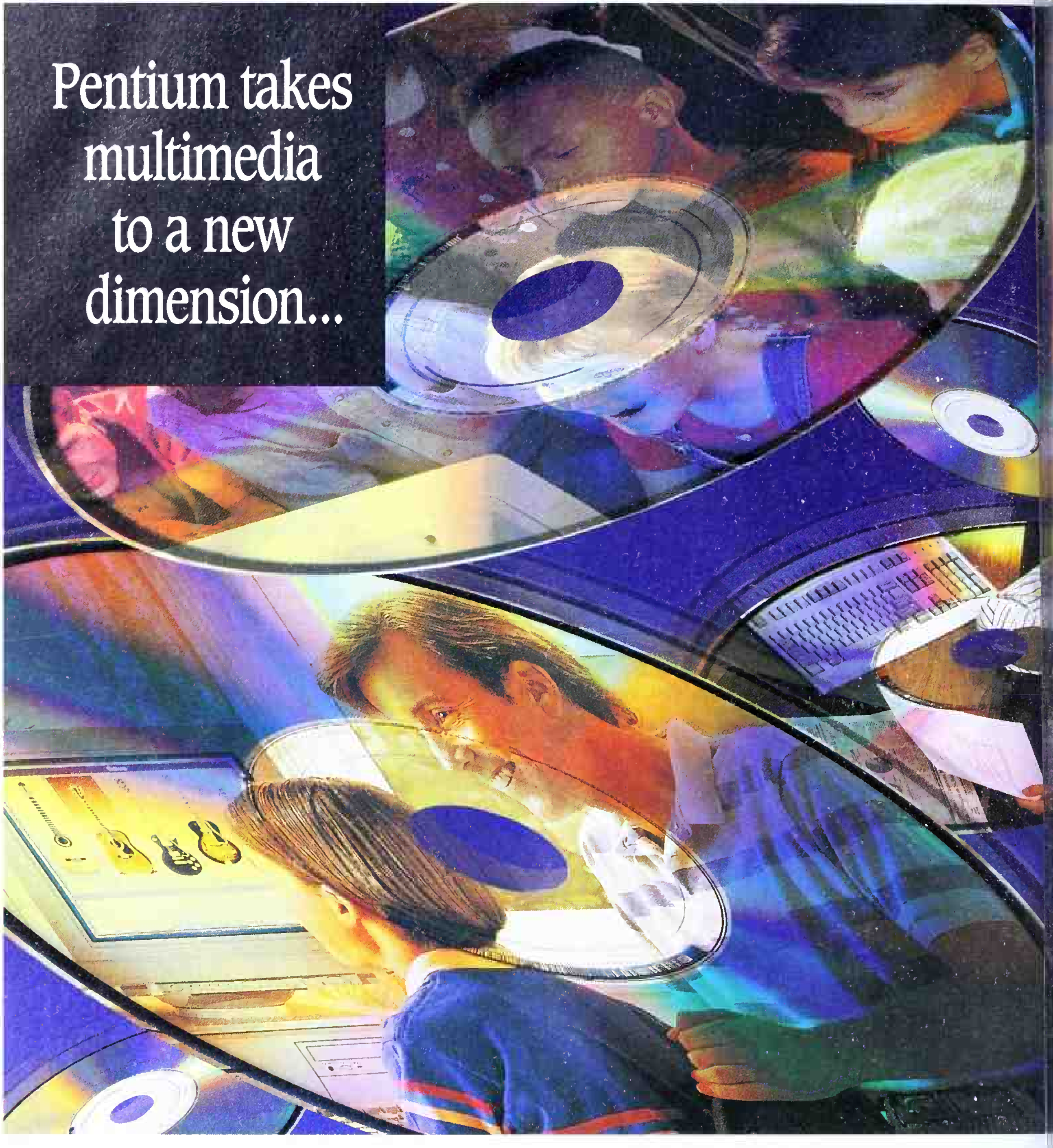
For the leakees, insider trading is not always a sure path to riches. Some deals fall through, and in others, the pricing of the deal is not known until the very end. Take MidSouth Corp., a railroad operator that was bought by Kansas City Southern Industries Inc. in 1992. Mark M. Levin, former chairman and chief executive of the company, recalls that he was at loggerheads with KCS over the value of his company for weeks. KCS eventually bought MidSouth for $219 million in 1992, but “no one knew until the very last moment that we had an agreement on price.”

Still, the SEC believes that there was insider trading in MidSouth stock. In June, the commission charged a former Kansas City Southern lobbyist and two of her longtime friends with insider trading. The agency alleged that the three, plus two other investors who weren’t named, made relatively paltry profits of $35,000. The lobbyist settled without admitting or denying wrongdoing, while her friends are fighting the charges. The SEC acknowledges that its investi-

COMPANY / ACQUIRER	DEAL SIZE IN MILLIONS OF DOLLARS	
RE HEALTH SYSTEMS / UNITED HEALTHCARE	$522.5	ng volume was heavy on Sept. 9, the trading day preced-e Sept. 12 merger announcement. Trading was also , and share prices rose 14%, in the two weeks before are announced that it was in “conversations with other anies to explore a variety of business combinations.” The any knows of no reason for the heavy trading.
NS FIRST BANCORP / NATIONAL WESTMINSTER BANCORP	$486.1	ns shares rose in heavy volume—641,000 shares—the g day before the merger was announced on Mar. 21. ence Nichols, a spokesman for Citizens, says that the e increase was noticed by the company at the time and the company could not explain the rise in trading ty.
/ ADOBE SYSTEMS	$433.0	ompany’s shares rose from 24½ to 26¼ in the three days e the merger pact was announced late on Mar. 15. A sman says the company didn’t note any unusual stock ty before the announcement. Options trading volume was eavy, leading to scrutiny by the Pacific Stock Exchange.
ANCORP / FLEET FINANCIAL GROUP	$419.9	stock climbed from 42 to 48, in trading that was at very heavy, in the two weeks before the merger was unced on May 9.
AUSTIN / DIBRELL BROTHERS	$386.9	s in the target company rose from 13¾ to 15⅝ in unusu-eavy trading the two trading days before the merger was unced on Oct. 23. “I think management here attributed it eculation in the industry. We certainly hope it was lation,” says Paul Steelman, financial reporting manager nk-Austin. He calls the trading “alarming.”
UNITED COUNTIES BANCORP / MERIDIAN BANCORP	$376.0	In the days before the merger was announced on Aug. 30, there was substantial trading in the usually thinly-traded Union Counties. Alice Cadby, head of investor relations at United, says the company was aware of the surge in volume but has no explanation for it.
MARGARETTEN FINANCIAL / CHEMICAL BANKING	$372.6	Shares prices in Margaretten rose from 20⅞ to 22⅞ in the two days before the acquisition was announced on May 12.
STATESMAN GROUP / CONSECO CAPITAL PARTNERS II	$349.2	Heavy volume and a jump in price—from 12½ to 14½ during two trading days—preceded the announcement that Statesman would be acquired by Conseco.
BALTIMORE BANCORP / FIRST FIDELITY BANCORP	$341.9	In the week before this long-pending merger was finalized on Mar. 21, share prices climbed from 16½ to 18, in heavy volume.
NETWORK SYSTEMS / STORAGE TECHNOLOGY	$331.8	Shares in this company soared almost 20% in the two weeks before the merger was announced, with an 11% gain on Aug. 8—the day before the takeover was announced.
NICHOLS INSTITUTE / CORNING LAB SERVICES	$322.2	Huge volume was sustained in the stock on May 31, one day before the acquisition by Corning was announced. Executives at Nichols noticed the volume at the time but had no explanation for it, a Corning spokesman says.
MEDIPLEX GROUP / SUN HEALTHCARE GROUP	$320.0	Mediplex rose from 26 to 29 in the week before the Jan. 4 deal announcement. “The general consensus [at Mediplex] was that it was a normal market thing,” says a spokesman. However, health-care stocks hardly budged during that period.

Continued on page 76

KATHERINE LAMBERT


Pentium takes multimedia to a new dimension...

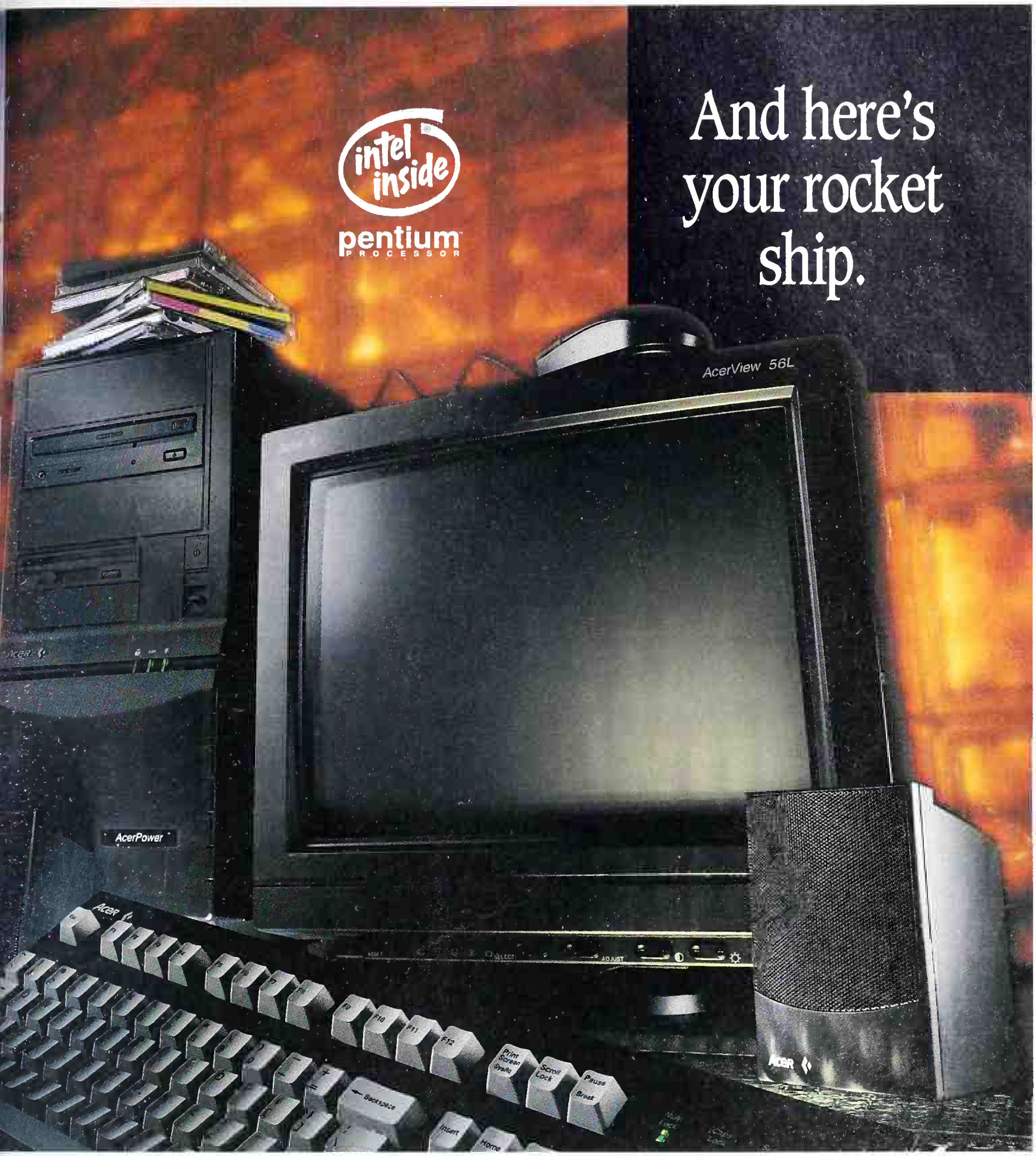
Explore the Multimedia Universe with Acer.

Multimedia technology takes your computing experience to a new dimension. And with Acer Pentium-based PCs driving your multimedia software, a new universe of video, sound and three-dimensional information is yours to explore.

Acer multimedia systems, supercharged with Pentium processors, stand out from the crowd with their exciting, high-tech designs. They're mission-ready with high-speed CD-ROM drives and best-of-class CD multimedia software. Plu fax/modems for access to the outer limits of the Internet and online services.

The OOBE™ "Out-Of-Box Experience" makes setup as easy as 1-2-3, right out of the box. An with the Acer Computer Explorer, your maiden voyage takes off without a hitch. Never has Pentium power been so easy to use. And at these prices, it's never been easier to afford.

ACER COMPUTERS
THE INDUSTRY SOURCE


And here's your rocket ship.
intel inside
pentium PROCESSOR
AcerView 56L
Acer
AcerPower
Acer

Acer

The Industry Source Means Value.

Call 1-800-391-ACER for more information.

AcerXpress Fax Back System: 1-800-554-2494 Acer BBS: 1-408-428-0140

Acer and the Acer logo are registered trademarks and AcerPower and OOBE are trademarks of Acer America Corporation and Acer, Incorporated. Intel and the Intel Inside logo are registered trademarks and Pentium and the Pentium Processor logo are trademarks of Intel Corporation. All other brands and product names are trademarks or registered trademarks of their respective companies. © 1994 Acer America Corporation. All rights reserved.

gation is continuing, and Levin says a relative of someone with links to MidSouth and two others have received subpoenas from the commission. Both deny any wrongdoing, according to Levin. All the same, he says he's "really angry." He adds: "It's so embarrassing to the company. It's outrageous."

Regulators have poured enormous resources into tracking down miscreants. The self-regulatory organizations, such as the New York Stock Exchange, the American Stock Exchange, and the NASD now use statistical models to uncover potential insider activity. Those models flag a stock anytime the price or volume breaks out of historical parameters. Increasingly, they can factor in how the market in general is moving or what news has been announced to narrow down the cases that warrant scrutiny.

SLEUTHING SOFTWARE. Frequently, insiders tip neighbors and friends, so the exchanges and NASD can run an electronic search that produces a list of everyone from a certain zip code who traded in the stock in question. The hunt may turn up an unusually long list of lucky traders from the same block. Regulators and self-regulatory organizations also share a database that lists anyone whose name has turned up in connection with suspicious trading in the past. So if a name turns up several times, investigators can zero in on that individual. "If somebody had been doing that in the Boesky and Levine days, they would have seen the same account showing up [as suspicious] 15 different times," says Cameron K. Funkhouser, assistant director of NASDAQ's surveillance tem

Eugene and Bruce E. Dines learned the hard way how fective the stepped-up surveillance has become. Shortly a a Minnesota bank made a bid for Colorado National Ba shares Inc. in November 1992, a NASDAQ team began a rou review of the deal. The team traced some suspicious tran tions—30,000 shares bought in the three weeks of deal ne tiations—to a broker in La Jolla, Calif., who identified client as a wealthy local retiree, 71-year-old Eugene Di

Tipped by NASDAQ, the SEC picked up the case and lear that Dines's brother, Bruce, was a CNB director. Before l they ascertained through phone and trading records that brothers had been in touch throughout the merger nego tions. The SEC filed charges in U. S. District Court in Diego, accusing Bruce Dines of breaching his fiduciary d by tipping his brother to the deal. The commission char Eugene with earning illegal insider-trading profits.

Without admitting or denying guilt, the Dines broth agreed to pay a total of $655,000 in civil penalties. But price has been more than just a financial one. Eugene Di whose great-grandfather was a Colorado governor, says incident has been humiliating for his family. "It was a v naive thing," he says now. "I'll regret it the rest of my li Bruce Dines declined comment.

The Dines case is a far cry from the Roaring Eight when high-profile insider-trading cases roared through Street. One reason is a 1988 law that made brokerages pot tially liable for their employees' insider trading. That for firms to monitor their employees more closely. "People

Runups Before Deals (continued)

TARGET COMPANY / ACQUIRER — DEAL SIZE IN MILLIONS OF DOLLARS

COLONIAL GROUP / LIBERTY FINANCIAL — $310.0

In the two days before the merger was announced, there was unusually heavy volume in Colonial stock. A spokesman says that there were "tons of rumors out there for a while" but says that the company has no explanation for the activity in the stock.

PURITAN-BENNETT / THERMO ELECTRON — $306.9

Puritan shares climbed from 16¾ to 18 in the hours before the Thermo tender offer was announced late on Oct. 6. The company says part of the runup may be attributable to the announcement of new products. Still, the SEC has inquired about who had knowledge of the negotiations.

CENTRAL JERSEY BANCORP / NATIONAL WESTMINSTER BANCORP — $286.9

High volume and a jump in share prices—from 27⅛ to 31 in the space of a week—preceded the acquisition announcement on June 30. Jim Vaccaro, executive vice-president, says: "We recognize there was heightened price and volume activity [before the merger announcement]," and that bank officials know of no reason for the trading frenzy.

GERMANTOWN SAVINGS BANK / CORESTATES FINANCIAL — $260.0

Stock in Germantown sustained unusually heavy volume on Mar. 7, the day before the acquisition by CoreStates was announced.

SUBURBAN BANCORP / BANK OF MONTREAL — $254.1

Unusually heavy trading and a surge in price—from 40 to 48[illegible]—preceded the Apr. 15 announcement of Surburban's acquisition by Bank of Montreal. A spokesman for Suburban says: "No one here has any knowledge of the reason for the trading activity" before the announcement.

TARGET COMPANY / ACQUIRER — DEAL SIZE IN MILLIONS OF DOLLAR

ALLIED CLINICAL LABORATORIES / NATIONAL HEALTH LABORATORIES — $180.

One of the largest predeal runups of the year was sustained by Allied Clinical stock, which climbed from 12¾ to 17¼ in the four days before the merger, which was announced on May 4.

GREAT LAKES BANCORP / TCF FINANCIAL — $175.

Trading in Great Lakes abruptly surged in the days before the takeover announcement on Sept. 9. Takeover speculation was rife the day before as share prices rose from 24 to 24¾ in heavy trading.

NORTHEAST FEDERAL / SHAWMUT NATIONAL — $172.1

Shares of Northeast climbed from 9⅝ to 10⅛ in the three days before the acquisition was announced on June 13.

TRICO PRODUCTS / STANT — $161.5

Share prices climbed from 60 on Nov. 3 to 66 on Nov. 4, then fell to 61 on Nov. 7, the day before the merger announcement. Notes Trico Treasurer Marshall J. Morris: "It was a very strong quarter. If there was any cause and effect, that may have had some support."

BROCK CANDY / BRACH ACQUISITION — $155.0

Before trading was halted in the stock on Aug. 29, the day the merger was announced, Brock stock had climbed to 11⅛—a 14% surge over the day before.

YOUNKERS / CARSON PIRIE SCOTT — $150.8

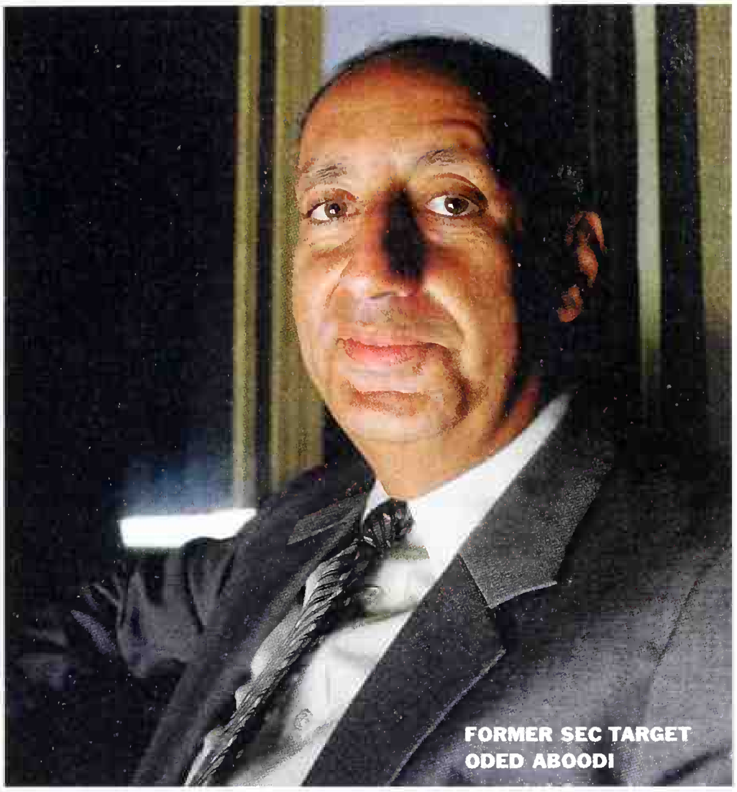
Four days before the Carson tender offer on Oct. 28, Younkers shares fell from 15 to 13¾ because of worse-than-expected earnings. But then, the stock surged, climbing some 15% in the days before the offer. CFO Alan Raxter says that "was just normal calming down of the market."

DATA: BUSINESS WEEK, SECURITIES DATA CO.

e careful than they've · been. They don't want isk everything by do- something stupid," says ert C. Doll Jr., head of ity investments at Op- heimer Management

ut the SEC isn't con- ed that the Street has n scared witless by its rply honed statutes. ile a return to 1980s- le prosecutions is un- ly, Wall Street may yet l the sting of insider secutions. "I can't say be surprised if we come with somebody at an in- tment-banking firm who ught they could fly un- the radar and get away h it," says McLucas.

But lawmakers haven't posed a similar oversight rden on law firms and er professionals. So, not prisingly, cases against h people are more com- n. In September, the SEC ught charges against the mer executive director San Francisco-based law n Brobeck, Phleger & rison. In the complaint, SEC charged that in Jan- y of this year, Joseph F. milton learned of a pend- merger between IVAX Corp., a Miami chemical company, McGaw Inc., a medical products company in Irvine, Cal- The agency contended Hamilton learned of the deal in a ho- bar in Newport Beach, Calif., where he was meeting with of the firm's senior lawyers representing McGaw and a Gaw officer. The SEC contended that Hamilton bought Mc- stock and netted a profit of nearly $31,000. He settled the e for more than $62,000 without admitting or denying the egations. A spokeswoman for Brobeck says the SEC re- wed the firm's policies and procedures and found them to adequate. The firm was not named in the action.


FORMER SEC TARGET ODED ABOODI

JONATHAN LEVINE

Unloading stocks prior to the release of bad news was the old trend. Now, trading on impending mergers is hot

E HURTS. Most insiders make some kind of effort to hide ir tracks. Take the case of Thomas J. Blair. In 1992, the entysomething accountant at First Union Corp. was part a team working on a possible bid for DF Southeastern . According to the SEC complaint, Blair asked his ncée to buy 700 Southeastern shares and paid for the in- tment himself. His fiancée, who worked at a brokerage n, bought the shares within a few weeks of the June 29 l announcement.

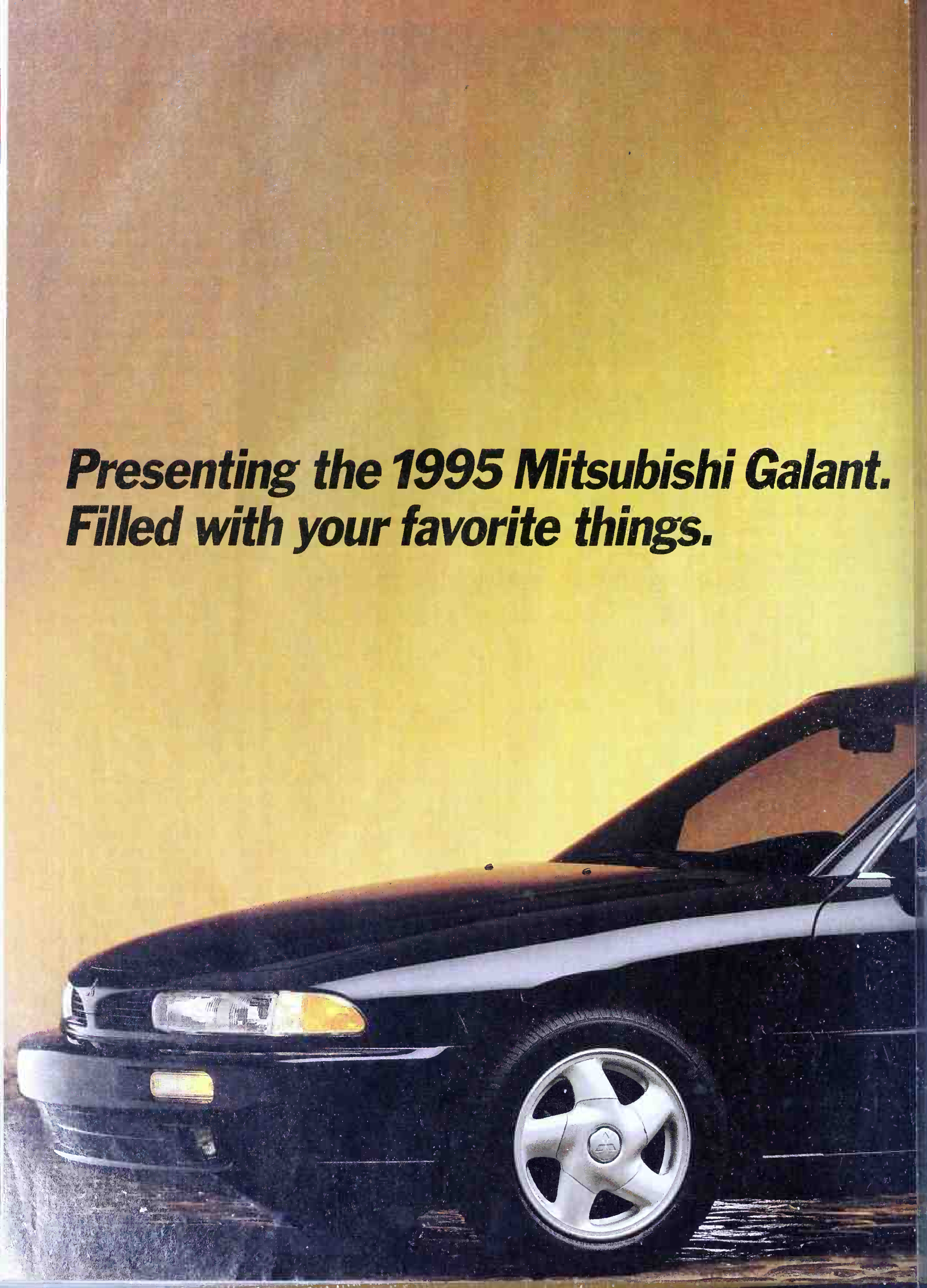
t didn't take long for the trades to come under scrutiny. Af- the deal was announced, NASDAQ's insider-trading sleuths an a routine inquiry that turned up trades in Charlotte, C., where First Union is headquartered. First Union, pro- ed with a list of those who had traded before the deal announcement, identified the woman as the fiancée of one of their employees. Asked about Blair, she responded that the two had never discussed business. By the time NASDAQ gumshoes requested her phone records in late September, Blair's fiancée was becoming increasingly anxious. On Sept. 25, Blair showed up in the lobby of NASDAQ's Rockville (Md.) headquarter, ready to spill the beans. NASDAQ officials taped his story and put Blair in a cab bound for the SEC. Blair turned over about $7,000 in profits in a settlement without admitting or denying guilt, and he left First Union. The bank declines to comment on the terms of his departure. The fiancée, who was never identified by the SEC, was not charged in the case.

Confessions are rare, of course. Cases are usually the product of painful and lengthy legwork. And the starting point often isn't the stock market at all but rather the freewheeling options markets. Options—which give purchasers the right to buy or sell securities at a set price by a specified date—are far cheaper than the actual stock but yield a proportionally greater profit or loss when the stock price changes significantly.

CORPORATE BOMBSHELL. Indeed, options trading is being scrutinized in one of the biggest recent manifestations of merger mania. Shortly after Hilton Hotels Corp.'s disclosure Nov. 17 that it was considering putting itself on the block, the Pacific Stock Exchange notified the SEC of some suspicious trades in Hilton options and requested that the government freeze the account in question. On Nov. 23, the SEC lodged charges against Jeffrey C. Morris, a British citizen, for allegedly trading stock and options before the announcement. In its complaint, the SEC contends Morris told his broker he had "gotten a tip from a friend." The SEC alleges that Morris made more than $425,000 in profits by trading Hilton stock and options ahead of the Nov. 17 announcement. A judge granted the SEC's request to temporarily freeze all of Morris' assets both in the U.S. and abroad. An attorney representing Morris declined comment.

Options trading was also at issue in a case the SEC brought last August involving electronic-equipment maker Comptronix Corp. In 1992, the company dropped a bombshell: Three Comptronix officers had improperly inflated the company's earnings. After the Nov. 25 announcement, the stock plummet-

Better detection has little impact. Says an NASD official: "There are cameras in banks, and people still rob them"


Presenting the 1995 Mitsubishi Galant.
Filled with your favorite things.

What makes you fall in love with the 1995 Galant? Meaningful luxury.

Those significant engineering advances and thoughtful details which become your favorite things about this automobile.

Big things. Like the smooth ride and polished handling of its sophisticated four-wheel multi-link suspension. The smooth, confident power of its 141-horsepower engine. The intelligent shifting of its Fuzzy Logic transmission.

Little things. Like the convenience of two cup holders instead of one. Ingenious storage areas in the doors and under the armrest. A rear seat that folds down completely, providing carrying room, so a trip to the local lumber yard doesn't mean borrowing a truck.*

Vital things, like standard dual air bags.† Highly protective things, like impact-absorbing crumple zones front and rear. Highly reassuring things, like tubular steel side-guard door beams. And beautiful things. Like the very shape of the Galant. With a durable, lustrous DIAMOND COAT™†† finish to help protect that beautiful shape.

Give a car enough of these "favorite things," and it becomes a favorite place to be.

*The 1995 Mitsubishi Galant. Its starting price of $14,349** will be one more of your favorite things. Call 1-800-55MITSU for the Mitsubishi Motors Dealer nearest you.*

MITSUBISHI
The New Thinking in Automobiles™

** Standard on ES and LS models. Not available on S model. †Air bags designed to supplement safety belts. ††DIAMOND COAT is a trademark of PPG Industries, Inc. ****MSRP for Galant S** *(Galant LS shown, MSRP of $20,269). Excluding taxes, title, license, registration fee, freight, dealer options, and charges. Prices may vary, actual price set by dealers.*

ed from $22 a share to about $6. But the agency noted that options activity had been unusually heavy in the days leading up to the disclosure.

In its complaint, the SEC contended that the options trading was the result of a tip from Comptronix director Richard F. Adler. According to the SEC, Adler learned of Comptronix' overstated earnings during a Nov. 15 board meeting in which he participated via telephone from his Taiwan office. The federal regulators contend that Adler then tipped off a friend and business associate. (Adler, who is no longer a member of the board, could not be reached for comment.)

Eventually, two other business associates learned of the news, the SEC says, and one of them, Domer L. Ishler, bought 300 put options on 30,000 shares the day before the announcement was made. In the entire month preceding the transaction, only 10 put options had been traded. The options, which gave Ishler the right to sell Comptronix stock at $20 a share, netted him close to $370,000, the commission says. Reached at his home, Ishler says that the case against him has no merit and that he has no plans to settle the charges.

“Where there are a lot of people involved...you have to believe in the tooth fairy to think there isn’t leakage”

—HARRY JOHNSON, longtime oilman

CRUEL SEESAW. What's often forgotten in insider-trading cases is the people on the other side of the trades. But in options markets in particular, market makers can feel the impact of insider trading quite dramatically. Last March, for instance, Stephen S. Taylor, a market maker at the Chicago Board Options Exchange (CBOE), suffered hefty losses on Grumman Corp. call options, which gave buyers the right to buy the stock. After the company received a bid from Martin Marietta Corp., Taylor and other Grumman market makers were forced to sell Grumman stock to the options holders at below-market prices.

The Grumman options imbroglio may end up in court. Taylor is part of a group of market makers that filed a report with the CBOE on the trading and is threatening to file a lawsuit to recoup the losses of its members. While Taylor declined to provide details on who is potentially liable, his group is awaiting the outcome of an SEC probe of trading in Grumman before deciding whether to take legal action. The CBOE declined comment.

Unfortunately for the SEC, even when there's no clear explanation for prescient trading, it doesn't mean that the agency can slam down its hobnail boots. Most SEC cases are based on circumstantial evidence—trading records, phone bills, or credit-card receipts. And it's tough to prove that suspects not only received inside information but knew they shouldn't trade on it.

In fact, earlier this year, a federal appeals court upheld a jury's decision to toss out an SEC case involving trading in Revco D. S. Inc. stock and options. The case, originally filed in 1991, charged that Marc J. Dworkin, an executive vice-pr i-dent of the drugstore chain and the son of Revco's chairman d CEO, tipped his financially troubled brother-in-law in the fa of 1985 about a pending leveraged buyout of Revco. But af er an eight-day trial, a jury found in favor of Dworkin. “Insi r-trading cases are difficult to prove,” notes securities law r John F. Olson. “Often, you just don't have a smoking gu.”

Even in cases where the wrongdoing is blatant, the SEC have a tough time recovering the money. That's because int-national cooperation sometimes is essential. And while the uation has improved over time, glitches remain. The SEC, for-stance, has been struggling since 1990 to get its hands money stolen by Eddie Antar, infamous founder of the defu Crazy Eddie Inc. chain of c sumer-electronics stores. Agr ments signed over the past sev-al years with such countries s Canada, Luxembourg, and Fra e have helped the SEC recover m e than $58 million from Antar. H -ever, the commission is still try g to seize an additional $10 mill in frozen assets that Antar h d stashed in various places such s Switzerland and Britain. “We e locked the money up,” says t e SEC's McLucas. “Now, we've t to get it back here.”

FAMILIAR NAME. Many cases n er get that far, of course. Of the trading trail comes to a d end or the circumstantial e dence just isn't strong enough bring a solid case. What's mo as merger-and-acquisition act-ity continues, putting ever m e strain on the SEC's enforceme t staff, it could take years to g to the bottom of cases.

So for former oilman Harry Johnson, finding the cause of th worrisome Red Eagle runup m be a long time coming. As p of its inquiry, the American St Exchange sent him a list of th who invested on Aug. 29 to se he recognized anyone. Lo and hold, he spotted a famili name—a former business ass ciate who is now a stockbrok at a major brokerage hous . Johnson says he spoke with h friend, a longtime investor in R Eagle, about a week before th announcement but never mentioned a pending deal.

Still, he wonders about that runup. There was no explan tion for it. “It may have been a leak,” Johnson muses. “Or may be a coincidence.” Maybe. But perhaps Voltaire put best. “Chance,” he wrote, “is a word void of sense. Nothi can exist without a cause.” Until Corporate America lear the lesson that Wall Street digested so painfully in the 198 the stock tables will continue to resonate with more and mo “coincidences.”

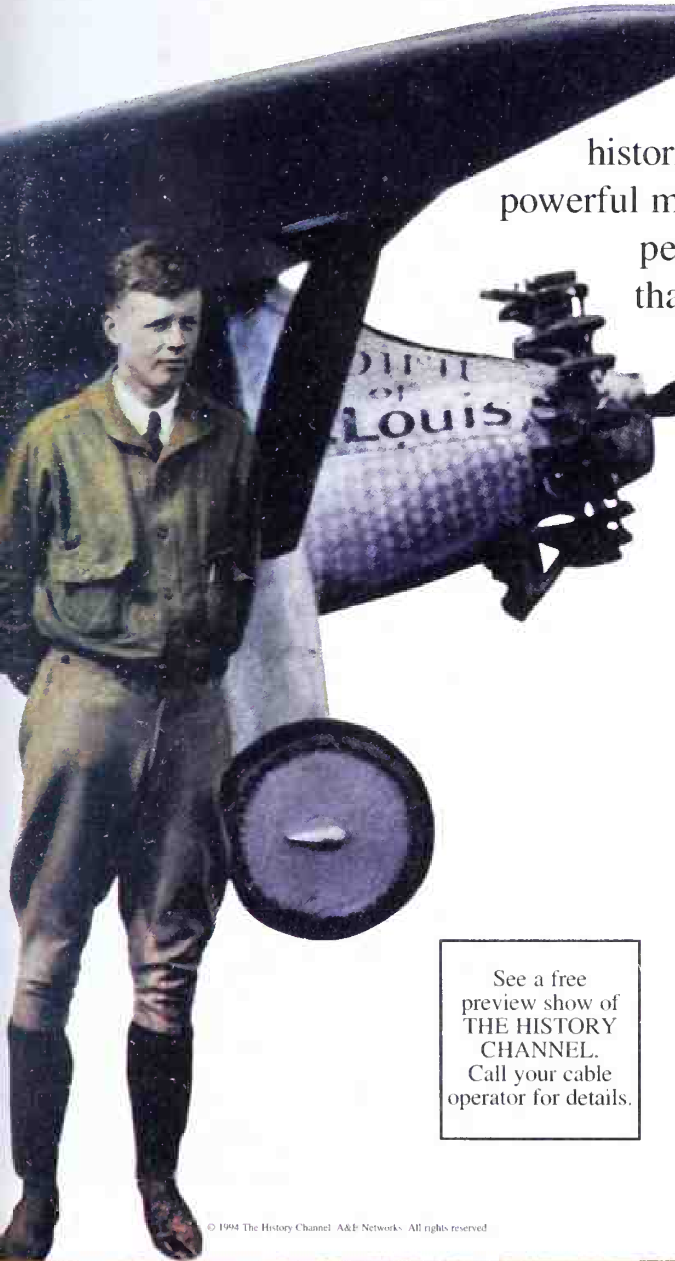
By Amy Barrett in Washington, with Gary Weiss in Ne York, Michael Schroeder and Stan Crock in Washington, a Ruth Coxeter in New York

Cover Story continues on page 8

Proof History Still Has The Power To Surprise.

Introducing The History Channel, January 1, 1995.

History is about to transform the face of television. Starting January 1,1995, The History Channel will bring the past to vibrant life. Original programming like *Year By Year* explores in electrifying detail a specific year each episode, while *History Alive* delves into extraordinary historical time frames. Riveting documentaries, powerful mini-series and movies will illuminate the personalities, the powers and the passions that shaped our collective past. So call your cable operator to find out how you can receive The History Channel.



ALL OF HISTORY.
ALL IN ONE PLACE.

H™
THE HISTORY CHANNEL

See a free
preview show of
THE HISTORY
CHANNEL.
Call your cable
operator for details.

© 1994 The History Channel A&E Networks All rights reserved

COMMENTARY

By Stan Crock

INSIDER TRADING: THERE OUGHTA BE A LAW

Cover Story

Franz Kafka would have loved it. First, you buy some stock on a tip from a friend. Then, the government hauls you into court. But only later—maybe years later—does a court decide whether there even was a law prohibiting what it was you did.

That's how it has been for nearly three decades in prosecuting insider-trading cases. It's a little-known fact that unlike theft and other acts that have been misdeeds since the Code of Hammurabi, there is no law on the books that specifically says a person may not trade on inside information. Instead, investors are at the mercy of an abstruse, often confusing melange of court rulings. Depending on the precise circumstances, an investor who trades on a hot tip can end up either lauded in the financial press for his prescience or sent off to prison.

With insider-trading cases on the rise again, it's time to put a definition on the books. "If people are going to be convicted of criminal conduct," says former Securities & Exchange Commission General Counsel Harvey L. Pitt, "they should know what the crime is."

FEDS FOILED. The law as it currently stands is based on the Securities Exchange Act of 1934, which bans "any manipulative or deceptive device." The courts have put a fair amount of flesh on these bare bones. Back in 1968, the federal appeals court in New York decided that corporate insiders must abstain from trading until they disclose "material" information—which could affect investment decisions. The ruling was based on the fiduciary duty corporate officials have to shareholders.

Since then, the government has tried to expand this duty to other investors but with only limited success. Appellate courts have ruled that if you "misappropriate" information—that is, steal it—and trade, you're dead meat. The Supreme Court, further, has determined that it's illegal to trade on inside information if your source violated a duty to shut up and did so for direct or indirect gain—and if you knew or should have known that the source breached an obligation in disclosing it. However, the government lost a case against a securities analyst, Raymond Dirks, who passed on to customers good inside dope from altruistic souls trying to expose a corporate fraud. The feds also were defeated when they went after a broker who received information from a nephew-in-law of a corporate honcho.

What's badly needed now is an explicit congressional statement of what is legal and what is not. In 1987, a group of securities lawyers headed by Pitt came up with a good start. Its draft would ban misappropriation; trading based on breaches of fiduciary, employment, personal, or other relationships dependent on trust; and passing on inside information if the tipper knew the tip would lead to trading.

DRACONIAN MEASURE. Among other virtues, an insider-trading law would stop the SEC from using evermore artful arguments that camouflage what seems to be its real goal: finding a judge who will uphold the notion that mere possession of inside information imposes a duty to abstain from trading. So far, the courts have refused to go that far—with good reason. As information is passed along, fewer and fewer recipients know it originally was confidential. Such a draconian rule could sweep up lots of innocent investors. "You'd never know if you were violating it," complains Terry B. Adamson, a Washington lawyer who represents a client fighting insider-trading charges.

For years, the SEC and its allies on Capitol Hill opposed a fixed definition, fearing it would be too narrow and crimp the agency's flexibility to nail innovative schemers. But court setbacks have actually reduced its flexibility. Now, says SEC Enforcement Chief William R. McLucas, "a definition would not trouble me" as long as it would be broad enough to cover cases brought to date.

Senator Alfonse M. D'Amato (R-N. Y.) introduced legislation in 1987 based on the work of Pitt's group. That should be high on D'Amato's agenda when he takes over as chairman of the Senate Banking Committee in January. Lawmakers ought to set the rules of the game before the SEC punishes people for violating them.

Crock has watched the SEC for nearly two decades.

What's legal and what isn't

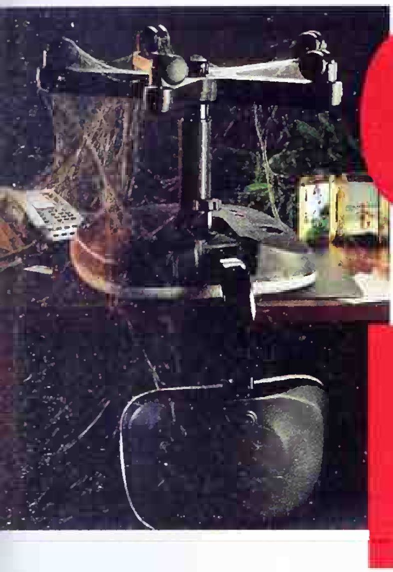
YOU'RE O.K.

- A friend tells you that his company is doing very well. You buy stock in the company. That's legal because the information wasn't "material," or important enough to affect investors' decisions.
- You overhear two people saying they heard that Acme Widget Co. is a fabulous buy because a takeover is in the works. You invest in Acme Widget. That's legal—but only if you don't know whether or not the source of the information was an insider such as an officer of the company.

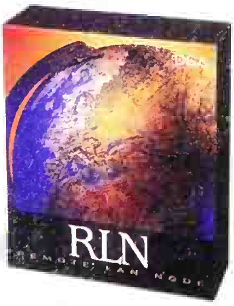
YOU'RE NOT O.K.

- You're a psychiatrist and your patient mentions her company could face a hostile takeover. You buy its stock. That's illegal because you're "misappropriating" information by breaching your confidential relationship with your patient.
- A high-ranking colleague tells you about an imminent takeover of your company. You don't trade on the information, but you tell a close friend who does. Courts would likely deem that your action was illegal on the grounds that there probably was a quid pro quo.

How can you improve employee productivity when they don't even show up at the office?



he office is quiet. Desks are clean. You haven't seen an mployee for weeks. And business has never been better. here's a perfectly good explanation for all this: RLN™ Remote LAN Node®). It provides your employees with ansparent access to all the resources on your LAN, no natter where they're working. Even on glamorous oad trips to places like Secaucus, New Jersey. Once onnected, they can access the mainframe, use groupvare applications, check E-mail and more, like any local ser. And since you won't be keeping your eye on every employee, every minute, we created superior management and security features. We also teamed up with Citrix® Corporation and their award-winning software to develop our optional Application Server. It can boost remote access performance of LAN-based applications by as much as 300%. So call today about RLN. And start improving the work ethic in your office. And out of it.



OR MORE INFORMATION ON **RLN** CALL 800.348.3221 X 76EE

DCA

1994 Digital Communications Associates, Inc. All rights reserved. DCA and Remote LAN Node are registered and RLN is trademarked by Digital Communications Associates, Inc. All other trademarks are property of their owners.

Outside the U.S., call 404.475.8380

BY GENE G. MARCIAL

WHERE CASINOS PLACE THEIR BETS

Albuquerque's Medallion Investment Management is sure to grow—no matter what the stock market does. The reason: It manages assets for Native Americans. More than half of Medallion's $150 million belongs to just one nearby tribe. Another tribe, which runs a gambling establishment, has agreed to let Medallion manage $10 million—for a start.

Where does Medallion invest? Says Laree Perez, president and CEO: "Growth stocks are the only way to win the long race, regardless of how fickle the market gets." Medallion's mainstays are familiar blue chips such as AT&T, Exxon, and General Electric. But of late, Perez has been buying shares of lesser-known growth companies: Cardinal Health (CAH), Franklin Electric (FELE), and SunAmerica (SAI).

Cardinal Health is a wholesaler of pharmaceuticals, hospital supplies, and health-and-beauty aids. Its stock has been rising, and John Ulrich, Medallion's managing director, sees Cardinal earning $2 a share this year and $2.45 in 1995, up sharply from last year's 86¢. The company sells some 50,000 items to about 15,000 independent and chain drugstores. Ulrich expects the stock, now at 44, to hit at least 55 in a year.

MEDALLION'S PICKS

STOCK	52-WEEK HIGH	52-WEEK LOW	RECENT PRICE	P-E RATIO
CARDINAL HEALTH	48¼	33 13/64	45	18
FRANKLIN ELECTRIC	37	24½	31	10
SUNAMERICA	46¼	33½	35	7.4

DATA: BLOOMBERG FINANCIAL MARKETS, MEDALLION INVESTMENT MANAGEMENT

Franklin Electric is the world's largest maker of submersible electric motors—used primarily for pumping water from wells but also for oil drilling, waste-water systems, and underground fuel tanks. It recently acquired a 50% stake in Oil Dynamics, a maker of deep-well pumps. Trading at 31, Franklin's stock may hit 45 in a year, says Perez. She figures earnings will be $2.90 a share this year and $3.50 in 1995, vs. 1993's $2.37.

SunAmerica is an insurance company specializing in tax-deferred annuities. "It's a convenient savings vehicle for aging baby boomers," says Perez. Given some people's aversion to stocks, "these tax-deferred products have become quite attractive," she explains. Perez thinks SunAmerica will continue its fast growth, earning $4.40 in the year ending Sept. 30, 1995, vs. 1994's $3.58. Perez sees the stock, now at 35, perking up and reaching 50 in 12 months.

PEREZ: *Annuities for baby boomers*

TIME WARNER MAY CUT ITS CABLE

Compared with how Viacom and Walt Disney have performed this year, the stock of Time Warner (TWX) is a sorry sight: It's at 34, down from a 52-week high of 46½ in mid-October. Major shareholders are putting pressure on management to do something soon—or else. Seagram, with a 15% stake, has been after Chairman and CEO Gerald Levin to act, says one hedge-fund manager who owns a big block of the stock.

"The tom-toms are signaling that management has gotten the message," he says. "It will now undertake a serious restructuring to lift the stock and appease irate shareholders."

The restructuring will go well beyond dismantling partnerships in the entertainment division, a move already leaked to the press. Here's what some investors believe Levin and his crew will aim for: Extracting the cable operations from Time Warner Entertainment and selling them off to the likes of U S West. Analysts figure the cable operations would fetch $15 billion—just enough to eliminate Time Warner's huge debt.

U S West already has a 25% stake in Time Warner Entertainment, which owns cable-TV operations, the premium channel Home Box Office, and Warner Bros. movie studios. Toshiba and Itochu also own 12.5% of this division. Time Warner spokesman Ed Adler says any notion that the cable operations will be sold is untrue. In fact, "we've been bolstering those operations," he says. Speculation that Time Warner intends to dissolve its partnerships was greeted by investors with a big yawn.

It is, indeed, time for Time Warner to unlock values in the entertainme and publishing giant, asserts Stua Shikiar, president of Shikiar Asset Ma agement. He figures the sum of Ti Warner's parts is getting to be wort more than the current stock price. Thu "Time Warner has become a Warre Buffett-type stock," he says.

Shikiar figures Time Warner stock worth upwards of 50. "It is one of th great buys in the market today."

READY TO GO FROM MOUSY TO BLONDE?

Styles On Video (SOV), a company tha makes a computerized beauty-imaging system, doesn't seem to be delivering a pretty picture of itself to investors. Its shares, trading at nearly 14 i May, are down to 7¼. Yet the compan says its business is strong: In the thi quarter, earnings jumped 156%, to $1. million, or 30¢ a share. And it said i signed contracts with 40 hospitals i Hong Kong and China for another product—its Forever Yours baby-pictur setups.

But the short-sellers find the figure hard to believe. They claim they ar misleading. For instance, in the secon and third quarters, less than half of reported revenues came from actual sale of equipment. Most items were nonrecurring. So the shorts question the quality of earnings reported. But the bull are adamant that the company is goin gangbusters. Who's right?

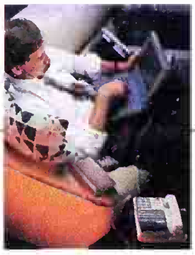
Annelise Wetzel, an analyst at Thomas James Associates, expects revenue of $16.5 million this year and $30 million next, up from $8.5 million in 1993 Her earnings projections: $1.11 a shar this year and $1.55 in 1995, up fro 1993's 54¢. The bears are betting th expectations won't be met, although th company insists they will.

Styles on Video's computer syste lets an operator produce a videotap showing how a client would look wit different hairstyles and hair colors. A similar system portrays a person in variety of clothes and glasses. Styles o Video has signed a pact with Redken, major supplier to hairdressers, to sel its systems to Redken salons nationwide. Wetzel is also excited by the baby-picture business—which involves installing digital cameras in hospitals to tak photos of newborns. In the U. S., 10 hospitals have signed up for such services Wetzel says the stock at this price i undervalued.

What Does a Multimedia Phone Call Look Like?

Market Projections

VIDEO CONFERENCING
Hold face-to-face meetings across the country at a moment's notice. Share graphics and documents without leaving your seat.



MULTIMEDIA MESSAGING
Send and retrieve — or store-and-forward — faxes, e-mail, voice mail and electronic bulletin board postings. On screen or by telephone.

BROADBAND TRANSMISSION
We're a technology leader in implementing customer-premise ATM. So you can get cost-effective wideband transmission on demand for imaging and enhanced data capabilities.

COMPUTER TELEPHONY INTEGRATION
Integrating phones and LANs is now an affordable reality. LANs can enhance data flow within the enterprise; Fujitsu's platform can extend that flow to the world.

CALL CENTER
Our Automatic Call Distribution capabilities mean you can prioritize, process and analyze thousands of incoming customer orders in a single work shift.

On the Fujitsu Multimedia Platform, it could look like an ad layout an associate has sent to your PC, or a proposal a colleague has bit-streamed from another sales office — even a workgroup member's face during a "virtual" meeting. The fact is, a phone call coming through your Fujitsu Multimedia Platform can look like anything you want to send or receive, from anyone else, anywhere else, in the country. For a White Paper on the "Future of Multimedia in the Workplace," call 1-800-553-3263.

VOICE — DATA — TEXT — IMAGE — VIDEO

FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

LABELS

DOES NEW BALANCE HAVE AN AMERICAN SOUL?

The FTC says the shoemaker's "Made in USA" claims are false

For as long as he can remember, James S. Davis has competed against Philip H. Knight. For just as long, the two sneaker makers have listened to entirely different muses. Both make fine running shoes, there's no doubt about that. But Davis, chairman of New Balance Athletic Shoe Inc., makes most of those he sells in the U. S. in Massachusetts and Maine. Knight, the chairman of giant Nike Inc., has his made for him in Asia.

One needn't look far to evaluate the relative economic merits of the two visions: Knight's company is a $4 billion world-beater that has made him a billionaire twice over. New Balance—though it has surely made Davis rich—generates U. S. sales of about $135 million and worldwide revenue of $300 million, much of it via licensees. "We don't want to be Nike," Davis says plainly. "We have a different way of doing things."

Not different enough for the Federal Trade Commission. In early September, the FTC cracked down on tiny New Balance and Hyde Athletic Industries Inc., the maker of Saucony shoes, for what the feds insist are deceptive "Made in the USA" claims. The problem is imported components. While Davis' Boston-based company will, in fact, sew and glue the bulk of its 1994 U. S. production of 2.5 million pairs, it imports the soles for most of its shoes from China, as well as some pre-sewn "uppers." Hyde imports both its soles and uppers.

WIDE IMPACT. Consequently, the agency ordered both companies to stop using ads or labels that imply their shoes are made wholly in the states. Hyde settled without admitting guilt. But Davis is headed for court. He complains that nobody makes the right soles in the U. S. and they are too expensive to make himself. "This is ludicrous," he says. "We've done everything we can to manufacture here, and if some bureaucrat who has never met a payroll wants to sit back and say we can't put 'Made in the USA' on our shoes, we're gonna fight it."

“We could close our plants tomorrow and go over to China and make a hell of a lot more money, but I don't believe in it”—JIM DAVIS, chairman

The two cases crack wide open a seemingly simple issue. Experts say they will set precedents that could affect U. S. manufacturers of goods ranging from personal computers to automobiles. "Everybody in almost every industry has to look at those cases and assume that the FTC would treat them the same way," says former FTC Commissioner Deborah K. Owen. Before her term expired this year, Owen voted against bringing the cases.

The FTC hasn't filed a similar "Made in America" complaint since the 1960s, and some speculate that its purpose this time is to build a fresher case history with which to go after bigger fish. Separate labeling laws exist for apparel and textile companies. But for anyone else, the rule as stated in the Hyde and New Balance cases is that a product may be labeled and advertised as made in the USA only if "all, or virtually all," of the labor and components are of U. S. origin.

NORTHERN SLEIGHT. If the agency gets tough, that could mean trouble for companies far and wide. Take, for instance, Converse Inc., whose U. S.-made All-Stars are assembled in North Carolina and Texas from Mexican-sewn uppers. Or consider Dell Computer Corp., which touts as "Made in the USA" the PCs it assembles at a plant in Austin, Tex.—even though the disk drives, motherboards, and monitors are made in Asia. General Motors Corp., meanwhile, advertises that its Chevrolet Camaro is "from the country that brought you rock-and-roll." Trouble is, Camaros are built in Ste. Therese, Quebec.

Is the labeling issue really so important? After all, consumers would likely keep buying All-Stars even without a "Made in the USA" label. The question is, would they buy fewer pairs? Several studies conducted by retailers indicate that some U. S. consumers truly do respond to "Made in the USA" claims. And to a manufacturer battling low-cost imports, those sales can be crucial.

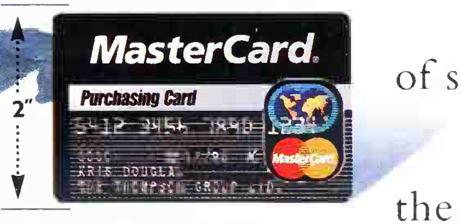
The FTC maintains that its only concern is that consumers aren't deceived. Says C. Steven Baker, head of the agency's Chicago office, somewhat blithely: "All they gotta do is tell the truth." Unfortunately, companies already face a thicket of conflicting domestic-content regulations, from rules imposed by the U. S. Customs Service to standards defined by NAFTA. Given the choices, whose truth prevails?

In its settlement, Hyde accepted as a compromise a label reading: "Made in the USA from domestic and imported components." But Davis insists that

Presenting The First Efficiency *Expert* That Fits In A Billfold.

If you're looking for the best way to cut costs and streamline paperwork, look no further than MasterCard® Purchasing Card. We offer you the most comprehensive electronic data capture and reporting capabilities in the business. Our Smart Data™ system details everything from sales tax paid to general accounting information. And with enhanced point of sale authorization you'll have the control you need. Before you know it, you'll have arrived at the improbable: a genuinely efficient process for small purchasing. All in a little piece of plastic.

Average Efficiency Expert



Improved Efficiency Expert

MasterCard. It's more than a credit card. It's smart money.™ MasterCard

For more information, call 1-800-219-1013.

©1994 MasterCard International Incorporated

THE FORCE MAY ALREADY BE WITH YOU.

Many of the world's most important companies are using a new force to drive their success. At a time when innovation is the key to increased profitability, Silicon Graphics systems - from desktop workstations to supercomputers - are helping companies take advantage of their competition. This force not only helps them invent their products, but helps them invent their future. If you would like to see your company have the force, please call us at 800-800-7441*, dept. D290.

THE NEW FORCE IN COMPUTING

*Outside the U.S., call (415) 390-2710. Visit us on the World Wide Web at http://www.sgi.com

SILICON GRAPHICS®
CUSTOMERS in the FORTUNE® 100

Abbott Laboratories
Alcoa
Allied Signal
Amerada Hess
American Brands
American Cyanamid
American Home Products
Amoco
Anheuser-Busch
Ashland Oil
Atlantic Richfield
Baxter International
Boeing
Bristol-Myers Squibb
Caterpillar
Chevron
Chrysler
Coastal
Coca-Cola
Coca-Cola Enterprises
Colgate-Palmolive
Compaq Computer
Cooper Industries
Dana
Deere
Dow Chemical
E.I. Du Pont De Nemours
Eastman Kodak
Eli Lily
Emerson Electric
Exxon
Ford Motor
General Electric
General Mills
General Motors
Georgia-Pacific
Gillette
Goodyear Tire
Hoeschst Celanese
Honeywell
Johnson & Johnson
Johnson Controls
Kellogg
Kimberly-Clark
Levi Strauss Associates
Litton Industries
Lockheed
Martin Marietta
McDonnell Douglas
Merck
Miles
3M
Mobil
Monsanto
Motorola
Pfizer
Philip Morris
Phillips Petroleum
PPG Industries
Proctor & Gamble
Ralston Purina
Raytheon
RJR Nabisco Holdings
Rockwell International
Shell Oil
Tenneco
Texaco
Texas Instruments
Textron
TRW
Unisys
United Technologies
Unocal
USX
W.R. Grace
Warner-Lambert
Westinghouse Electric
Weyerhaeuser
Whirlpool
Xerox

Silicon Graphics

right 1994 Silicon Graphics, Inc. All rights reserved. Silicon Graphics and the Silicon Graphics logo are registered trademarks of Silicon Graphics, Inc. Fortune is a registered trademark of Time, Inc.

unworkable. What, for instance, would "domestic components" mean to a customer who bought the shoe in Canada? A company could label separately for Canadian exports, but imagine the inventory and production inefficiencies.

While most people agree that the integrity of a "Made in the USA" label is important, many argue that an increasingly global economy makes 100% U. S. content unreachable. "If you applied the FTC standard to our industry, there's no such thing as an American car," says Robert J. Wade, a spokesman for Toyota Motor Sales USA Inc.

The two biggest footwear lobbies suggest that the FTC adopt a blanket 51% rule, meaning that any product with 51% or more domestic content be allowed to carry a "Made in the USA" label. But percentages are difficult. Barry J. Cutler, former head of the FTC's Bureau of Consumer Protection, asks: "What does 51% of jobs mean? Is it high-tech jobs or lower-value assembly jobs that are retained? If it's 51% of materials, what's the incentive to go for more? Will that frustrate manufacturing innovation?"

One thing seems clear: New Balance is trying as hard as it can. According to the company, 70% of its U. S. production has just an imported sole. The remaining 30% has both an imported pre-sewn upper and a sole. When just the sole is imported, 75% of the cost of the shoe is derived from U. S. content—far above the 51% pushed by the shoe lobbies.

NO PLUGS. Since experiencing sluggish sales in 1991, Davis has completely revamped his factories, taking them from assembly lines to a team structure. He has also reinvigorated product development, while integrating design with manufacturing so products are easier to make. Davis plans to spend $25 million to expand capacity. He's also working with scientists to develop technology that will allow New Balance to make running-shoe soles itself. "That's maybe two years away," he says.

Gross margins remain some 10 points below Nike's. But Davis makes do by continuously improving productivity and mixing in foreign uppers at the low end of the product line. Also, he eschews spending tens of millions on athlete endorsements. "We could close our plants tomorrow and go over to China and make a hell of a lot more money," Davis says. "But I don't believe in it."

In the end, the best outcome would probably be for the FTC to submit the issue to a formal rule-making process. "There are a lot of competing interests here, and all are compelling," says Owen, the former commissioner. She advocates public hearings. Jim Davis, for one, would have plenty to talk about.

By Michael Oneal in Boston

GLOBALIZATION

RUPERT MURDOCH: THE SULTAN OF SWEAT

If it's a sport, anywhere in the world, he's likely in the game

LINKS IMPRESARIO: *Greg Norman and Murdoch plan a new worldwide golf tour*

Suddenly, it's Rupert at the Bat. Rupert Murdoch, that is. The 63-year-old media czar and News Corp. chairman is fast becoming global sports fanatic No. 1 as he scours the planet for games to fill the hours on the worldwide TV mega-network he has spent the past decade building. By the time Murdoch is through with his $3 billion global splurge, pro sports will be, well, a whole new ballgame.

Murdoch is looking to sports to get his big cleats in the doors of millions of TV viewers worldwide—and thus attract advertising and pay-TV subscription revenues. Sports is "the most important ingredient to increase penetration into homes," says Lehman Brothers Securities European media analyst Alastair Smellie. "It's absolutely vital."

In the process, Murdoch's moves are upsetting some well-entrenched interests. If a rival network seems to have the inside track on broadcast rights, he outbids it. If a pro league refuses to play ball with him, he starts his own rival league. In some cases, Murdoch is going for vertical integration, with part or total ownership of the players, the league, the programming, the media outlets, and the ad revenue. Says Chase Carey, chairman of Murdoch's Fox Television: "We will continue to be aggressive opportunists. Where we think sports makes sense for us, we won't be afraid to go out and bid for it. We intend to stir things up."

Murdoch's latest coup: co-sponsorship of the proposed $25 million World Golf Tour Inc., in which lords of the links would play in eight $3 million tournaments in North America, Japan, and Britain, with a top prize of $600,000 per event and a $1 million bonus for the eventual overall winner. The tour is the brainchild of fellow Australian and golf impresario Greg Norman. The PGA Tour, the Royal and Ancient Golf Club of St.

Andrews in Scotland, and other governng bodies of golf are not amused. PGA Tour officials are refusing to release players to participate in Norman's rebel our and threatening to suspend any who switch. Murdoch has been a staple f sports-page headlines for a while now. aws dropped last year when Murdoch outfoxed CBS Inc. with a $1.6 billion bid or rights to air National Football Conference games on his Fox Network. CBS had broadcast football for 38 years.

That foray into the National Football League is Murdoch's costliest sports venture thus far. Golf may prove to be his most controversial. Both are pieces of a global jigsaw puzzle Murdoch has been piecing together since 1992, when he struck his first big sports deal in Britain. At the time, he paid $400 million for exclusive broadcast rights to four years of soccer games played under the aegis of Britain's Premier League. The games appear on Sky Sports, an all-sports channel on British Sky Broadcasting (BSkyB), a satellite-TV service hat is 50% owned by News Corp.

BIDDING WAR. Now, Murdoch is waiting o hear from the All England Lawn Tennis & Croquet Club, custodians of the annual Wimbledon tennis championships, on whether it will accept his $30 million bid for worldwide broadcast rights, excludng Britain. A just-expired, four-year contract split U. S TV rights between NBC Inc. and Home Box Office, and both are bidding again. In China, Murdoch just inked a 10-year exclusive deal to broadcast International Badminton Federation games on Prime Sports, a channel on Star TV, which is 64% owned by News Corp. The deal is a sweet one, says David McConnell, Asia sales director for Trans World International, the television-programming arm of sports marketer International Management Group, which negotiated the Chinese package. Besides boosting ratings for Prime Sports and getting new Chinese viewers hooked, "having this type of product is going to help [Murdoch] get into countries like Indonesia and Malaysia," McConnell says. Indonesia alone has some 30 million TV households.

In November, Murdoch unveiled plans to start a rugby league in his native Australia, in competition with the old-guard Australian Rugby League. Murdoch will invest $375 million to ensure the new league's success. Just days earlier, he signed a separate deal with state-owned telecom company Telstra Corp. to start a 64-channel pay-TV network. ARL games are broadcast by longtime Aussie media rival Kerry Packer, but Murdoch may persuade Packer to work with him to their mutual benefit, analysts say.

Packer's innovations in sports broadcasting probably inspired Murdoch's lust for sports programming in the first place. He hired away David Hill, the mastermind behind Packer's sports coverage. It was Hill, now 48, who launched Sky Sports in Britain for Murdoch, negotiated the landmark soccer contract, and then moved to Fox to close the NFL deal.

Advisers now say Murdoch believes Hill's British soccer contract was the deal that saved BSkyB from buckling under a load of debt. BSkyB lacked much in the way of original programming, so viewers tuned out and advertisers passed. With soccer in hand, BSkyB now churns out so much cash that it's going public. On Dec. 8, the company will sell 20% of its shares in an offering that's expected to raise $1 billion for Murdoch. He'll use the proceeds to fund even more acquisitions of sports programming, says one adviser.

Murdoch is even convinced he can sell American football to Europeans. The World League of American Football, a previous European invasion by the NFL, failed after two seasons and a $50 million loss. Now, Murdoch and the league are jointly putting up $40 million to revive the World League.

Having switched the $7.5 billion News Corp.'s emphasis from print to television, Murdoch now is scrambling to prevent a slowdown in the growth of advertising and cable-TV-subscription revenues throughout his empire. "There's a shortage of sports programming for advertisers right now," says Paul Schulman, president of Paul Schulman Co., a New York media buyer. With his step-by-step assembling of a global sports company, it looks as if Murdoch is headed for the catbird seat. "Others have used sports to boost ratings and ad revenues," says John Mansell, a media analyst at Paul Kagan Associates Inc. in Carmel, Calif., "but he's a pioneer in recognizing the importance of global rights."

Assembling Sports Corp.

Murdoch's News Corp. has been busy signing sports deals around the globe:

U.S.	FOOTBALL	$1.6 billion for five-year rights to air NFL games on Fox Network
	ICE HOCKEY	$155 million for TV rights to big NHL games
	GOLF	$25 million for 10-year broadcast rights to a startup golf tour
BRITAIN	SOCCER	$400 million for four-year rights to broadcast pro soccer games
EUROPE	FOOTBALL	Estimated $40 million in joint venture with NFL
AUSTRALIA	RUGBY	$375 million to start own pro rugby league
CHINA	BADMINTON VOLLEYBALL	Signed 10-year deal to sponsor badminton and volleyball tourneys to be aired on 64%-owned Star TV network

DATA: BUSINESS WEEK

Not everyone is so sanguine about Murdoch's game plan. He has used innovative ways to find sports programming, but he may be paying dearly for it. The NFL games have failed to match last year's ratings at CBS, and Fox is likely to lose money on football this year and next. (Carey contends that over the next four years the contract will show a profit.) London sources say NBC and HBO have the inside track for Wimbledon, in part because Murdoch's aggressiveness has turned off the mossbacked tennis club. The PGA Tour's intransigence may stop Greg Norman's rebellion at the first tee if players face excommunication from the Tour. The National Hockey League, which Fox paid $155 million for rights to air its big games, may wind up being shut down for the entire 1994-95 season. And while American football does boast thousands of diehard fans in Europe, it will be a yard-by-yard struggle to win masses of viewers.

Still, Murdoch stands virtually alone in the brave new world of global sports programming. Viewers and marketers alike can't get enough of the sweaty stuff. Right now, it's Rupert at the Bat, nobody much on the mound. Odds are Mighty Rupert won't strike out.

By Paula Dwyer in London, with Pete Engardio in Hong Kong and Ronald Grover in Los Angeles

> "Where we think sports makes sense for us, we won't be afraid to go out and bid for it. We intend to stir things up," says Fox TV's Chase Carey

AFFIRMATIVE ACTION

THE EDUCATION OF DEVAL PATRICK

Justice's civil-rights chief is drawing fire from the Right

Deval L. Patrick didn't see it coming. In one of his first major moves as chief of the Justice Dept.'s Civil Rights Div., Patrick forced Chevy Chase Federal Savings Bank this summer to spend $11 million to open up branches and offer low-interest loans in black neighborhoods it had refused to service. Bankers were outraged because the thrift hadn't discriminated against any loan applicants. They denounced the case as extremist and complained that Justice was overstepping the law. "Patrick was surprised by our strong reaction," says industry official Kenneth A. Guenther.

To assuage his critics, the Civil Rights chief invited 10 top bankers to discuss the controversial case. A rare droll moment in the 2½-hour meeting in mid-October came when a squeaky cart rolled by the meeting room. One of the executives joked that it was the body of another banker going by.

TREADING LIGHTLY. So goes the painful political education of Deval Patrick. And the 38-year-old former corporate lawyer is likely to face a lot more rough spots in the months ahead. At his post barely eight months, Patrick must delicately implement a civil-rights agenda without making the already vulnerable Clinton Administration look like it's bending over backwards for minorities. Upcoming issues are potentially explosive, such as one challenging college scholarships reserved for minorities (table). "Anything that can smack of quotas could get Patrick caught up in a tempest," notes John P. Relman, a public-interest civil-rights lawyer in Washington.

PATRICK: *"Being a lightning rod takes getting used to"*

HOT AFFIRMATIVE-ACTION CASES

MINORITY CONTRACTS The U.S. Supreme Court is taking up the case of white-owned Adarand Constructors. Adarand contends that a federal program encouraging contractors to subcontract to minority-owned companies is unconstitutional.

HIRING AND FIRING A district court ruled that the Piscataway (N.J.) education board acted inappropriately in 1989 when it laid off an equally qualified white teacher instead of an African American teacher. The Clinton Administration supports the board's action. An appeal will be heard in January.

RACE-BASED SCHOLARSHIPS The Fourth Circuit Court of Appeals ruled in favor of a white Hispanic student who was denied a scholarship for African Americans at the University of Maryland. The school is seeking a rehearing.

Patrick knows he has to tread lightly. But he's optimistic that civil rights can flourish, particularly in areas such as voting rights, lending discrimination, and bias against the disabled. "We view ourselves as a law-enforcement office, not a law-reform office," Patrick says. After the conservative sweep in November, Patrick sent his staff an inspirational E-mail message telling them not to despair. But some aides are worried. "[The Administration] doesn't want us t anything that will turn into a bum sticker in 1996," grumbles one Jus lawyer.

The political climate is so dicey th watchdog of sorts is overseeing P rick's office. Since this fall, Dep White House Counsel Joel I. Klein been reviewing significant affirmat action cases now before the governm He says the Administration is tryin work out "a consistent, coherent vi of affirmative action that could dista the President from the dangerous " ta" label. Some controversial cases n reach the Supreme Court during 1996 Presidential election campai "The line between quotas and form legitimate actions can be thin," s White House Counsel Abner J. Mik "It's important that they be separa out." Patrick declines comment Klein's n watchdog ro

The Ci Rights chief certainly view more modera ly than Clint first choice for the civil-rig post, University of Pennsylva law professor Lani Guinier. H nomination in 1993 was dropp after conservatives labeled he "quota queen" for her acade writings. With Patrick, who w sworn in in April, the Clinton got a clean-cut, moderate-sou ing Boston corporate lawyer w a compelling life story. He gr up poor on Chicago's South S after his saxophone-player fat ran off to join jazz musician S Ra when Patrick was just 4 ye old. He went to the prestigi Milton Academy on scholars and then to Harvard College a Law School. He worked a sh stint as a civil-rights advocate the NAACP Legal Defense & E cational Fund before joining B ton law firm Hill & Barlo

"OUTRAGEOUS." But nothing his background prepared him the Washington limelight. G lawmakers already are calling hearings on several of Patric decisions. Some of his moves "a pear to be outrageous," railed coming Senate Judiciary Committee Chairman Orrin G. Hat (R-Utah) in a recent TV intervie

Exhibit No. 1 for conservativ is Patrick's friend-of-the-cou brief filed in an affirmative-acti case at the U.S. Court of Appe

If your doctor says you've got symptomatic benign prostate enlargement, help can be in the palm of your hand.

Many men mistakenly believe that an enlarged prostate is treated the same way for all men. But today there are more options than ever. By speaking frankly about your symptoms, you and your doctor can decide what is appropriate for you.

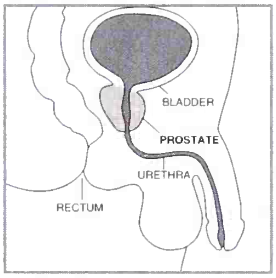
Is this you?

	Yes	No
Do you get up more than once or twice a night to urinate?	☐	☐
Do you often have sudden, uncontrollable urges to urinate?	☐	☐
Do you have a hesitant or slow urine stream?	☐	☐
Do you have a frequent need to urinate?	☐	☐

If you answered yes to even one question, tell your doctor. Your symptoms may be caused by a condition called benign prostate enlargement (BPH). But remember, only a doctor can evaluate your symptoms and their possible causes. *While BPH is not cancer and does not lead to cancer, the two conditions can exist at the same time.*

Symptomatic BPH can be treated in several ways. In addition to surgery and monitoring the condition with regular checkups, now your doctor has oral prescription medicines. One oral medicine is PROSCAR, the only medicine for the treatment of symptomatic BPH that can shrink the prostate.

PROSCAR works by blocking a hormone that can cause the prostate to enlarge. *But it is important to know: PROSCAR doesn't work for everyone. Although the prostate may shrink, there may not be an improvement in urinary symptoms. However, in clinical studies with PROSCAR, some men have seen an improvement in their urinary symptoms after 2 weeks. Others have found that PROSCAR took up to several months to help them.* Because all men are different, you and your doctor will need to determine how PROSCAR is working for you.



The prostate surrounds part of the urethra, the tube that carries urine from the bladder. As the prostate enlarges, it can squeeze the urethra and cause urinary problems.

Today you don't have to live with the discomfort of symptomatic BPH. Ask your family doctor or a urologist if PROSCAR is right for you. For free information that will help you discuss your symptoms with your doctor, call 1-800-261-8186.

For the treatment of symptomatic BPH

PROSCAR® 5mg
(FINASTERIDE)

The only medicine that can shrink the prostate.

MERCK

Please see the patient information on the next page.

©1994, Merck & Co., Inc.
All rights reserved.
J4P047(302)-MKP4032-8186

PATIENT INFORMATION ABOUT PROSCAR® (Prahs-car)
Generic name: finasteride (fin-AS-tur-eyed)

PROSCAR is for the treatment of symptomatic benign prostatic hyperplasia and for use by men only.
Your doctor may prescribe PROSCAR if you have a medical condition called benign prostatic hyperplasia or BPH. This occurs only in men.

Please read this information, as well as the leaflet which accompanies your medication, before you start taking PROSCAR. Also, read the leaflet each time you renew your prescription, just in case anything has changed. Remember, this leaflet does not take the place of careful discussions with your doctor. You and your doctor should discuss PROSCAR when you start taking your medication and at regular checkups.

What is BPH?
BPH is an enlargement of the prostate gland. After age 50, most men develop enlarged prostates. The prostate is located below the bladder. As the prostate enlarges, it may slowly restrict the flow of urine. This can lead to symptoms such as:

- a weak or interrupted urinary stream
- a feeling that you cannot empty your bladder completely
- a feeling of delay or hesitation when you start to urinate
- a need to urinate often, especially at night
- a feeling that you must urinate right away.

Treatment options for BPH
There are three main treatment options for BPH:

- **Program of monitoring or "Watchful Waiting".** If a man has an enlarged prostate gland and no symptoms or if his symptoms do not bother him, he and his doctor may decide on a program of monitoring which would include regular checkups, instead of medication or surgery.
- **Medication.** Your doctor may prescribe PROSCAR for BPH. See **"What PROSCAR does"** below.
- **Surgery.** Some patients may need surgery. Your doctor can describe several different surgical procedures for BPH. Which procedure is best depends on your symptoms and medical condition.

What PROSCAR does
PROSCAR lowers levels of a key hormone called DHT (dihydrotestosterone), which is a major cause of prostate growth. Lowering DHT leads to shrinkage of the enlarged prostate gland in most men. This can lead to gradual improvement in urine flow and symptoms over the next several months. However, since each case of BPH is different, you should know that:

- Even though the prostate shrinks, you may NOT see an improvement in urine flow or symptoms.
- You may need to take PROSCAR for six (6) months or more to see whether it helps you.
- Even though you take PROSCAR and it may help you, it is not known whether PROSCAR reduces the need for surgery.

What you need to know while taking PROSCAR

- **You must see your doctor regularly.** While taking PROSCAR, you must have regular checkups. Follow your doctor's advice about when to have these checkups.
- **About side effects.** Like all prescription drugs, PROSCAR may cause side effects. Side effects due to PROSCAR may include impotence (or inability to have an erection) and less desire for sex. Each of these side effects occurred in less than 4% of patients in clinical studies. In some cases side effects went away while the patient continued to take PROSCAR.

  Some men taking PROSCAR® (Finasteride) may have a decrease in the amount of semen released during sex. This decrease does not appear to interfere with normal sexual function. Rarely, some men have reported breast swelling and/or tenderness or allergic reactions such as lip swelling and rash.

You should discuss side effects with your doctor before taking PROSCAR and anytime you think you are having a side effect.

- **Checking for prostate cancer.** Your doctor has prescribed PROSCAR for symptomatic BPH and not for cancer—but a man can have BPH and prostate cancer at the same time. Doctors usually recommend that men be checked for prostate cancer once a year when they turn 50 (or 40 if a family member has had prostate cancer). These checks should continue while you take PROSCAR. PROSCAR is not a treatment for prostate cancer.
- **About prostate specific antigen (PSA).** Your doctor may have done a blood test called PSA. PROSCAR can alter PSA values. For more information, talk to your doctor.
- **A warning about PROSCAR and pregnancy.**

  PROSCAR is for use by MEN only.

  PROSCAR is generally well tolerated in men. However, women who are pregnant, or women who could become pregnant, should avoid the active ingredient in PROSCAR.

  If the active ingredient is absorbed by a woman who is pregnant with a male baby, it may cause the male baby to be born with abnormalities of the sex organs. Therefore, any woman who is pregnant or who could become pregnant must not come into direct contact with the active ingredient in PROSCAR.

Two of the ways in which a woman might absorb the active ingredient in PROSCAR are:

Sexual contact. Your semen may contain a small amount of the active ingredient of the drug. If your partner is pregnant, or if you and your partner decide to have a baby, you must stop taking PROSCAR and talk to your doctor. If your partner could become pregnant, proper use of a condom can reduce the risk of exposing her to your semen (discuss this further with your doctor).

Handling broken tablets. Women who are pregnant or who could become pregnant must not handle broken tablets of PROSCAR. PROSCAR tablets are coated to prevent contact with the active ingredient during normal handling. If this coating is broken, the tablets should not be handled by women who are pregnant or who could become pregnant.

If a woman who is pregnant comes into contact with the active ingredient in PROSCAR, a doctor should be consulted.

Remember, these warnings apply only if the woman exposed to PROSCAR is pregnant or could become pregnant.

How to take PROSCAR
Follow your doctor's advice about how to take PROSCAR. You must take it every day. You may take it with or between meals. To avoid forgetting to take PROSCAR, it may be helpful to take it the same time every day.

Do not share PROSCAR with anyone else; it was prescribed only for you.

Keep PROSCAR and all medicines out of the reach of children.

FOR MORE INFORMATION ABOUT 'PROSCAR' AND BPH, TALK WITH YOUR DOCTOR. IN ADDITION, TALK TO YOUR PHARMACIST OR OTHER HEALTH CARE PROVIDER.

MERCK

© 1994, Merck & Co., Inc.
West Point, PA 19486
J4PO47(302)-MKP4032

in Philadelphia. Patrick reversed t
Bush Administration's position in su-
port of a white teacher who was fir
by the Piscataway (N.J.) school board
favor of a black teacher who had t
same seniority and qualifications. Pa-
rick argued that employers should
free to use affirmative-action goals
determine which of two equal candidat
to terminate. Otherwise, private e
ployers could be prevented from volu
tarily integrating their workforces. "P
cataway is not a quota case," sa
Patrick.

But the decision has set off a fur
on the right. "It suggests this Admini
tration is back to playing the numbe
game in civil rights," charges Clint B
lick, vice-president of the conservati
Institute for Justice. If the charg
sticks, Patrick's moves could give co
servatives more ammunition. Accor
ing to a poll last spring by the Nation
Opinion Research Center, 54% of Ame
icans are against special treatment f
minorities, while only 16% are clear
for it. Even though Clinton and Patric
both oppose quotas, the Republicans a
still likely to try to score points on th
issue.

BRAVE FACE. There already are sign
that the Administration is getting mo
cautious. Two days after the election,
declined to support the University
Maryland's scholarship program f
black students. The university wants
rehearing of an appellate court decisi
that ruled the program unconstitutio
al. Initially, the Education Dept. recon
mended siding with the university, say
a Justice attorney. But the Administr
tion hasn't backed up the university
request for a rehearing—a move tha
school advocates contend is aimed
pleasing middle-class voters. "If ther
was a decision not to pursue the case,
was a political one," says Janell M. Byr
a lawyer for the NAACP Legal Defense
Educational Fund. Patrick declines con
ment on the case.

Despite Patrick's brave public fac
friends say that he was stung by th
fallout from the Piscataway case. Bu
they insist that he can withstand th
shifting political currents. Days afte
the election, Patrick called Hatch an
joked that he had barely had time t
congratulate the senator on his ne
committee chairmanship before the at
tacks against him began. Still, Patrick i
keenly aware that he's in a hot spot
"Being a lightning rod takes gettin
used to," he concedes. "If I walked o
water, certain of my critics would stil
say that Patrick can't swim." If he want
to avoid sinking, Patrick will have t
keep not only the law but also politic
foremost in his mind.

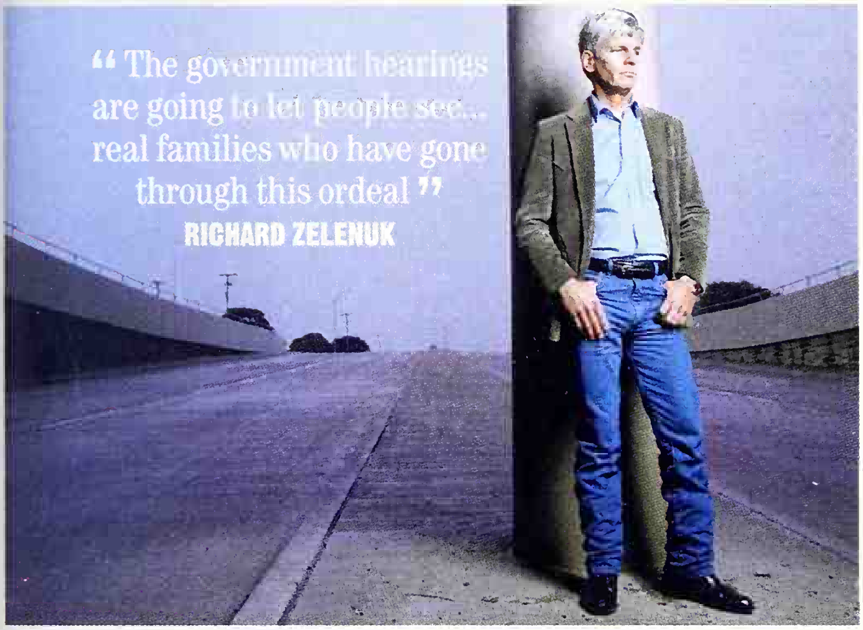
By Catherine Yang in Washingto

COMMENTARY

By Kathleen Kerwin

GM PICKUPS: THE ISSUE IS SAFETY, NOT REGULATION

Richard W. Zelenuk wants to tell the world how, in 1989, his father burned to death inside a Chevrolet Silverado. He will receive his chance on Dec. 6, as will other victims of an alleged defect in certain General Motors Corp. pickup trucks. That's when the Transportation Dept. begins public hearings into whether the company ought to be forced to recall up to 6 million 1973-87 C/K pickup trucks because of their propensity to catch fire in high-speed side collisions. "The government hearings are going to let people see real faces, real families who have gone through this ordeal," exclaims Zelenuk.



“The government hearings are going to let people see... real families who have gone through this ordeal”

RICHARD ZELENUK

The wrenching personal tales are certain to be powerful. That prospect has led GM to threaten to boycott the hearings if it determines it won't get a fair shake. GM believes Transportation Secretary Federico F. Peña is biased in part because he overruled a staff recommendation to drop the GM matter. The company has also taken the government to court. In a lawsuit filed on Nov. 17, GM charged Transportation and Peña with engaging in illegal "retroactive rule-making." The trucks had met every existing government safety standard when they were rolled out in 1972. But now, GM says, Peña wants to apply new, unstated standards—two decades later—to hold the auto maker responsible for its vehicles' alleged problems.

At first glance, GM's position is persuasive. The company indisputably complied with all federal regulations when it introduced its then-new full-size pickups. At the time, there were no side-impact crash standards. And in 1978, when a 20-mph test was enacted, GM's trucks, whose "sidesaddle" gas tanks were mounted outside the frame rails, passed the test with nary a fuel leak. If, at the time, the government considered a truck that could survive a 20-mph crash to be safe, how dare it change the rules now, ask GM lawyers. Why blame GM if government standards were too lax?

Other auto makers have rushed to GM's side. They claim they would no longer be able to rely on government standards in designing new vehicles if the government prevails in the current case. A Peña victory could also affect other regulated industries from chemicals to airplanes. Says Lawrence Fineran of the National Association of Manufacturers: "It's a scary precedent."

True enough—if that's what Peña were really up to. But the issue of after-the-fact rulemaking is a red herring. Legally, Peña is on solid ground. The National Traffic & Motor Vehicle Safety Act lets the Secretary order a manufacturer to recall its products if real-world accident data reveal safety problems—even if the company complied with all federal standards.

The statute also states that if a company becomes aware its vehicles are dangerous, it must notify the government and consumers and repair the defect. Regulations for many industries require companies to correct a glitch that shows up after a product goes to market. With pharmaceuticals, a prescription drug that undergoes clinical trials and is approved by the Food & Drug Administration can be reexamined if unexpected side effects emerge. Abbott Laboratories yanked its FDA-approved antibiotic Temafloxacin from the market in 1992 when severe side effects were reported—even though the drug had passed all federally mandated clinical tests.

BILLION-DOLLAR BILL. Disabling GM's defense doesn't automatically mean the company should recall its trucks. It simply means that the debate should return to the core issues: Are the trucks safe enough? And if not, did GM know them to be unsafe?

Reasonable people can disagree on these managers knew of the alleged defect at least 13 years ago and failed to act. GM denies it had any such knowledge. If Peña proves his case, the company faces a potential $1 billion bill for a recall as well as an increased threat from dozens of pending lawsuits over pickup-truck fires.

In the end, the meeting should be about whether consumers have been adequately protected from an allegedly hazardous product—not about some legal side issue. "This is a classic bout over how safe is safe enough," says Marshall S. Shapo, a Northwestern University law professor. Such a debate isn't easy. No absolute standard exists for what is safe enough. And driving cars or trucks will never be completely risk-free. The hearings can offer the most public good by keeping the focus on what's really important—consumer safety.

Detroit Bureau Manager Kerwin covers the auto industry.

MEDICINE

WILL A CUP OF COW'S WHEY KEEP THE DOCTOR AWAY?

The NIH's Office of Alternative Medicine has plenty of critics

JACOBS QUIT IN FRUSTRATION

Senator Barbara A. Mikulski, a feisty Maryland Democrat, says acupuncture helps keep her spirited. Retired Iowa Representative Berkley W. Bedell claims a strange concoction of cow's whey cured his Lyme disease. His buddy, Senator Tom Harkin (D-Iowa), says bee-pollen pills are nothing to sneeze at: He popped as many as 250 to control his allergies. These endorsements—and Harkin's post as chairman of the Senate Appropriations health subcommittee—help explain why the government has pumped millions into research on what is politely called alternative medicine, from massage to prayer intervention.

But now the program that Harkin created—the National Institutes of Health's Office of Alternative Medicine (OAM)—is in a shambles. Its frustrated head, Dr. Joseph Jacobs, quit in September, charging that meddlesome members of Congress were more interested in getting unproven therapies shoveled out to the public than in putting the treatments through rigorous scientific review. On Dec. 7, the OAM's advisory board, which is filled with alternative-medicine advocates, will meet to chart a course for the office and narrow the list of 50 applicants for Jacobs' $125,000-a-year job.

"QUACKERY." With the GOP in control of Congress, Harkin's future clout will be reduced. But that doesn't mean alternative-medicine pork—$13 million for the OAM so far over two years—will be pared. Advocates are searching for new champions for prayer intervention to cure drug abuse and other treatments smirked at by the medical establishment. They are hoping these nostrums may appeal to some of the bedrock conservatives who are about to assume power. They support prayer in school, why not in drug treatment centers? What's more, alternative-medicine supporters want to cut the red tape for drug approval, which also would appeal to GOP leaders.

The key question, though, isn't whether the research should be funded, but whether unconventional remedies should meet traditional review standards. So far, critics say, the OAM has become a haven for crackpot ideas that don't pass muster for funding elsewhere at the NIH. Take the office's plans to help researchers investigate two risky cancer therapies that have been subject to federal probes or million-dollar malpractice awards (table). "It's so sad," says Grace Powers Monaco, founder of the Candlelighters Childhood Cancer Foundation, a nonprofit group in Washington. "They've veered into validating quackery."

Jacobs, who admirers say tried to make the office medically respectable, insisted that therapies be run through double-blind experiments and independently verified by other researchers. He encountered enough flack to force him out—and to prompt him to call for the office's abolition. "They wanted us to send staffers out and just say whether
therapies worked or not," he s
Harkin defends the office's miss
He notes that Americans shell out $
billion annually on alternative medic
so the NIH can devote a fraction o
$11.3 billion budget to see if the th
pies work. "We're not trying to fl
the public," says one aide. "These t
apies need to be investigated."

Alternative-medicine advocates
pute the idea that traditional testing
quirements are necessary to show
remedies are valid. "The problem is
entists] want you to do it the same
with double-blind studies," says B
R. Brown, president of Phoenix-b
CC Pollen Co. "That takes a heap of
ey and a lot of time. What you nee
know is whether [the patient's] con
tion clears up." CC Pollen, which m
the pills Harkin used, was fined $200
last year by the Federal Trade Com
sion for making false claims about the
fects of its bee pollen. Brown says
underscores the problem with mar
ing alternative therapies. "They w
you to get a drug license," he says. "
can afford to do that?"

CRONIES WITH CLOUT. So far, polit
not science, seems to have won this
bate. Jacobs says Harkin's cronies u
their clout with the senator to run
office. Last year, the Iowa Demo
hauled Jacobs before a hearing
threatened to use "the power of
purse" if the OAM chief didn't step
field investigations. Harkin says he
safeguarding taxpayers' dollars beca
Jacobs had yet to hire even one inv
tigator. "More than two years after
office has been in existence, ther
still no long-term plan," the sena
gripes.

One potential compromise would
to continue to fund the research,
through other NIH units. In fact,
NIH has already spent about $13 mill
to look at nonconventional treatmen
The NIH's National C
cer Institute, for
stance, could expand
ongoing work and
vestigate whethe
macrobiotic diet mig
help cure cancer. T
approach would subj
such treatments to n
mal standards of sci
tific scrutiny. If the n
congressional leaders
keeps the OAM open
stead, it could be a s
that in Washington,
still business as usua

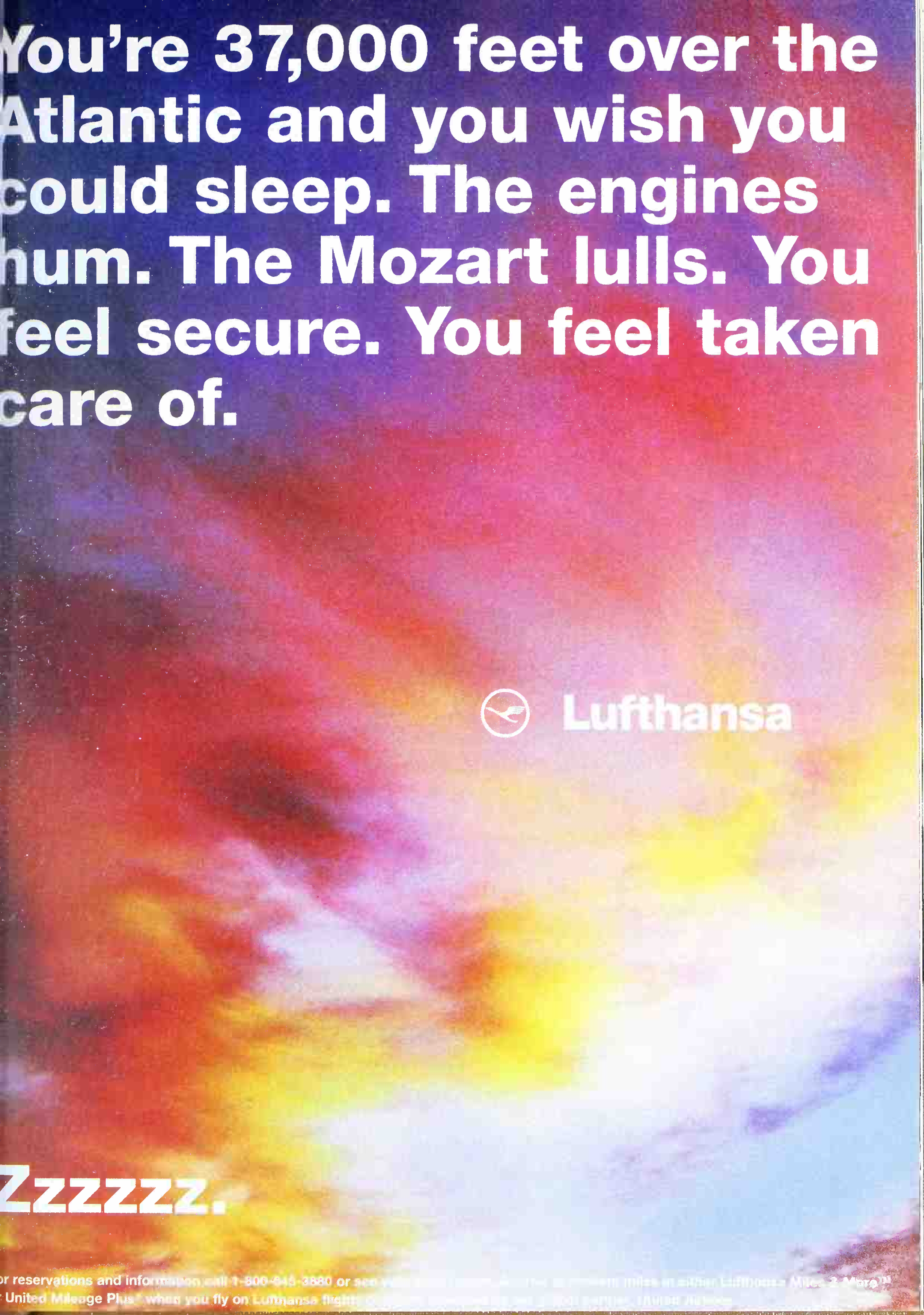
By Mary Beth Reg
in Washington

Two Risky Therapies in Review

ANTINEOPLASTON Houston physician Stanislaw Burzynski, who has been investigated by regulators for selling unapproved drugs, uses man-made amino acids mimicking those found in human urine to treat cancer. Critics say no independent studies have confirmed his findings.

THE REVICI METHOD Emanuel Revici, a 98-year-old New York doctor, administers mineral compounds to treat cancerous tumors. Critics say he does little more than monitor urine output to evaluate his treatment. The doctor has been slapped with two medical malpractice awards totaling nearly $2 million. Both have been overturned on appeal because of improper jury instructions.

DATA: NATIONAL INSTITUTES OF HEALTH



ou're 37,000 feet over the tlantic and you wish you ould sleep. The engines um. The Mozart lulls. You eel secure. You feel taken are of.

Lufthansa

Zzzzzz.

or reservations and information call 1-800-645-3880 or see [illegible] miles in either Lufthansa Miles & More™
United Mileage Plus® when you fly on Lufthansa flights [illegible] United Airlines.

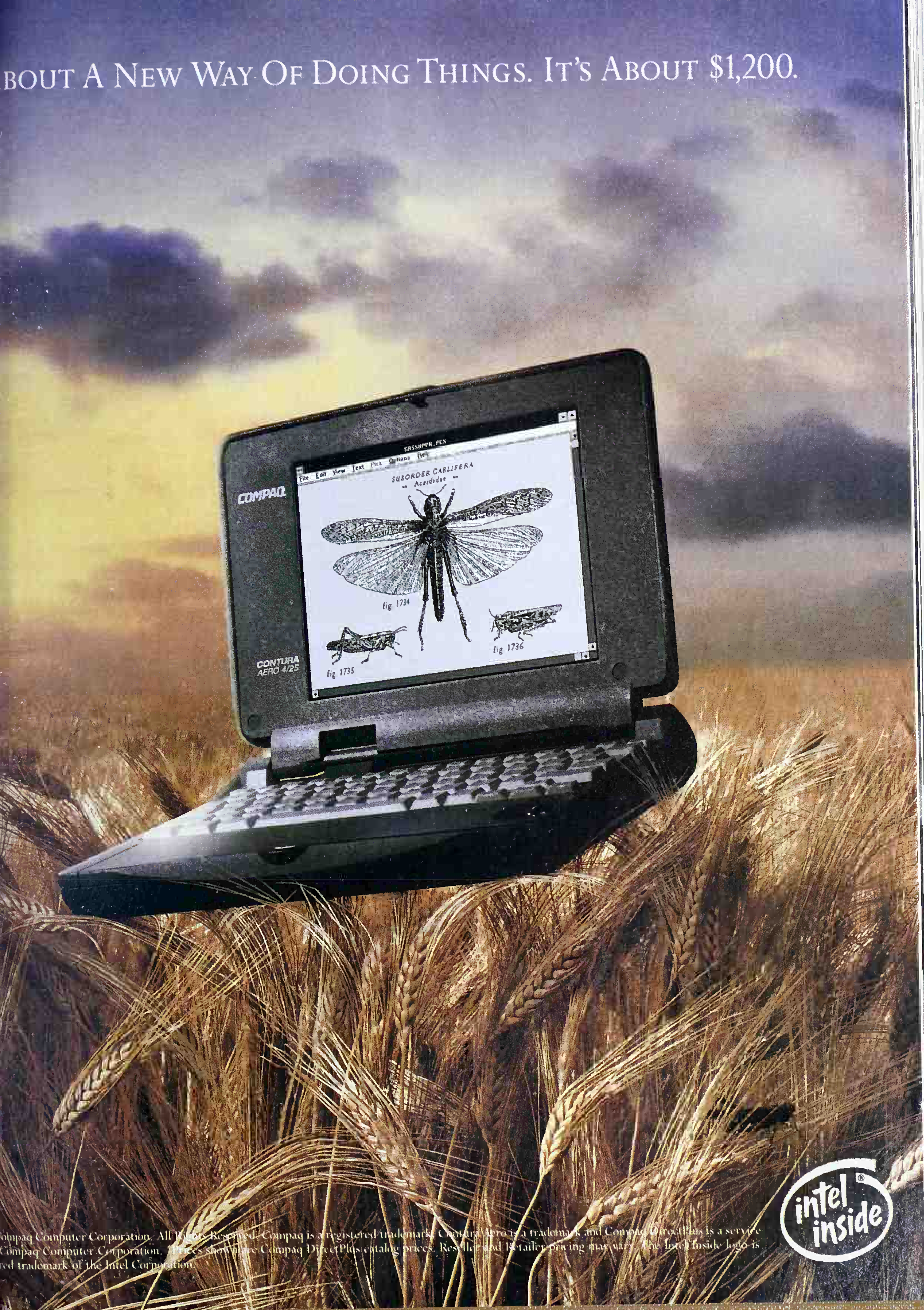
It's About Life Beyond W

STARTING AT JUST $1199,* COMPAQ AERO presents a type of freedom you can't afford to live without. Imagine a 170MB hard drive and 486 processor – the power you get from a desktop – all packed into a sleek, 3.5-lb. package. You'll never be tempted to leave it behind. (The possibilities are quite staggering.) To enter this new world, visit your Compaq retailer or locate the nearest Compaq reseller by calling 1-800-345-1518. Or call Compaq DirectPlus at 1-800-888-8450. You'll find the price of freedom has never been so, well, reasonable.

Some models now include an external floppy drive (giving you the freedom to carry it – or not.)

An optional convenience base [illegible] lets you plug in peripherals [illegible]

COMPAQ


BOUT A NEW WAY OF DOING THINGS. IT'S ABOUT $1,200.
COMPAQ
CONTURA
AERO 4/25
GASSHPPR.PCX
File Edit View Text Pics Options Help
SUBORDER CAELIFERA
Acrididae
fig 1734
fig 1735
fig 1736
intel inside

ompaq Computer Corporation. All Rights Reserved. Compaq is a registered trademark. Contura Aero is a trademark and Compaq DirectPlus is a service
Compaq Computer Corporation. *Prices shown are Compaq DirectPlus catalog prices. Reseller and Retailer pricing may vary. The Intel Inside logo is
red trademark of the Intel Corporation.

INFLATION

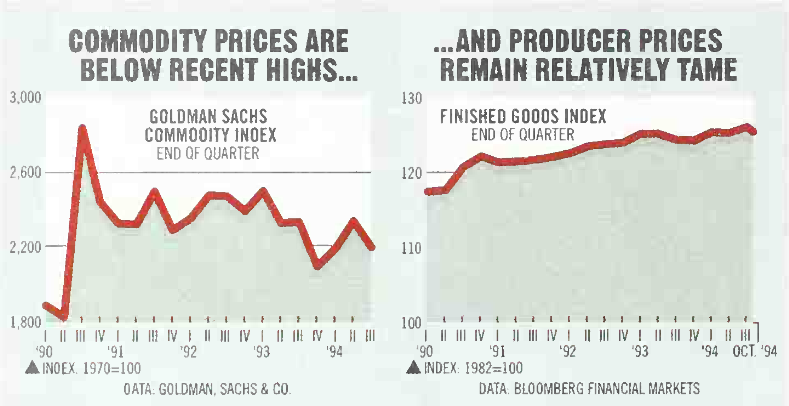
YUP—DEMAND IS SOARING. BUT SO WILL SUPPLY

Some materials costs are sowing terror that's likely unfounded

The news certainly sounds alarming. Copper prices at a four-year high. Ethylene prices nearly doubling since the spring. Steel prices up 25% over the past 18 months. Now that Europe and Japan are recovering and the developing nations are growing smartly, demand is sure to keep rising. Can a surge in finished-goods prices be far behind? Is the long-feared roar of inflation about to be heard?

Certainly, commodities speculators would like everyone to believe that price pressures are mounting fast and that 1970s-style inflation will return. And some manufacturers facing higher costs would like people to expect steeper prices—and be ready to pay them.

SMALL IMPACT. But despite all appearances, a new, commodities-driven inflationary spiral is not about to take hold. In the 1970s, supply shocks to two vitally important commodities, oil and grains, kicked prices higher. Today, it's demand, dispersed around the globe, that's pushing up certain materials prices. However, those rising prices don't provide grounds for panic, for three reasons.


COMMODITY PRICES ARE BELOW RECENT HIGHS...

GOLDMAN SACHS COMMODITY INDEX
END OF QUARTER

▲INDEX: 1970=100

DATA: GOLDMAN, SACHS & CO.

...AND PRODUCER PRICES REMAIN RELATIVELY TAME

FINISHED GOODS INDEX
END OF QUARTER

▲INDEX: 1982=100

DATA: BLOOMBERG FINANCIAL MARKETS

LONG DECLINE For most commodities, inflation-adjusted prices are at or below levels of 120 years ago—even though consumption has grown enormously

First, materials account for only about 10% of total production costs in the U. S. economy, so even a sizable price increase in a few commodities should have a minimal impact on overall prices. "The good news is that the incremental cost in final products of copper or aluminum is exceedingly small," observes William E. Byers, director of futures research at Bear, Stearns & Co. Labor remains the largest component of manufacturers' costs—and well-behaved labor costs should provide a buffer against higher materials costs, economists say.

Even in so commodity-intensive a product as a house, lumber accounts for only 15% of total costs. In an automobile, the steel component of total costs amounts to about 5%. Moreover, not all commodity prices have surged—chemical prices generally have risen only 5.2% this year, and they're expected to moderate some in 1995. Most important, though, the prices of those commodities that are consumed most heavily—energy and foodstuffs—have been stable recently and are expected to remain so. Commodity indexes that are weighted by usage have been similarly steady, while the producer price index has also been well-behaved (chart).

Second, even if materials prices continue to mount thanks to cyclical pressures, relief will be coming in a couple of years as new global sources of supply are developed. And third, the Federal Reserve Board and other central banks have been vigilant in their anti-inflation stand. They won't permit a commodity-induced inflationary spiral to develop.

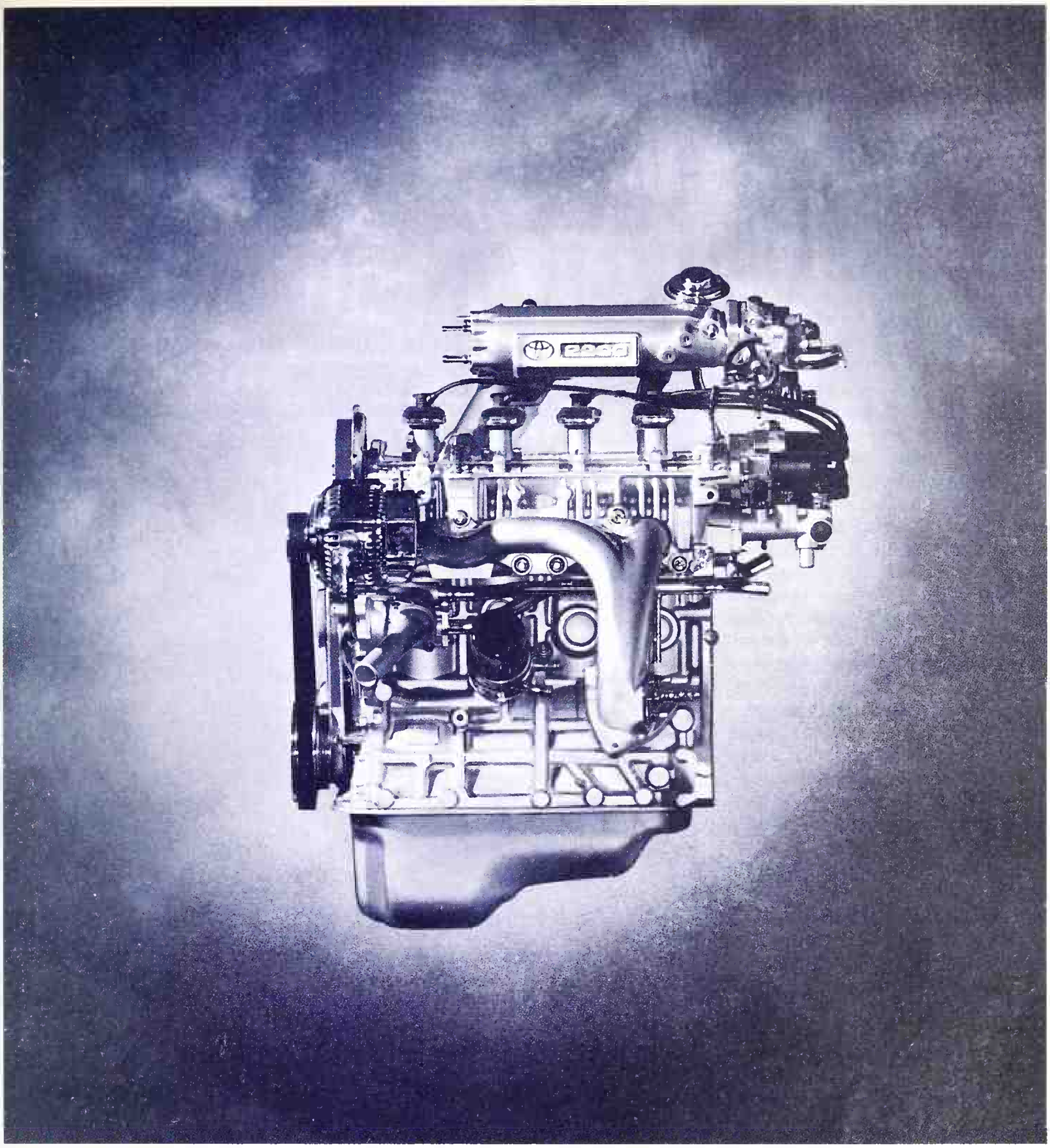
The Fed's latest ¾% hike in short rates should ensure that growth in demand for commodities is steady and sustainable, rather than sharp and short-lived, says Steven H. Strongin, director of commodities research at Goldman Sachs & Co. And that means, on average, commodity prices will rise about 5% to 15% a year over the next couple of years, rather than spike.

It shouldn't come as any surprise that materials prices have been rising. Demand is strong both here and overseas. The U. S. is in the middle of a healthy expansion that follows years of restructuring. Slimmed-down producers are now cranking up to fill heavy orders, and capacity is constrained. At North American mills, orders for sheet aluminum are up 30% this year. Steel demand is up 9.2% in the U. S. this year and 2% globally. Mills worldwide are operating at 92% of effective capacity, according to PaineWebber Inc.

Around the world, growth is becoming more synchronized. Allen Sinai, chief economist at Lehman Brothers Inc., reports that 43 of the 45 countries it tracks are in an upturn. In some spots, there is no clear end in sight. Countries such as Taiwan, Indonesia, Thailand, and, of course, China, will have an unremitting demand for a wide array of commodities for years to come as huge infrastructure and other projects are under way.

NEW EXPORTERS. But it's not just demand that will be growing. These developing countries are also becoming bigger and bigger suppliers, mining and producing more materials for their own consumption and for export. Indeed, says economist Robert S. Pindyck of the Massachusetts Institute of Technology, "much of the initial macroeconomic growth for many countries is fueled by commodity goods exports," which then allow these developing countries to pay for needed imports. China nearly doubled its imports of primary commodities, excluding fuels, from 1983 to 1992. But exports of commodities excluding fuels grew at an even faster rate, giving China a surplus in this trade. Similar trends have also produced such surpluses in Thailand, Indonesia, and India.

Around the globe, the supply of com-



The 2.2 liter DOHC Camry engine. Made in Georgetown, Kentucky.

IT ALSO DRIVES THE ECONOMY.

AT TOYOTA, we're continuing our commitment to building in America. In fact, at our manufacturing plant in Kentucky, we're producing nearly 250,000 engines per year. It's part of Toyota's $5 billion investment in American manufacturing, an investment that's driving more than 16,000 direct jobs across America.

INVESTING IN THE THINGS WE ALL CARE ABOUT. **TOYOTA**

For more information about Toyota in America write Toyota Motor Corporate Services, 9 West 57th Street, Suite 4900-D14, New York, NY 10019.

© 1994 Toyota Motor Corporate Services of North America, Inc.

modities and industrial materials is getting a boost. Indonesia just signed a multibillion dollar deal to develop natural gas with U. S. partners. China's capacity in ethylene and ethylene derivatives (mostly plastics) is likely to rise rapidly enough to meet yearly gains of 10% in demand there for the next decade. In steel, Brazil will remain an important producer, while Korea, Mexico, Poland, and perhaps even Russia could add to supply in coming years. China is expected to produce 20% of the world's steel by the turn of the century, up from 12.6% in 1993, to meet growing domestic demand.

The countries making the economic transition from socialism to capitalism will be searching for new markets in which to sell their commodities and earn hard currency. Russia and other former Soviet republics possess vast reserves of oil, gas, and metals such as copper and aluminum. After dumping aluminum on the markets from 1991 to 1993, the Russians were persuaded last February to cut back sales, and they say they are adhering to the agreement. But producers would be eager to export more aluminum, copper, and other hard-currency earners, says Arkady Mitrovanov, vice-president of Raznoimport, a group that handles imports and exports of nonferrous metals in Russia. Exports of oil and gas, the biggest earners for Russia, could also be ramped up considerably. Oil exports will bring in about $11 billion this year.

COPIOUS CAPACITY. New supplies can't come onstream rapidly, of course, and for intermediate and processed materials, it takes a few years to get new plants up and running. In the meantime, cyclical pressures may well push materials prices higher. But given the potential for copious worldwide capacity and continued stiff competition among global producers, there's no good reason for an inflationary psychology to develop and justify the embedding of cyclical price rises in final goods prices. Price resistance in the U. S. remains strong at both the wholesale and retail levels.

What's remarkable about commodities such as copper today is not their high price, nor even the strong demand that exists for them. What's remarkable, instead, is that inflation-adjusted prices for most major commodities today are at or below levels of 120 years ago—even though consumption has grown forty- or fiftyfold. Commodity prices are notoriously volatile, but the long-term trend—to everyone's economic benefit—is down.

By Karen Pennar in New York, with Stephen Baker in Pittsburgh, Peter Galuszka in Moscow, and bureau reports

REGULATION

THE GOP'S GUERRILLA WAR ON GREEN LAWS

Newt & Co. plan a procedural overhaul, not a direct attac

Call it the stealth environmental policy. Nowhere in the House Republicans' Contract With America can you find the word "environment." Instead, the pact contains standard regulatory-reform rhetoric—calls for cost-benefit analysis, risk assessment, and the like. And it echoes the Right's clamor for compensation when regulations end up lowering property values.

> Business could wind up in league with the activists: To Corporate America, the prospect of lawsuits may be worse than EPA rules

Yet the document is sending shivers through the Clinton Administration and its supporters in green organizations. They fear that legislation on these concepts would turn the environmental clock back two decades. If GOP House leaders can get fast action in three broad areas (table), they would set the scene for revisiting everything from air-pollution control to pesticide regulation. Even the ban on oil drilling in the Arctic National Wildlife Refuge (ANWR)—an issue environmentalists thought they buried in 1991—may be on the table again. "With one stroke of the pen, they could eviscerate all the environmental laws," says Jessica Landman, a staff lawyer at the Natural Resources Defense Council.

CLOUDY PICTURE. It's a shrewd strategy. Rather than blowtorching such potent symbols as the Clean Air and Endangered Species Acts, House Speaker-to-be Newt Gingrich (R-Ga.) and other GOP leaders are launching a guerrilla attack on arcane regulatory procedures. "You have to give Gingrich credit," says one top Environmental Protection Agency official. "He knows he can't campaign against environmental protection."

How far the reforms will go is far from clear. Senate Republicans are cooler than the House firebrands. The League of Conservation Voters says GOP chairmen of key House committ such as Thomas J. Bliley Jr. (R-Va.) Don Young (R-Alaska), have an averag pro-green voting record of 7%, vs. for their Democratic predecessors. the probable chairman of the Senate vironment & Public Works Committe moderate John H. Cha (R-R. I.), could slow overhaul. "Chafee rea clouds the pictur laments Jonathan H. ler of the conservat Competitive Enterpr Institute.

On the surface, the forms seem innocuous enough. There's little pute, for instance, ab the need for risk assessment—setting regulat priorities based on sci- tific research into risks posed by vari hazards. Nor do m dispute that a rule's be fits should generally weigh its costs. The conducts cost-benefit an ysis and risk assessment for rules with a total pr of $100 million or more

But the Republicans want to go much further. They contend that expensive rules are based too often on faulty science. So the GOP is calling for scientific risk-assessment studies on rules that cost as little as $1 million. They want independent peer-review panels to oversee the research, and they want companies to be given the right to sue and recoup legal costs if the studies aren't done right. "You won't see anything going out of here without risk assessment," vows Representative John L. Mica (R-Fla.), who spearheaded efforts to get a risk-assessment law passed in the last Congress. Democrats blocked a vote on his proposal.

Critics charge that the scheme would clamp a straitjacket on legitimate

s—some of which are based on tech-
gy standards rather than on risk as-
ment—by handing opponents many
ortunities to challenge regulations
ourt. It's a “full-employment act for
yers,” complains Daniel J. Weiss, the
ra Club's political director.

nother Republican proposal, which
gets the cost of compliance, could dis-
ntle much of the regulatory infra-
ucture. The GOP wants to limit the
ate sector's tab for complying with
ederal regulations—those from the
urities & Exchange Commission and
er agencies as well as the EPA—to
of gross domestic product. And it
nts to cap the cost to the states and
es at 3% of GDP. In 1990, according to
tudy by the Rochester Institute of
hnology, Corporate America spent
ne $450 billion on compliance—about
of GDP. Experts say environmental
es account for about a quarter of that.

TOOLS TO CHALLENGE ENVIRONMENTAL LAWS

SK ASSESSMENT Require scientific studies and cost-benefit analysis of regulations
der such laws as the Clean Air Act.

JRDENSOME COSTS Repeal rules such as those under the Safe Drinking Water Act
at mandate spending by states or localities.

ROPERTY RIGHTS Compensate private property owners if laws such as the Endan-
red Species Act reduce land values.

DATA: BUSINESS WEEK, CONTRACT WITH AMERICA

ERE WILDCATTERS MAY ROAM: *Alaska's Arctic National Wildlife Refuge*

TOM WALKER/TONY STONE

ACONIAN STEP. The GOP proposal
uld require a 6.5% annual drop in
npliance costs until ceilings are met.
encies would have to decide which
es to waive, or the White House
uld have to take the draconian step of
nping whole areas of rules. “If they
away with the entire Clean Air Act,
t would take a huge chunk out of the
rden,” says Edward L. Hudgins of
libertarian Cato Institute.

The overhaul would also greatly expand a notion embedded in the “takings” clause of the Constitution—that the government can seize property only if it compensates the owner. In the U. S. Supreme Court's most recent major ruling on the issue, it ordered Uncle Sam to ante up wherever Washington bars construction of any kind on coastal land, rendering it worthless. The Republicans want to take this much further: They would force the feds to compensate landowners if rules reduced land values by as little as 10%—a mandate the government could ill afford. So Washington couldn't enforce many restrictions. “The government has a big appetite,” says Charles S. Cushman, chairman of the League of Private Property Voters, a coalition of 300 grassroots groups. “They're going to keep taking land unless they have to pay for it.”

In a few cases, the Republicans plan to tackle more than mere procedures. Consider the contentious ANWR issue. Oil companies have been fighting for access to 1.5 million acres of wilderness since they were put off-limits in 1980. With two Alaska Republicans, Senator Frank H. Murkowski and Representative Young, slated to control the natural-resource committees, the issue is expected to be reopened—and environmentalists could well lose this time.

Still, if Republicans overreach on the ANWR or other environmental issues, Clinton would have a golden opportunity to redeem himself with voters—with a veto. So far, Clintonites haven't come up with a direct response to the Republicans' indirect challenges to environmental protection, and they are wary of meeting the incoming Congress halfway. For example, the Interior Dept., according to one high-ranking official, will not propose any new regulatory initiatives, lest Congress use the chance to gut existing protections.

Environmental groups also have been caught flat-footed, and their troubled finances will make it hard to mount a stout defense. In the past two years, 5 of the nation's top 10 green groups operated in the red. Of course, the Republican assaults will help out here—membership and contributions always climb when environmentalists face a hostile climate. But the new money probably won't flow in fast enough to thwart the GOP's action strategy.

NOT ALONE. And environmentalists still must draw up a counterstrategy. More than 170 activists from green, civil-rights, and labor groups met in Washington on Nov. 22 to start organizing, but James D. Maddy, president of the League of Conservation Voters, worries that the groups can't oppose the Republican offensive on every front. “We might be better served to concentrate on [the] takings [issue],” he says, because that gets at the heart of most environmental protection.

But the activists may not be alone. They could end up joining forces in an unusual coalition with business, the supposed beneficiaries of the regulatory overhaul. That's because the ultimate goal of some of the Republicans and their ideological soul mates in the think tanks is to privatize environmental protection: Citizens would sue companies for creating public nuisances or for other torts. The Contract With America “is just the spark,” says Cato's Hudgins. “In the long term, we're looking for the desocialization of environmental regulations.”

Corporate America, however, may prefer the certainty of the costs of complying with EPA rules to the unpredictability of jury verdicts. Wilma I. Delaney, director of federal regulatory affairs at Dow Chemical Co., calls Cato's radical proposal “troublesome.” Says Delaney: “We're not looking to roll back regulations. But we want the flexibility to meet the goals in the most cost-effective manner.” That sentiment in Corporate America may go the furthest in quashing the House GOP's anti-green agenda.

By Mary Beth Regan in Washington

Ever since Sprint Business made our world smaller, we've gotten bigger.

Director
Information Systems
Landis & Gyr

It used to take 14 hours for Landis & Gyr engineers in Chicago to meet with colleagues in Zug, Switzerland.

Today, thanks to a real solution from Sprint Business, they spend those hours working together. Meeting face-to-face via the world's largest videoconferencing network — Sprint Video.®

And we've engineered many other technologically advanced solutions for Landis & Gyr. Including a wide area network that will soon connect computer systems in 109 North American offices, allowing them to instantly exchange time-sensitive product development and financial data.

The fact is, no matter what business you're in, we can turn communications technology into a powerful business tool. One that will help make you more successful. And isn't that why you're in business in the first place?

Find out how we can help your business do more business. Call 1-800-598-5000.

REAL BUSINESS
Landis & Gyr
Building Controls

REAL PROBLEM
Engineers dispersed around the world

REAL SOLUTION
Real-time meetings via global videoconferencing

REAL RESULTS
Better teamwork, better ideas, better sales

Sprint® Business

©1994 Sprint Communications Company L.P.

evelopments to Watch

'ED BY PETER COY

EURAL NET THAT I PINPOINT ISTATE CANCER

NOSING PROSTATE CANCER
toriously unreliable. Only
ıt 35% of the men who
ergo biopsies based on
icious blood tests and rec-
xams turn out to have the
ıse. But a neural-network
outer program developed
Kaman Sciences Corp. in
orado Springs, Colo., is
ect 73% to 77% of the
when it predicts pros-
cancer, according to a pa-
published in the Novem-
Journal of Urology. The
gram misses a few cases,
-it's correct only 94% of
time when it predicts that
tient doesn't have the dis-
. But Kaman principal
ntist Peter B. Snow says
uld still aid doctors in de-
ng how urgently a man
ls a biopsy.

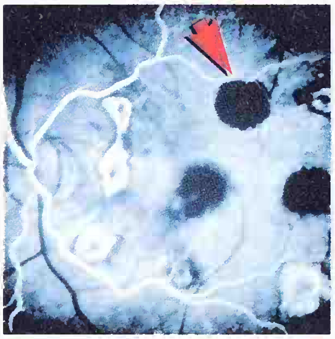
eural networks, pat-
ed on the human brain,
clues that doctors might
rlook—such as correla-
s between seemingly un-
ted variables. Other re-
rchers have tried using
al networks to diagnose
tate cancer but with less
cess. Snow says he
eved accuracy by care-
preprocessing the data
by getting the program
pply general principles to
cases. Some neural net-
ks chew over a data set
so long that they memor-
the cases and can't cope
new ones.

ashington University
ool of Medicine supplied
nan's program with data
bout 20,000 patients. To-
ner, they're seeking fund-
to expand the database
everal hundred thousand
ents nationwide. Snow
Kaman would eventual-
ke to sell the software or
orm diagnoses for a fee.
nan has also found success
sing neural networks on
icular cancer and heart
ase.

TAKING MORE RISK OUT OF EYE SURGERY

THE MOST COMMON CAUSE OF BLINDNESS IN PEOPLE MORE than 50 years old is age-related macular degeneration. The disease afflicts 7 million people in North America alone. At the onset, a mesh of abnormal blood vessels spreads across the retina, eventually creating scar tissue and obscuring vision. Surgeons today burn away the new growth with lasers, but that damages normal eye tissue as well.

Scientists working for Quadra Logic Technologies Inc. in Vancouver, B.C., and CIBA-Vision Corp. in Duluth, Ga., hope to avoid such side effects with a technique called photodynamic therapy (PDT). The idea is to inject patients with light-sensitive dyes that concentrate naturally in new blood vessels. When irradiated with low-powered lasers, the dye molecules release oxygen atoms that attack and kill the host cell membrane. In tests at Harvard University on diseased primate eyes, the method cleared away new blood vessels without hurting older, functional blood vessels.


PRIMATE RETINA: *Black spots show areas cleared by PDT*

Quadra Logic already uses photodynamic therapy to kill tumors in the esophagus and other organs. That procedure is permitted in Canada, Japan, and Holland, and it may soon be approved by the Food & Drug Administration for use on tumors in the U.S. Early test data suggest the therapy may also be effective for skin diseases such as psoriasis. Meanwhile, Quadra and CIBA are asking the FDA for permission to begin human clinical trials for eye treatments in early 1995.

FIREPOWER AGAINST FIRE ANTS: KILLER FLIES

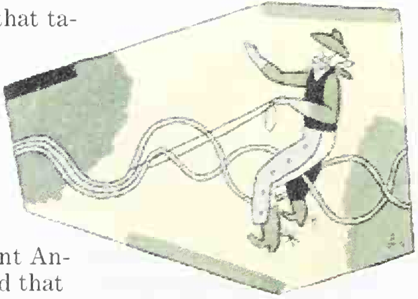
"OFF WITH THEIR HEADS" IS the new battle cry in the war against fire ants. Sanford Porter, a scientist at the Agricultural Research Service Laboratory in Gainesville, Fla., is marshaling South American parasitic flies against them. The female *Pseudacteon* fly injects an egg into an ant with a needle-like appendage. The egg develops into a maggot and eats through the ant's neck to the head, producing enzymes that decapitate the critter.

Today's pesticides are no match for fire ants, which have spread from South America to 11 states and Puerto Rico. They feed on potatoes, pecans, and soybeans; kill orange trees; and drive out snakes, lizards, and native ants, reducing biodiversity. Pending an environmental-impact study, Porter hopes to begin field trials of two or three species of *Pseudacteon* within a year.

DATA-PACKING PULSES FOR OPTICAL FIBER

IN THE QUEST TO CRAM more information onto optical fibers, researchers are experimenting with exotic light waves called solitons. These waves keep their shape over long distances by interacting with the fiber in a way that generates higher frequencies in the back of the wave and lower ones in the front. Because solitons don't spread out, they can be packed more closely together and carry more information.

Yet even solitons diffuse as they lose energy, upsetting the perfect balance between different parts of the wave. So, scientists at Corning Inc. have developed a clever solution. They made a fiber that tapers just enough—10% over 25 miles—to keep the solitons in their original shape. In recent tests at the University of Rochester, graduate student Andrew Stentz showed that pulses as short as one-trillionth of a second travel the length of the fiber without any degradation. That could mean transmission systems 100 times as fast as those in use today.



(CLOCKWISE FROM BOTTOM) ILLUSTRATION BY PHILIPPE LARDY; PHOTOGRAPHS BY QUADRA LOGIC TECHNOLOGIES INC., SANFORD PORTER

COMPUTERS

IT LOOKS LIKE A PC MAKER, WALKS LIKE A PC MAKER...

After years of false starts, DEC has hot machines and a serious game plan for creating a market presence

With its repeated entries and sudden departures from the personal-computer business over the years, Digital Equipment Corp. has never been considered a serious contender. It didn't help that the minicomputer maker's founder, Kenneth H. Olsen, was fond of denigrating the upstart PC. "Everyone will have one—tucked away in the closet," he confidently predicted.

Now, it turns out, DEC is really a closet PC company. In just the past two months, it has revived a me-too product line with well-received IBM-compatible desktop and notebook PCs. A new retail sales push includes savvy consumer-product marketing ideas, such as giving major retailers exclusives on certain models. The company made a splash with new models at Comdex, the industry's extravaganza in early November, and a new crew of seasoned PC talent is busy hatching more plans to enlarge DEC's PC business. Even rivals no longer doubt DEC's PC ambitions. "I hate to say it," says Jim McDonnell, a Hewlett-Packard Co. marketing manager, "but DEC smells like a PC company."

MINI RELIEF. It certainly looks like a contender. Industry analysts expect DEC to double PC shipments, to 1 million machines this year, vaulting the company to No. 12 in the world market from a lowly No. 26 just two years ago (table). The Personal Computer Business Unit should contribute $2 billion, or 24% of the company's product sales, for the fiscal year ending next June 30—up from $1.5 billion last year.

In fact, it could be the PC that pulls DEC out of its five-year funk. PC-revenue gains are already helping to offset the nearly $6 billion in red ink over the last four years from tanking mini sales. But more important, the successful PC unit is making DEC rethink how it does business in general and its approach to such concepts as client-server computing in particular. "The success of the PC business has deeply affected the way the company is thinking about the systems business," says Wes Melling of Stamford (Conn.) researcher Gartner Group Inc. For example, DEC is rewriting a version of the pioneering disk-sharing software it originally developed for its minis to run on PC-based servers. The software is designed to be easy to install and will be sold in PC sto

ULTRATHIN IS IN: AUER WITH THE HINOTE

The PC turnaround began two ye ago with the arrival of Enrico Pesat a former Zenith Data Systems exe tive and longtime veteran of Italiar giant Olivetti. Pesatori dramatically panded the use of resellers, hired managers, and redirected developm efforts. Last April, he was rewar with a promotion to vice-presiden the Systems Business Unit, respons for all computers. He handed over PC operation to Bernhard Auer, a mer executive with Compaq Europ

Auer has already presided over introduction of striking new produ such as the ultrathin HiNote noteboo selected as the best new product Comdex by researcher BIS Strategic cisions. Next up is a new computer s ed for introduction on Dec. 5 that r client-server networks. While the m target for the new Pri line will be servers made Compaq Computer, IBM, Dell Computer, Auer c cedes that it will also c pete against DEC's cheris minicomputers.

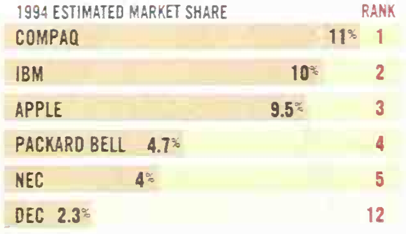
Such freedom to pur its markets—even if it me mashing other DEC toes—may critical for the continued success of PC unit. Auer, a 53-year-old native southern Germany who describes h self as a "determined Bavarian," wa the unit to swing for attainable go rather than grand slams. When he ca in, the official objective was to take f place in market share next year. T would have required DEC to sell 4 mill PCs, a near-impossible dream. N Auer is focusing on a handful of fa growth segments. "I need a few nu ber ones in the short term," he sa Because notebooks and servers ca higher margins than desktop machin hits in these markets should help Au continue to maintain net margins simi to Dell's 4%, he says.

Will he succeed? A lot depends on new products. Thus far, analysts s DEC's gains have come largely from s ing PCs to its minicomputer custome

UPWARD MOBILITY

DEC'S WORLDWIDE PC MARKET SHARE BY UNITS SHIPPED

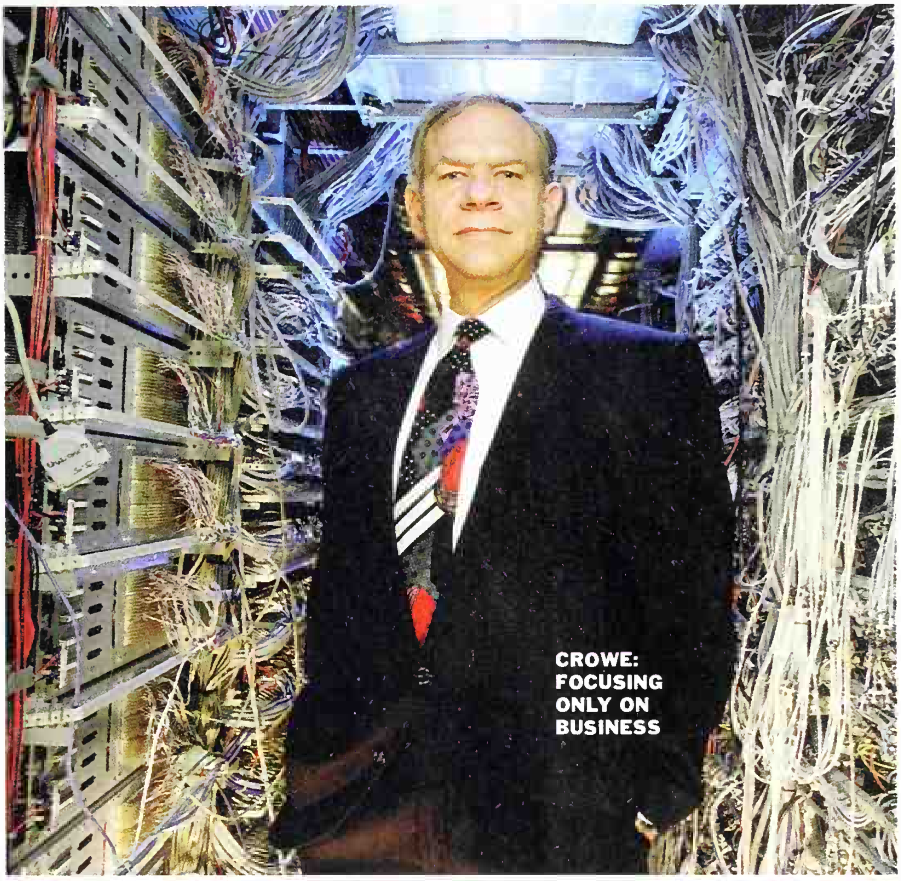
	'91	'92	'93	'94 EST.
MARKET SHARE	0.6%	0.7%	1.3%	2.3%
RANK	31	26	15	12



1994 ESTIMATED MARKET SHARE		RANK
COMPAQ	11%	1
IBM	10%	2
APPLE	9.5%	3
PACKARD BELL	4.7%	4
NEC	4%	5
DEC	2.3%	12

DATA: INTERNATIONAL DATA CORP.

v, the going gets tougher as DEC ex-
ds to new customers among small
inesses and consumers. The new Hi-
e, for example, will have to fight for
lf space against such names as Com-
, Toshiba, Apple, and a revitalized
. That's going to be an uphill battle.
Warehouse, an 87-store chain based
Rochelle Park, N.J., recently passed
DEC because it lacks separate lines
consumers and businesses. "The
nufacturers we pick up have to have
ail and corporate products," says
za Shafiei, director of marketing at
Warehouse. "Timing is very impor-
t; now, DEC is a little late."
o overcome the late start, Auer is
nting on a team of veteran PC manag-
recruited from Compaq, Zenith, IBM,
Tandy. And just like other PC compa-
s, he has aligned the PC operation into
ktop, mobile, and retail "brand" units
t mimic Procter & Gamble Co.'s con-
ner-marketing machine. Indeed, an-
sts expect a consumer-market push
emerge within 12 months. "They've
n successful in pulling together an
anization with people and disciplines
m all areas of the business," says Ran-
A. Giusto, director of mobile com-
ing at researcher BIS.
f any group epitomizes the new ap-
ach, it's the team that delivered the
Note. Led by Vice-President Winnie
ney, a former IBM PC marketing man-
r, the group created a machine that is
nch thick and sports a full-size screen
l keyboard. HiNote sales could hit
,000 to 400,000 units next year—about
e times the annual shipments for DEC's
rent notebook offerings, says re-
rcher WorkGroup Technologies Inc.
USEHOLD NAME? Opening new PC
rkets will be critical if DEC hopes to
ck the top 10 next year. PC jugger-
ut Compaq has an ambitious goal of
own: to nearly double market share
20% in 1995. Analysts figure it can
y do that by taking business from
cond-tier players. To avoid being
led over, DEC has to jump-start its
ail push. Leading the effort is for-
r Compaq marketing executive Skip
adfelter, now a DEC vice-president.
s first target is the millions of consu-
rs and small-business owners that he
pes are shopping in mass-merchan-
se discount chains. He has signed
mpUSA and Sam's Club and expects to
ve four major chains carrying DEC
oducts in 1995.
That should give DEC a way to go af-
another hot market. "By next Christ-
s, we want to have a true consumer
oduct," says Gladfelter. Now, what
uld company founder Olsen say about
DEC PC under every Christmas tree?
By Gary McWilliams in Acton,
ass., with Peter Burrows in Dallas



CROWE: FOCUSING ONLY ON BUSINESS

LARRY FORD

TELECOMMUNICATIONS

FROM NICHE PLAYER TO PHONE JACK-OF-ALL-TRADES

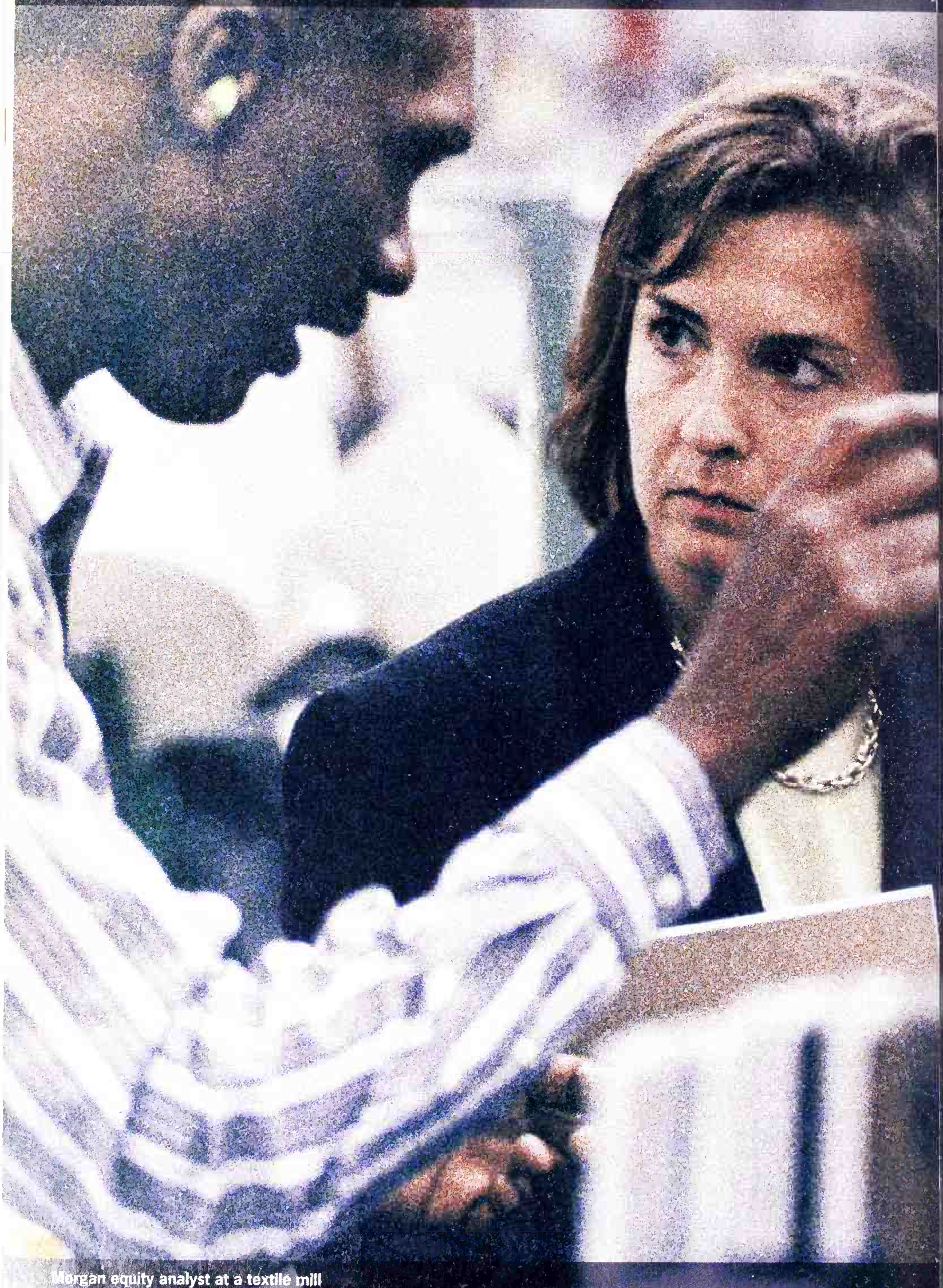
MFS, a tiny bypass company, aims for the big time

The telephone bypass business has been a tidy little moneymaker for almost a decade. The so-called competitive access providers (CAPS) connect companies in major cities directly to long-distance carriers at rates as much as 15% lower than the local phone company. They'll rack up sales of some $500 million this year, but that accounts for only 0.2% of all local calls. Which may explain why the 50 or so bypass companies don't garner much notice in the hype-happy telecom world.

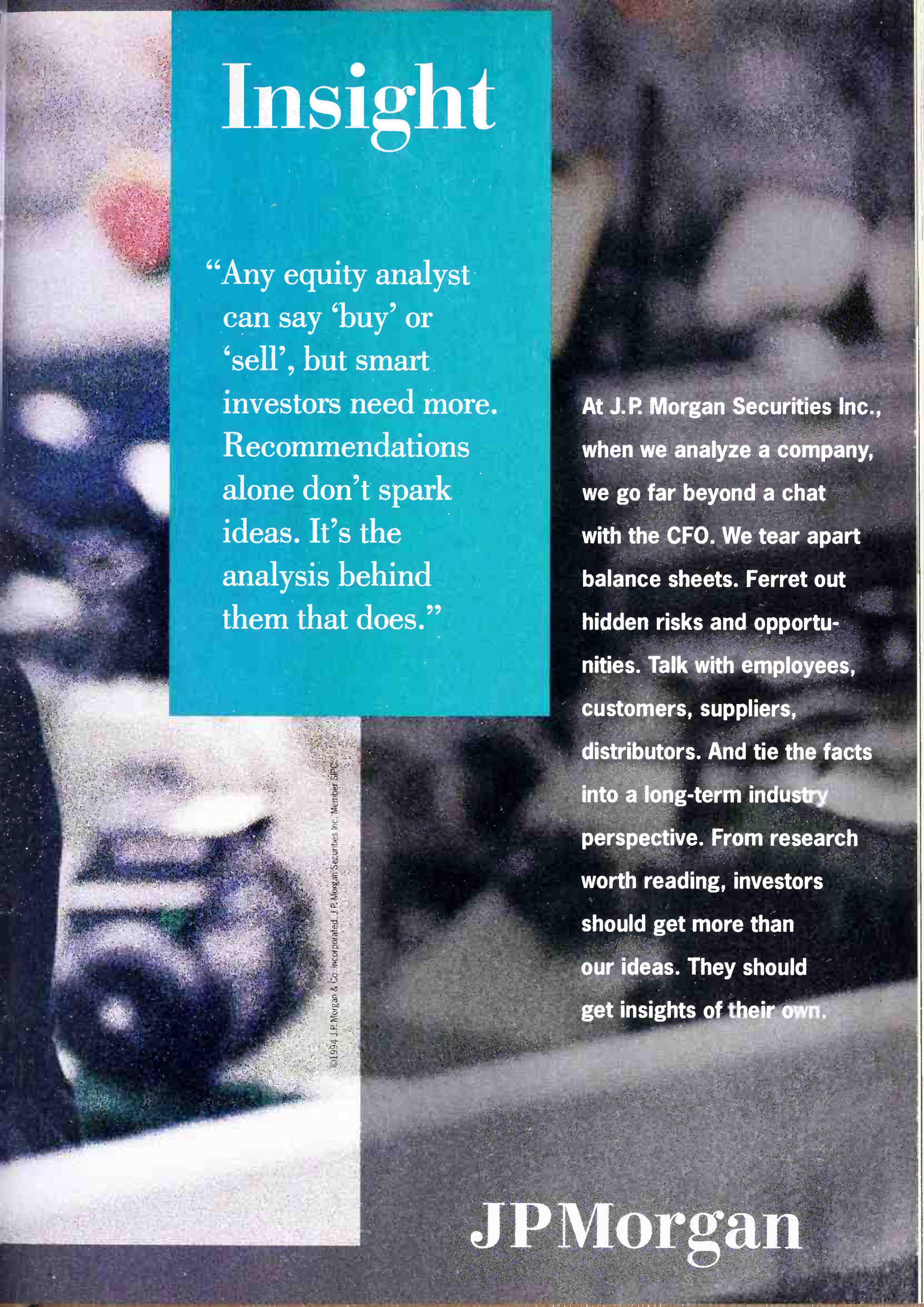
Take MFS Communications Co., one of the largest CAPS, with operations in 24 cities. The Omaha-based company, once known as Metropolitan Fiber Systems, is about as far as you can get from a household word. Yet analysts expect its revenues to jump this year to $200 million from 1993's $141 million (table). And MFS is about to get a lot bigger. It wants to go way beyond bypass and plans to spend at least $1 billion over the next five years to become a full-fledged local and long-distance phone company, competing with the likes of Ameritech Corp. and AT&T.

Here's the plan: Within three years, MFS will have state-of-the-art phone systems in 75 U.S. and 10 foreign cities. It will link these local networks with leased long-distance lines. Its mission? Offer voice, video, and data transmission services to small and midsize businesses. If it succeeds, C.J. Lawrence Inc. analyst Stuart P. Conrad predicts MFS could have sales in excess of $2 billion by 2000. Says MFS Chief Executive Officer James Q. Crowe: "This is one of the great opportunities in American business."

The key to it all is gaining "co-carrier" status. Co-carriers have equal standing with local phone companies and can connect directly to the Bell system with-



Morgan equity analyst at a textile mill



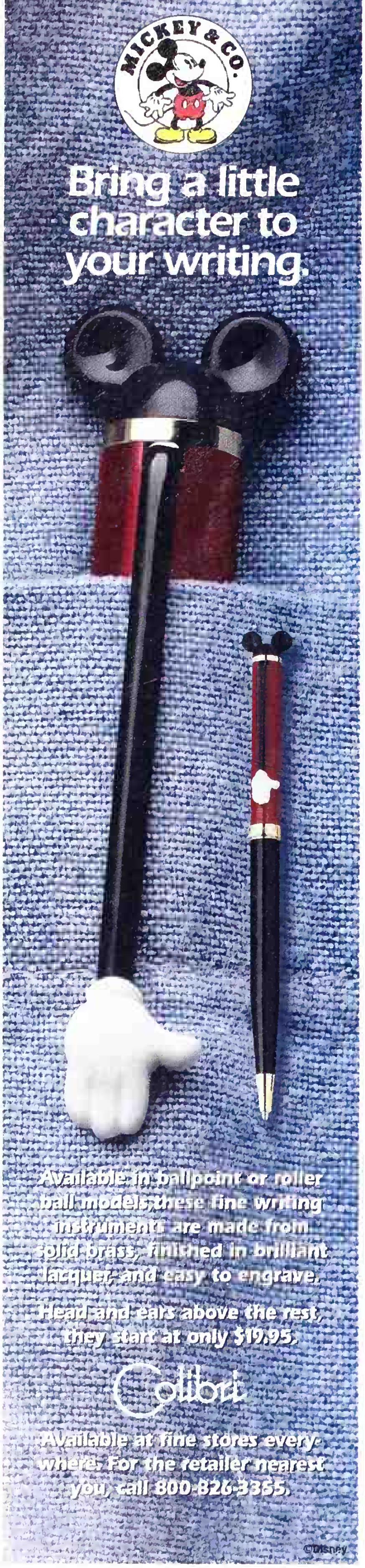
Insight

"Any equity analyst can say 'buy' or 'sell', but smart investors need more. Recommendations alone don't spark ideas. It's the analysis behind them that does."

At J.P. Morgan Securities Inc., when we analyze a company, we go far beyond a chat with the CFO. We tear apart balance sheets. Ferret out hidden risks and opportunities. Talk with employees, customers, suppliers, distributors. And tie the facts into a long-term industry perspective. From research worth reading, investors should get more than our ideas. They should get insights of their own.

JPMorgan

©1994 J.P. Morgan & Co. Incorporated. J.P. Morgan Securities Inc. Member SIPC.


MICKEY & CO.

Bring a little character to your writing.

Available in ballpoint or roller ball models, these fine writing instruments are made from solid brass, finished in brilliant lacquer, and easy to engrave.

Head and ears above the rest, they start at only $19.95.

Colibri

Available at fine stores everywhere. For the retailer nearest you, call 800-826-3355.

©Disney

out paying crippling access charges. MFS already has co-carrier status in New York, Maryland, Illinois, Massachusetts, and Washington. But it could take three to four years to extend co-carrier arrangements across the country. MFS says it is sure it will prevail in the end. For now, delays give the Bells time to upgrade their networks to match MFS.

MFS might also run into problems with its business-only focus. Its nearest rival, Teleport Communications Group Inc., joined forces in October with Cox, Tele-Communications Inc., Comcast, and Sprint to go after the consumer market. Robert Atkinson, Teleport senior vice-president for regulatory affairs, insists: "You can't be a successful business-only carrier."

No surprise, MFS doesn't agree. "We plan to do one thing and do it well," says Crowe, "and that's serve business. " He estimates that corporations in the U. S. and Europe spend more than $130 billion on telecom services annually: MFS needs only a tiny slice of that market to become a billion-dollar company.

Getting the cash to capture that sliver isn't a problem. With 69% of its stock held by privately owned construction giant Peter Kiewit Sons Inc., MFS has access to deep pockets. Since creating MFS in 1987, Kiewit has poured $500 million into it. In the past two years, MFS has raised another $1 billion through stock and debt offerings.

BIG SPENDER. MFS believes it has to spend a lot to maintain its network's high quality. Its selling point, beyond lower rates, is reliability. By one measure—mean time to repair a high-speed circuit—MFS is twice as good as the Bells on average, according to Federal Communications Commission figures. MFS's edge is its all-fiber network and heavy investment in digital switches.

The building boom isn't about to stop. Crowe, a former Morrison Knudsen Corp. executive who has led MFS since its creation, is hell-bent on expansion. He doesn't expect any profits until 1997, when capital spending begins to taper off. Analysts expect MFS to lose $125 million this year, after a $31.5 million loss in 1993.

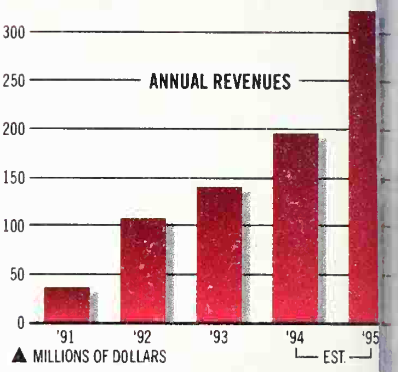
A chunk of spending will go overseas, as MFS works to keep up with globe-girdling customers. It has small operations in Paris and Frankfurt, but its most aggressive move is in London, where it has spent $50 million building a network. The British venture started in mid-1994, and MFS says it has signed up 90 customers. It plans to wire at least seven more cities outside the U. S. by 1997.

MFS is also targeting one-stop shopping for small companies that lack e expertise to manage their own telecm needs. It wants to put these compars on its network, offer them advanced services such as voice mail, and resell log-distance service bought at a discot from the big carriers.

MFS gave itself a boost by acquirg Centex Telemanagement Inc., a loal and long-distance reseller, for $200 million in early May. MFS not only acquird 11,000 new customers with Centex-it bought one of AT&T's largest custome. "This gives them leverage to negotie long-distance prices," says Yanke Group Inc. analyst Ryan James. "MF s maturing quite nicely." Who knows it could grow into a household word y..

By Kevin Kelly in Oak Brook, I.,
with Julia Flynn in London

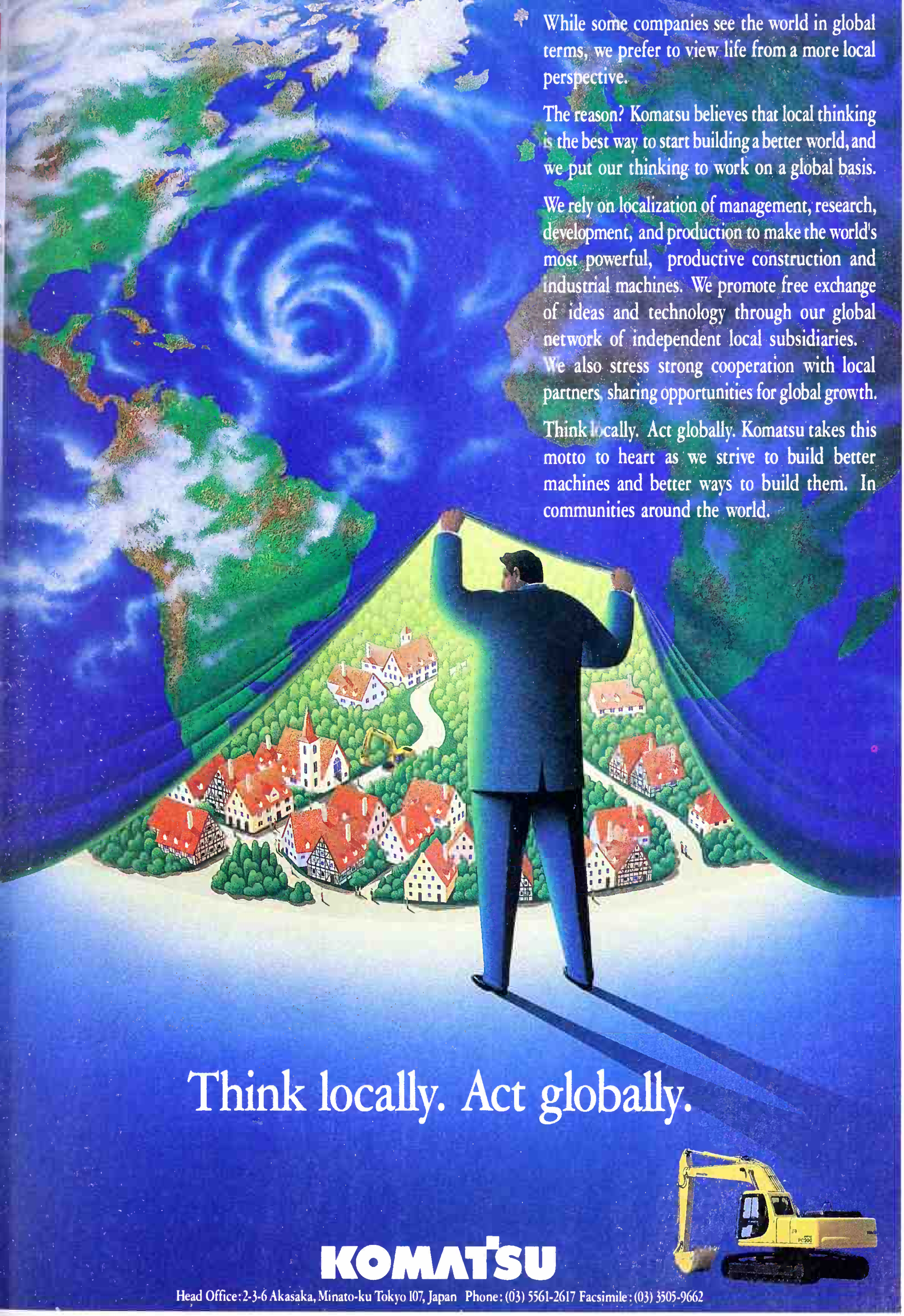
MFS: THE MONEY ROLLS I...



...AND WHAT MAKES IT ROL

	Current revenues	Projected by 20
MFS TELECOM Bypass service in the downtown areas of 24 cities	About $110 million	$500 million
MFS DATANET Offers advanced data communications, including a service to connect local area networks	0	$500 million
MFS INTELENET The unit may becom the company's largest, providing one-st telecom shopping for small and mediur size businesses	0	$1 billion
MFS NETWORK TECHNOLOGIES Pr vides development, design, engineering, and other telecommunication-construction services	$80 million	$200 million
MFS INTERNATIONAL Set up to serv customers with overseas offices	$1 million	$150 million

DATA: COMPANY REPORTS, BUSINESS WEEK, C.J. LAWRENCE IN


Think locally. Act globally.

While some companies see the world in global terms, we prefer to view life from a more local perspective.

The reason? Komatsu believes that local thinking is the best way to start building a better world, and we put our thinking to work on a global basis.

We rely on localization of management, research, development, and production to make the world's most powerful, productive construction and industrial machines. We promote free exchange of ideas and technology through our global network of independent local subsidiaries. We also stress strong cooperation with local partners, sharing opportunities for global growth.

Think locally. Act globally. Komatsu takes this motto to heart as we strive to build better machines and better ways to build them. In communities around the world.

KOMATSU

Head Office: 2-3-6 Akasaka, Minato-ku Tokyo 107, Japan Phone: (03) 5561-2617 Facsimile: (03) 3505-9662

EDITED BY AMY DUNKIN

SOFTWARE TO TICKLE THE TYKES

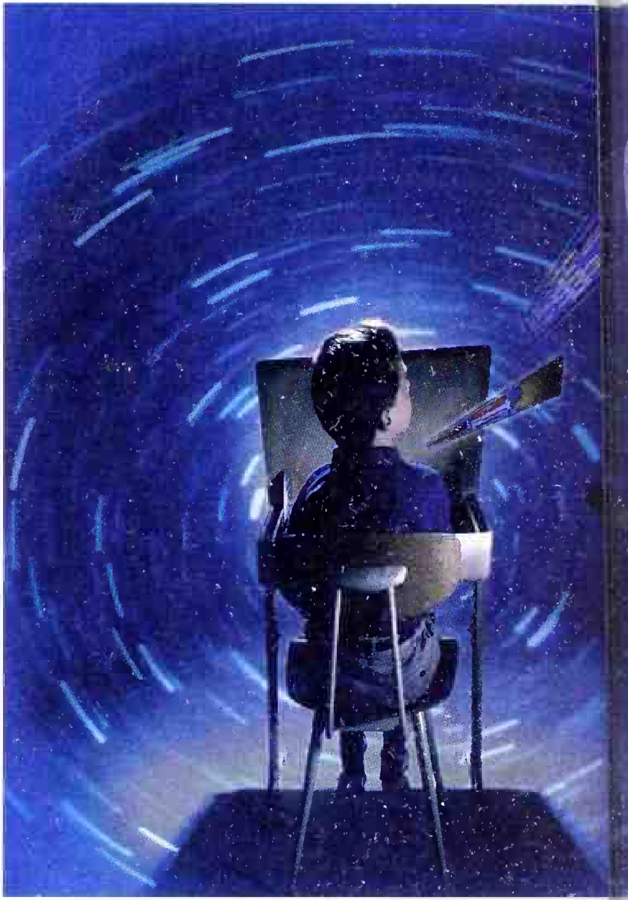
HOLIDAY GIFTS
CD-ROMS

So you thought the dozen or so CD-ROMs that came with your new multimedia computer were more than you would ever need? Well, not if you have kids. Chances are their holiday wish lists will include more than a few way-cool software titles they've seen at school or their friends' homes. That's O. K.: The best of this year's "edutainment" titles are richer in sound and graphics, including video snippets, and packed with enough activities to keep kids intrigued for months or longer. And who knows? If you pick titles skewed toward education with a little fun along the way, they may even learn something.

The problem confronting you, Mr. or Ms. Claus, is that this year, there are thousands of titles to choose from, and—just like books or audio compact disks—many of them are pure dreck. I've sorted through dozens to come up with a list of some of the most engaging. There should be something here for everyone on your shopping list. With some exceptions, they're about $40 each.

MEMORY PIG. Before we get to the picks, some general advice is in order. First, know your computer's limits, and read the fine print on all those alluring shrink-wrapped boxes. Many publishers have adapted their programs this year to run on Microsoft's Windows interface. The problem is that Windows hogs the computer's resources, leaving less for the program. If the box says that eight megabytes of memory (8 MB RAM) are required, it means it. If it says it needs four megabytes, but recommends eight, there's a chance the program will run too slowly with four to hold your kids' interest. Your options: Buy the earlier DOS version, if it's available. Or give yourself a luxurious stocking-stuffer—the extra four megabytes of memory that snap into a socket inside your PC at a cost of around $200.

Listen to your kids' suggestions. If they've played with a program somewhere else, chances are it won't be a flash in the pan for them. Teachers and other parents make good sources for recommendations as well.



[illegible] GEOFF SPEAR MODEL BRIAN McDERMOTT

For younger kids, install the software before wrapping the box. That way, you will avoid potential loading or compatibility disappointments on the big day. Also take a few minutes to get familiar with the program, especially how to get in and out of it. Then, you can stand hind your eager children too excited to bother with ceties such as reading a struction manual—and them on their maiden voy

Now, the fun part. For youngest set, the selecti pretty much limited to st

Even More Titles To Consider

TITLE / MANUFACTURER	PRICE
CRAYOLA ART STUDIO/MICROGRAFX Amazingly full-featured painting program even allows kids to mix watercolors on the page.	$39.
MAGIC THEATER / KNOWLEDGE ADVENTURE Electronic storytelling software allows simple animation and a voice-over. Comes with microphone; CD-ROM or disks.	$29.
SIMTOWN / MAXIS Scaled-down "neighborhood" version of the now-classic SimCity, for younger kids. Mac-only CD-ROM by mid-December; DOS in February.	$44.
WHAT IS A BELLYBUTTON? / IVI PUBLISHING Commonsense answers to preschoolers' questions in a storybook format. CD-ROM.	$32.
WHERE IN THE WORLD IS CARMEN SANDIEGO? JUNIOR DETECTIVE EDITION / BRODERBUND Younger-player version of the popular geography program, with characters from the TV series. CD-ROM.	$39.

DATA: EGGHEAD INC.

You'll find storybooks, painting programs, and easy games for the youngest set but much more for older kids

ks, painting programs, and
sy games. Children as
ung as age 3 can easily
rn to use a mouse, the nav-
tor of choice for these pro-
ams. Besides having the
ry read for them by your
mputer's sound system,
ldren can stop on each
e, clicking on every part
the picture to get wacky
unds and animation that
l keep them captivated.
The best storybooks are
m Living Books, a joint
nture between Broderbund
tware and Random House.
ke this year's *Ruff's Bone*
l Little Monster at School,
if you don't already have
classics *Just Grandma*
l Me and *The Tortoise and*
Hare, get them first.
f you hold off until mid-De-
nber, you should be able to
l a series of storybooks
m a new company, Active
agination, a subsidiary of
nputer maker Packard Bell
ectronics. Try *The Pirate*
o Wouldn't Wash or *The*
ends of Emily Culpepper.
They're not quite as rich as the Living Books series, but at less than $20, they're a real bargain. Packard Bell thoughtfully includes four- and eight-megabyte versions of each story on the same CD-ROM.

MAGIC BUS. That's not the case with *Freddi Fish and the Case of the Missing Kelp Seeds*. Perhaps the most appealing preschool game I've seen, Freddi and her buddy Luther can't help Grandma Grouper recover her kelp treasure without eight megabytes of memory. If you don't have it, go for earlier titles from the same company, Humongous Entertainment, such as *Putt-Putt Joins the Parade* and *Fatty Bear's Birthday Surprise*.

A more educational choice for the preschool set is *Jump-Start Kindergarten* from Knowledge Adventure. The program has 13 developmental activities, from sing-alongs to pattern matching to painting. Best of all, the program has a special adult section that keeps track of your child's progress. Or take a look at *Sammy's Science House* from Edmark, five programs that encourage early thinking about science, such as differences between plants and animals.

There's a wealth of educational programs geared for slightly older kids, aged 6 to 12, before they are teenagers and lost forever to Nintendo and Sega. Take Edmark's *Thinkin' Things Collection 2*, an innovative program available now on floppy disk, with the CD-ROM version out by February. The activities such as tonal memory exercises and rhythm training get progressively harder as your child masters them. *Thinkin' Things* also includes a paint program that lets kids map images into three dimensions.

Another intriguing paint program is Davidson's *Flying Colors*, which features color gradients that can simulate, say, running water. And there are all kinds of math programs, including *Counting on Frank* from EA*Kids, which is designed with girls in mind. Why? While boys may like shoot-'em-up games such as Davidson's *Math Blaster*, girls prefer to identify and learn with characters.

A couple of new anatomy programs are outstanding. *The Magic School Bus Explores the Human Body*, the first in a new series from Microsoft Home, is packed with everything from facts to games. And IVI Publishing's *AnnaTommy*, developed with the Mayo Clinic, will remind you of the movie *Fantastic Voyage*: Anna and Tommy travel through the body in a futuristic submarine injected into the body, picking up knowledge and playing games along the way.

REVIEW COPIES. Reference works and schoolwork tools always make good gifts for kids, though they're slightly more expensive than the edutainment programs. Microsoft's *Encarta '95* is as good an encyclopedia as you can get for any age. And check out two new titles aimed at slightly younger fry: *Merriam-Webster's Dictionary for Kids* from Mindscape and Knowledge Adventure's *The Random House Kid's Encyclopedia*. Good word processors for the junior set include the new CD-ROM version of Minnesota Educational Computing (MECC)'s classic *Storybook Weaver*, *Creative Writer* from Microsoft, and Learning Company's *Student Writing Center*.

Finally, if you're swamped by the selection, you can keep up by enrolling in Club KidSoft (800 354-6150) for $29.95 for four magazines, each with a CD-ROM that lets you try out new programs. Or subscribe to *Children's Software Revue* (313 480-0040) at $24 a year for bimonthly issues. It rates software six different ways, including ease of use, educational content, and value.

Either way, you'll get a leg up on giving your kids a leg up. And that's why you bought the computer in the first place, isn't it? *Larry Armstrong*

HOLIDAY GIFTS

CAMERAS

ZOOMING IN ON THE LATEST CROP OF CAMERAS

With its picture-postcard splendor, the Grand Canyon has been the subject of many spectacular photographs. Yet the canyon's panoramic scope often yields images that are ho-hum, if not downright wretched, when taken by unschooled shutterbugs using mediocre equipment. So it was that a pair of colleagues and I—not an Ansel Adams among us—set out to do photographic justice to the South Rim. Our mission: to test informally some of the camera gear that may be on shopping lists this season.

Indeed, buyers face a bevy of fine choices this year. Several new point-and-shoot and single-lens reflex (SLR) cameras are available from the likes of Canon, Konica, Minolta, Nikon, Olympus, Pentax, Ricoh, and Samsung. Consumers befuddled by all the choices may want to consult a good 1995 buying guide such as those from *Popular Photography* or *Petersen's Photographic Magazine* before shopping.

Compact 35mm cameras range in list price from about $20 for a fixed-focus model to more than $500 for a zoom version with lots of bells and whistles. But most models are heavily discounted. During our Grand Canyon test, we took along two pocket-size point-and-shoot cameras: a $530 Minolta Freedom Zoom 135EX with a zoom-lens range of 38mm to 135mm and a $325 Olympus Infinity Stylus Zoom (35mm to 70mm). We also took Canon's EOS Rebel XS, an SLR costing $670 with a 35mm-to-80mm lens. Our snap-happy fingers produced decent pictures with all three cameras, but fickle late-afternoon shadows contributed to a few duds as well. The Rebel produced the richest and sharpest pictures by far, although the camera is too bulky to fit in a pocket and required the most peeks at the manual.

But before choosing a camera, decide how much effort you really want to put into photography. Many point-and-shoot cameras feature wide-angle and telephoto zoom lenses that should more than satisfy novices who merely want to record where they were and who they were with. Such cameras have automatic film loading, advancing, and rewinding. The cameras can also detect what speed of film is inserted and set the shutter speed and lens aperture. When necessary, a flash pops up and fires.

Depending on their model, point-and-shoot photographers still have decisions to make. On Minolta's Freedom Zoom, for example, you can choose the best settings for night portraits, close-ups, and other scenes from a menu of programs.

POINT-AND-SHOOTS *(clockwise from above): Nikon Lite-Touch Zoom, Canon Sure Shot A-1, Olympus Stylus Zoom, Minolta Freedom Zoom 135EX*

NO SHAKES. Most point-and-shoots come with some sort of red-eye reduction system—to counteract the devilish, reddish stare that has ruined many flash pictures. This may be accomplished by firing up a preflash or turning on a spotlight to make your subject's pupils contract.

Parents who want to monitor the growth of their children may appreciate models that let them brand the date and time onto their pictures. This feature can be turned off, so as not to mar an otherwise unblemished view of Niagara Falls. Other cameras are weather-resistant. And the $310 Canon Sure Shot A-1 lets you take pictures underwater at depths up to 1[illegible] feet. Nikon's $495 Zoom-Touch 105VR QD is an autofocus 38mm-105mm camera with built-in vibration-reduction technology, to help neophytes eliminate the shakes.

One problem with point-and-shoots is that the viewfinder you peer into does not show quite the image the lens is framing. That can lead to chopped-off heads or off-center pictures. The $272 pa[illegible]-size Pentax UC-1, however, is a sleek, 5.4-ounce "spy" camera with an "actual-image" liquid-crystal-display viewfinder that helps the photographer compose the subject. The UC-1 also includes a midroll panorama view, which lets the photographer take normal pictures or switch to panorama mode on the same film roll.

Most serious hobbyists prefer SLRs. For one thing, the viewfinder displays exactly what the lens sees. And SLRs can handle a wide variety of interchangeable lenses from fish-eyes to supertelephotos. That is ideal for, say, bird-lovers seeking extreme close-ups of rare species. What's more, SLRs "have gotten just as automatic as point-and-shoots," says Bob Kaufman, owner of Kaufman Photographs & Camera Shop in Hamburg, N. Still, photographers can adjust the lens aperture and other settings manually.

Of course, a lens-filled camera bag may be a piece of luggage some folks would just as soon do without. Futz around too long finding the right lens, and the moment to zoom in on a bald eagle may disappear forever.

Edward B[illegible]

TOCKS AS TOCKING- TUFFERS

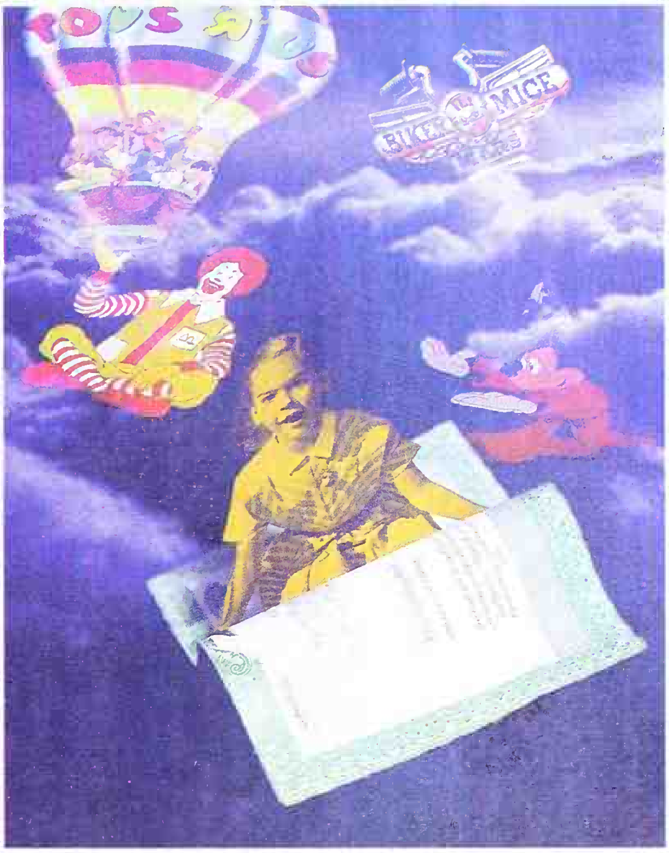
ı investment gift ight not make a year-old's face ght up Christmas rning the way Power Rang- figures would, but it will loubtedly mean more 10 ırs from now than any toy.

You don't have to give ɪusands to make a signifi- ıt contribution to a child's ure. Think of this: $250 ced 10 years ago in Twen- th Century's Giftrust In- stors, an aggressive-growth ıtual fund that can only be ed for gift-giving and re- ires a minimum 10-year in- stment, would be worth 295 as of Sept. 30. "The gic of starting early is un- lievable," says Charles rlson, a financial analyst l author.

Investing for kids also has x benefits. First, parents l grandparents can each e a child up to $10,000 a ar tax-free and reduce their xable estates. For children, e first $600 in unearned in- me is tax-free, and the next 00 is taxed at the child's te (usually 15%). Above 200, a child under age 14 ys the parent's rate. You ıst act as a custodian, or signate one, un- the child reach- age 18 or 21, pending on ur state's rules verning uniform gifts (or ansfers) to minors. Most nks, brokerages, and fund mpanies have free materi- s describing custodial MA/UTMA accounts.

HOLIDAY GIFTS
INVESTING

YS AND GUM. Financial en- ies are marketing to chil- en more and more, creat- g special programs to peal to kids. In May, Stein- e launched its Young In- stor Fund, which targets 65% of its portfolio to stocks that are familiar to kids or touch their lives, says co-manager Lawson Whitesides. Current holdings include McDonald's, Coca-Cola, and Duracell. A minimum $1,000 investment in a custodial account includes a quarterly newsletter, simplified prospectus, and coloring book (for kids age 7 and under). Since its inception, the fund has returned 6.3%, while the Standard & Poor's 500 has netted 4.5%.



If equities make you queasy, savings bonds may be appealing

Local banks also offer savings accounts for kids that usually come with minimum deposits of $1 to $10, no fees, and various incentives to save. Credit unions often waive minimum-balance requirements on children's savings accounts. KeyCorp's DinoSaver account includes activity books, an 800 line, and plastic toy dinosaurs to collect. "Grow'N Up Savings," from Interchange State Bank in Saddle Brook, N.J., comes with free gifts and an I.D. card. Plus, kids who refer a friend to the program get $1 deposited into their account.

But you don't need coloring books and newsletters to get a child excited about saving. You can pick an investment with educational value, then help the child follow its growth. Individual stocks may be easier for kids to relate to than mutual-fund shares. Like SteinRoe's fund, you should choose companies with products kids are interested in.

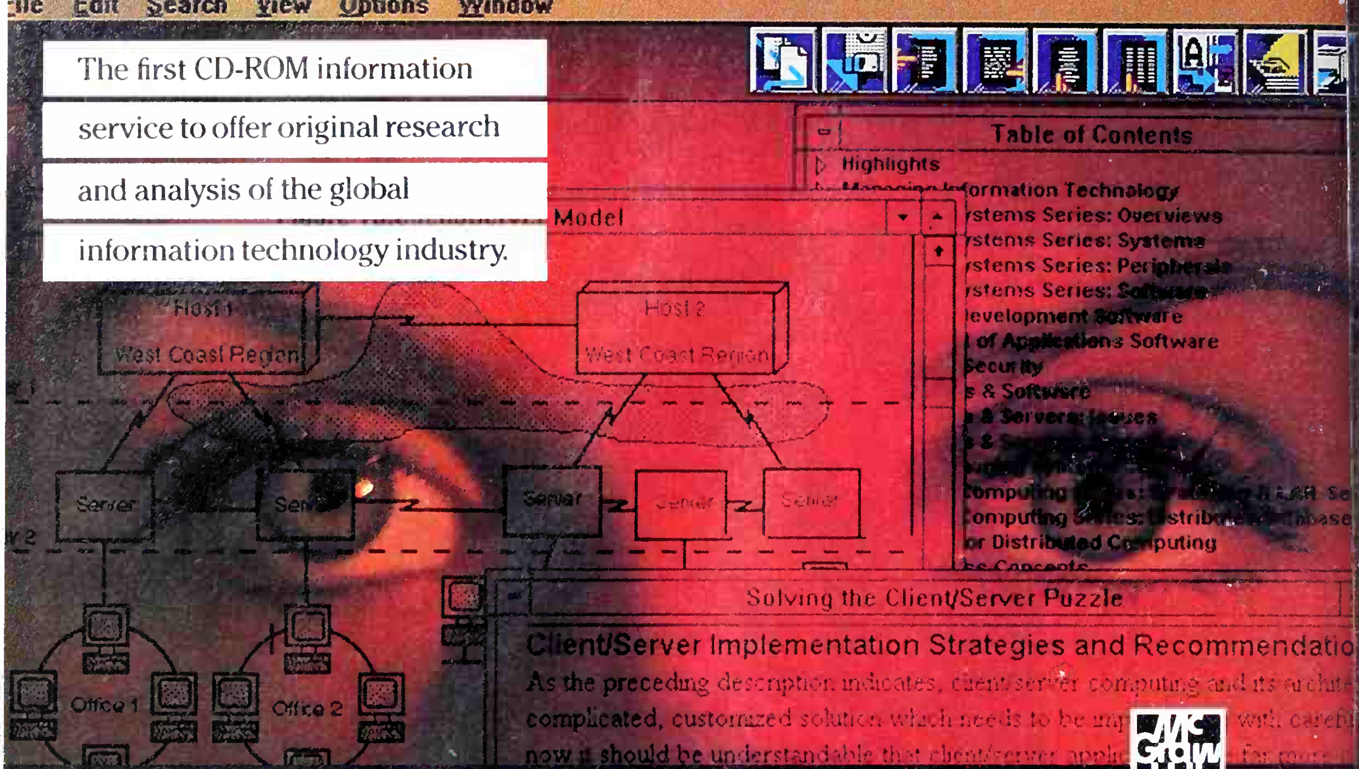
Many stocks give shareholders goodies—"one more thing that can make investing interesting for kids," says Carlson, who wrote *Free Lunch on Wall Street* (McGraw-Hill, $14.95). Walt Disney discounts memberships to the Magic Kingdom Club Gold Card Program; Wrigley sends 20 free packs of gum each year. Buying a few shares can be costly, but if you have a relationship with a broker, he or she may be willing to buy a share or two at a discounted commission. Look for dividend-reinvestment programs, which allow shareholders to buy additional stock commission-free.

BIG BANG. Mutual funds, which offer low-cost, simple investing and instant diversification, may be the easiest choice. Although most funds have minimum initial requirements of $1,000 to $2,500, many companies reduce them on custodial accounts. Vanguard lowers its threshold to $500, Strong and Janus to just $250. Check with fund companies to see what other provisions they make for gift-giving. At Franklin, you can buy gift certificates that allow the recipient to choose the fund. Strong will send a holiday card as notification of a gift.

If the child lacks any investments, pick a diversified growth fund. But if the child has other funds, consider taking a flier on something riskier, like an emerging-market fund or a sector fund with good long-term prospects, such as one investing in technology or health care.

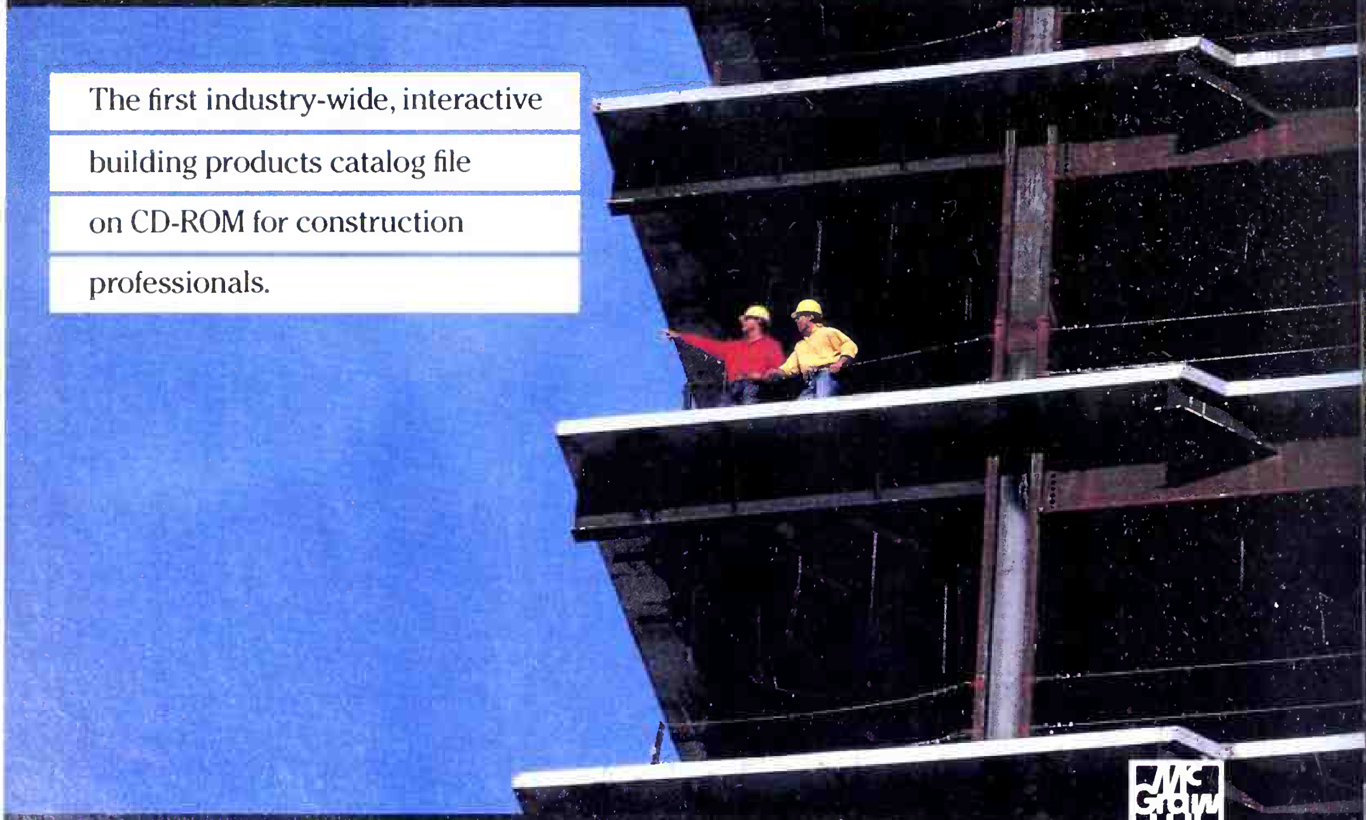
If equity investing makes you queasy and you really just want to help out with college tuition, U.S. savings bonds may be appealing. They come in denominations of $50 to $10,000, boast a floating rate with a minimum yield of 4% if held for at least five years, are free of local or state tax, and let investors defer federal tax. Zero-coupon bonds timed to mature around age 18 are another conservative college-planning option, as are Treasuries (five-year T-bonds yield about 7.75%). However, for the most educational bang for your buck, as well as the best long-term results, equities are probably the investment gift of choice for kids. *Amey Stone*

MIRIAM FISHMAN


File Edit Search View Options Window
Table of Contents
Highlights
Model
Host 1
West Coast Region
Host 2
West Coast Region
Server
Server
Server
Server
Server
Office 1
Office 2
Solving the Client/Server Puzzle

The first CD-ROM information service to offer original research and analysis of the global information technology industry.

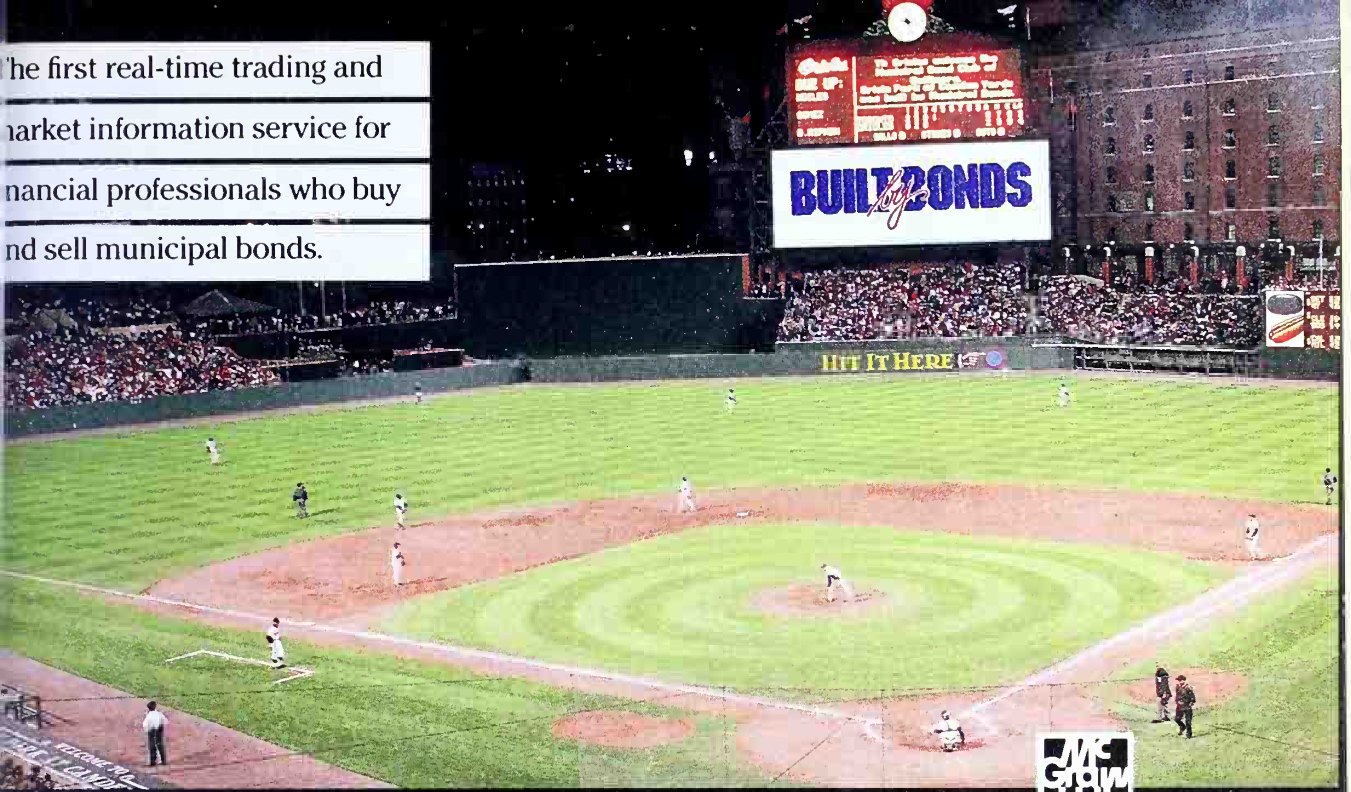
Datapro on CD-ROM



The first industry-wide, interactive building products catalog file on CD-ROM for construction professionals.

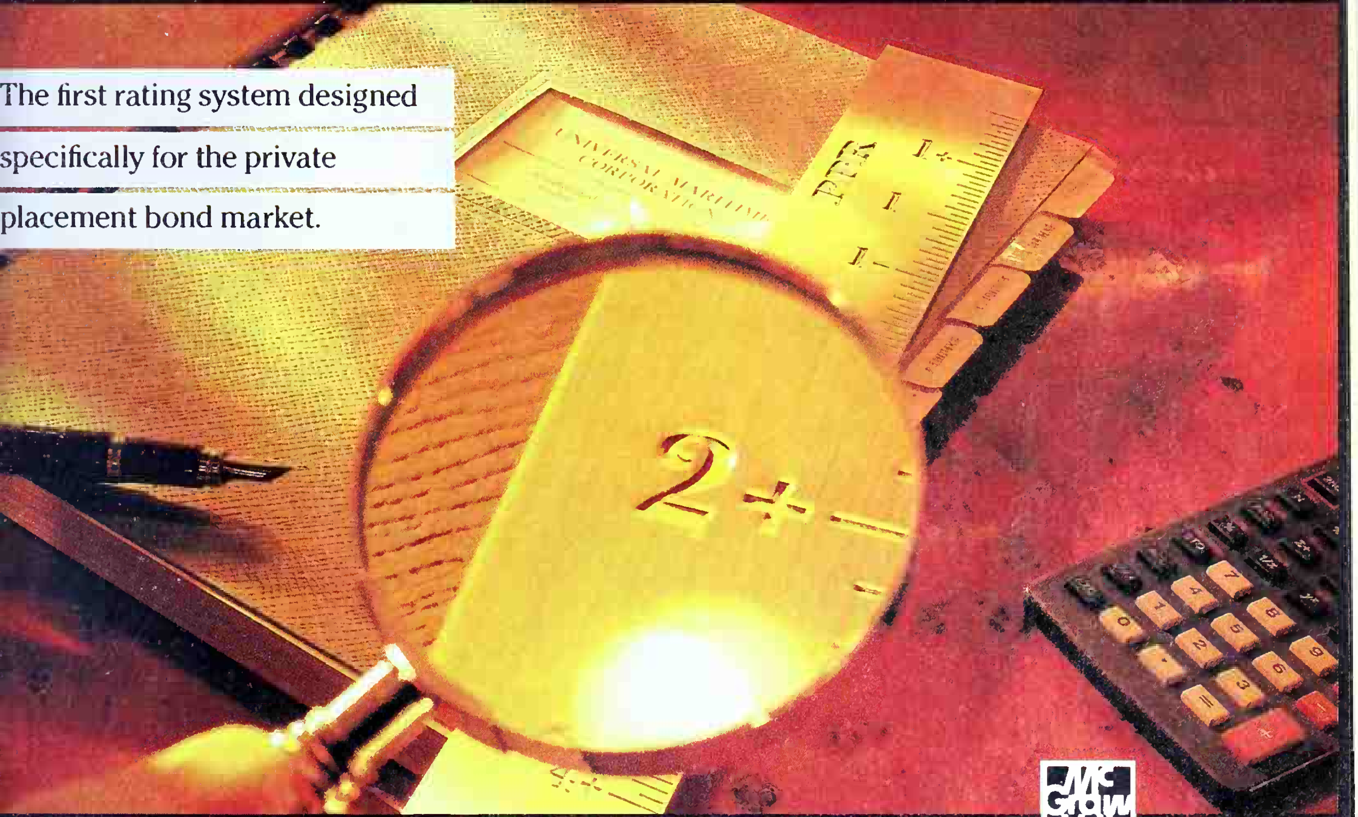
SweetSource

At McGraw-Hill, being first is almost second nature.


BUILT for BONDS
HIT IT HERE

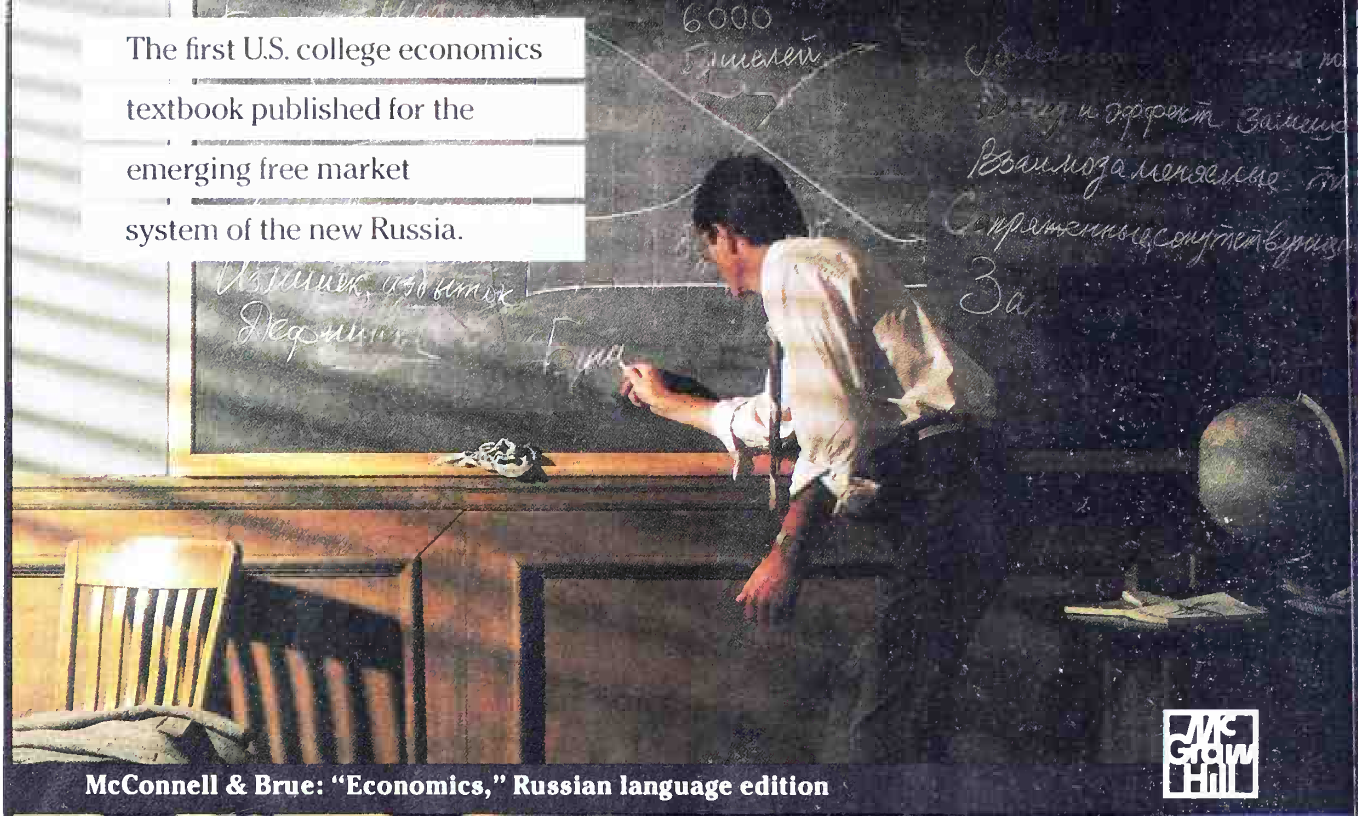
he first real-time trading and
arket information service for
nancial professionals who buy
nd sell municipal bonds.

Graw-Hill Municipal Screen

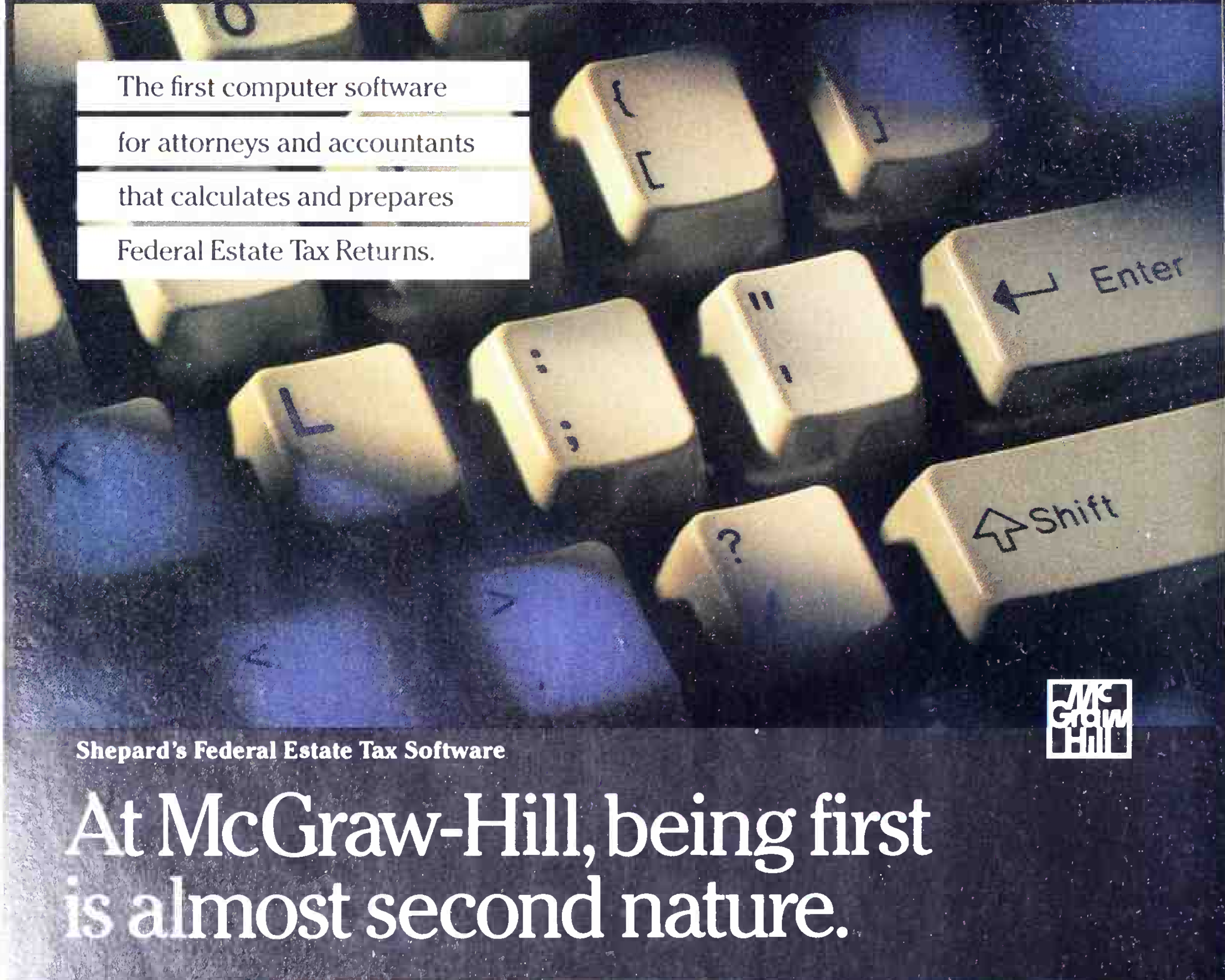

UNIVERSAL MARITIME CORPORATION
PTR
I+
I
I-
2+

The first rating system designed
specifically for the private
placement bond market.

ndard & Poor's Private Placement Ratings

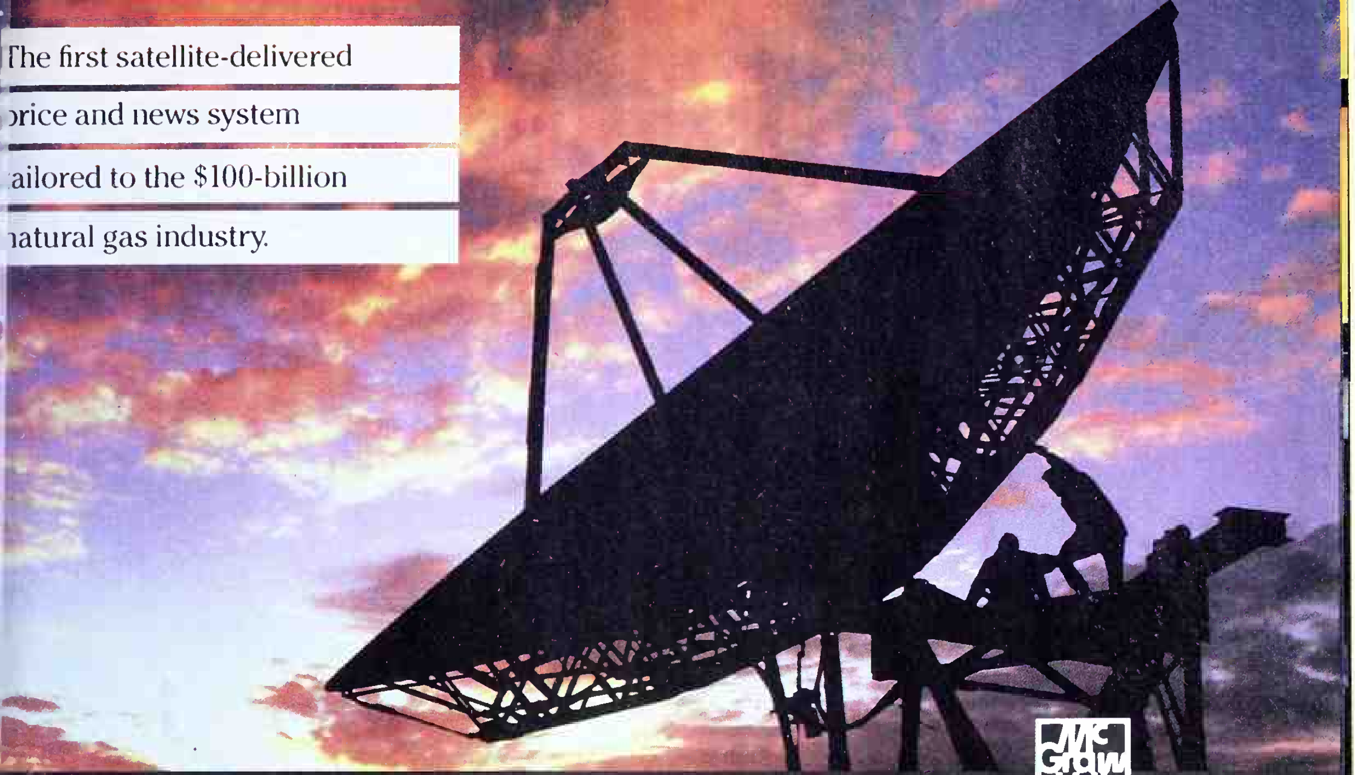

The first U.S. college economics
textbook published for the
emerging free market
system of the new Russia.

McConnell & Brue: "Economics," Russian language edition


The first computer software
for attorneys and accountants
that calculates and prepares
Federal Estate Tax Returns.

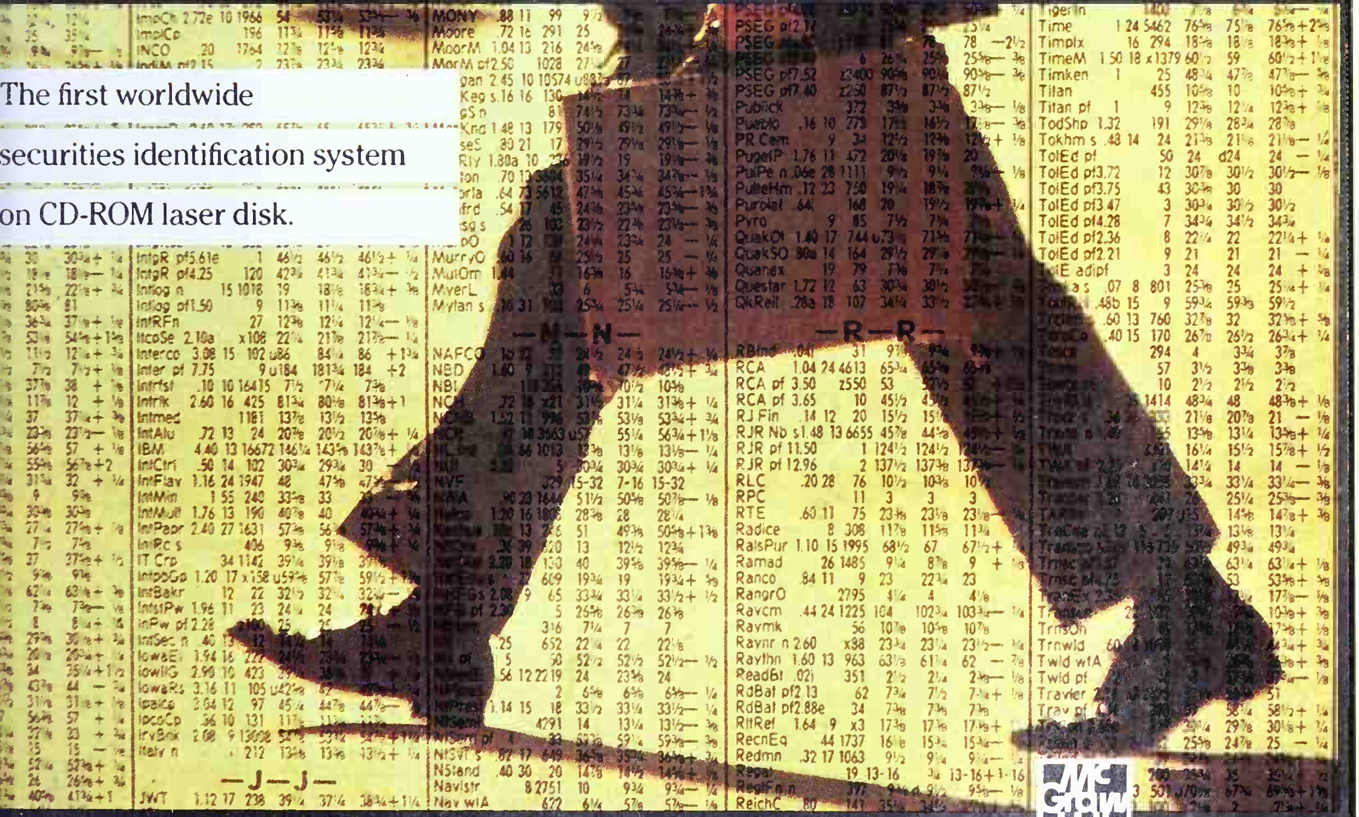
Shepard's Federal Estate Tax Software

At McGraw-Hill, being first
is almost second nature.



The first satellite-delivered
rice and news system
ailored to the $100-billion
atural gas industry.

ural Gas Alert

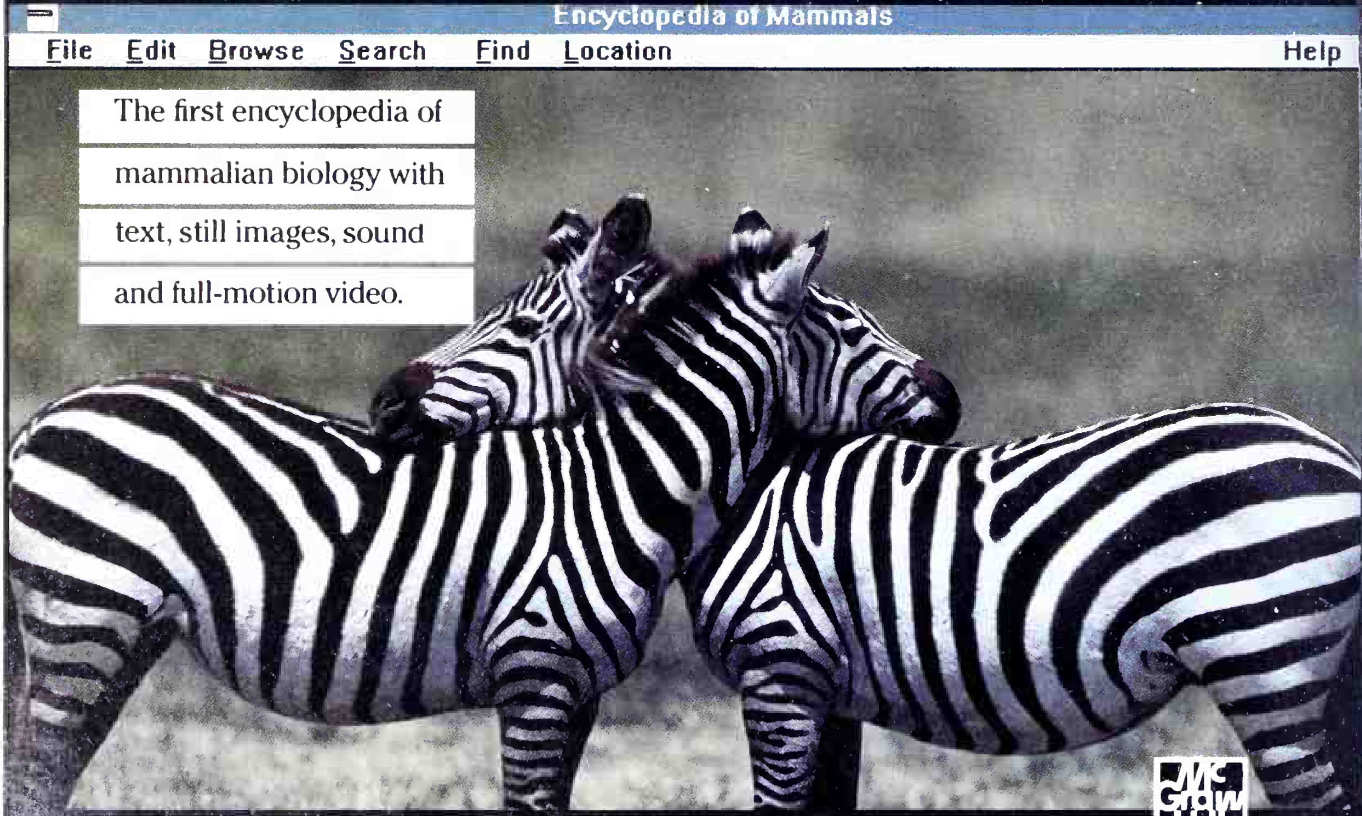


The first worldwide
securities identification system
on CD-ROM laser disk.

ndard & Poor's CUSIP ISID-CD

The first index to provide
a performance benchmark
for mid-capitalization stocks.

Standard & Poor's Mid-Cap 400 Index at Chicago Mercantile Exchange


Encyclopedia of Mammals
File
Edit
Browse
Search
Find
Location
Help
The first encyclopedia of
mammalian biology with
text, still images, sound
and full-motion video.

The Multimedia Encyclopedia of Mammalian Biology on CD-ROM

In print through books, magazines and newsletters • On-line over electronic networks • Over the air by television and satellite • On software, videotape, facsimile and compact disks.

McGraw-Hill provides information in many frequencies: instantly, daily, weekly, monthly, annually — to meet the growing and changing global needs of business, industry, education, the professions and government.

The first multimedia learning system integrated with a public television series for the study of Spanish.

STINOS: An Introduction to Spanish

企業
政府
億ドル
では、アジア
削減を通告
積極的取り組
M&A半減

The first real-time Japanese bond and money market analysis for financial professionals worldwide.

IS JAPAN from MMS International

At McGraw-Hill, being first is almost second nature.

AS YOU'RE READING THIS, 23 MILLION PEOPLE ARE STANDING BY FOR PAUL HARVEY.

WITH NUMBERS LIKE THAT, YOU CAN BET YOUR CUSTOMERS ARE LISTENING.

Each week, over 23 million* loyal listeners make an appointment to tune in to Paul Harvey News & Comment on over 1200 radio stations across the USA. He's the most listened-to broadcaster in the world.

Advertisers understand the power of Paul Harvey. Quite simply, he gets results. That's why he's virtually unchallenged as the most sought-after commercial spokesman in the medium.

Want proof? Just contact ABC Radio Networks at 212-456-1940. Or better yet, listen in. And make it 23 million and 1.

PAUL HARVEY NEWS & COMMENT & THE REST OF THE STORY

MORNING NEWS (M-F); MIDDAY (M-F); MIDDAY NEWS (SAT.)

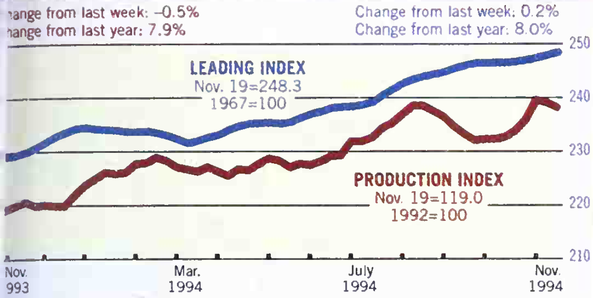
"THE REST OF THE STORY" (M-F AND SAT.)

abc ABC RADIO NETWORKS

* Radar 49, Vol. 3, SP '94. Persons 12+. Audience to commercials within programs

usiness Week Index

DUCTION AND LEADING INDEXES



ıdexes are 4-week moving averages

production index dipped during the week ended Nov. 19. Before calculation
e four-week moving average, the index was little changed at 116.2, from
. Increased rail-freight traffic and steel output offset declines in the seasonally
ed production of vehicles and electric power.

leading index rose for the week, but the unaveraged index was unchanged at
.. The growth rate for materials prices quickened, but business failures rose.

duction index copyright 1994 by McGraw-Hill Inc. BW leading index copyright 1994 by CIBCR

DING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
CK PRICES (11/25) S&P 500	452.65	464.34	–2.0
PORATE BOND YIELD, Aaa (11/25)	8.62%	8.70%	23.5
USTRIAL MATERIALS PRICES (11/25)	110.5	110.0	17.3
INESS FAILURES (11/18)	296	257	–16.6
L ESTATE LOANS (11/16) billions	$450.1	$449.7r	7.8
EY SUPPLY, M2 (11/14) billions	$3,552.9	$3,552.6r	0.7
IAL CLAIMS, UNEMPLOYMENT (11/12) thous.	326	333	–3.6

ces: Center for International Business Cycle Research (CIBCR), Standard &
s, Moody's, *Journal of Commerce* (index: 1980=100), Dun & Bradstreet (failures
ge companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on
ess failures and real estate loans.

EREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
ERAL FUNDS (11/29)	5.54%	5.49%	3.09%
MERCIAL PAPER (11/30) 3-month	6.05	5.89	3.44
TIFICATES OF DEPOSIT (11/30) 3-month	6.12	5.90	3.35
D MORTGAGE (11/25) 30-year	9.36	9.33	7.40
USTABLE MORTGAGE (11/25) one-year	6.36	6.33	4.30
IE (11/30)	8.50	8.50	6.00

ces: Federal Reserve, HSH Associates, Reuters Holdings PLC

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (11/26) thous. of net tons	1,991	1,908#	9.9
AUTOS (11/26) units	84,161	139,885r#	–0.6
TRUCKS (11/26) units	67,504	122,431r#	5.0
ELECTRIC POWER (11/26) millions of kilowatt-hrs.	55,475	56,067#	0.7
CRUDE-OIL REFINING (11/26) thous. of bbl./day	14,224	14,078#	4.6
COAL (11/19) thous. of net tons	20,146#	20,419	2.9
PAPERBOARD (11/19) thous. of tons	895.4#	878.8r	3.9
PAPER (11/19) thous. of tons	845.0#	833.0r	2.8
LUMBER (11/19) millions of ft.	506.2#	500.7	2.4
RAIL FREIGHT (11/19) billions of ton-miles	25.2#	25.0	5.4

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA¹, SFPA², Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (11/30) $/troy oz.	383.100	383.800	2.7
STEEL SCRAP (11/29) #1 heavy, $/ton	138.50	138.50	0.7
COPPER (11/26) ¢/lb.	137.5	136.8	73.0
ALUMINUM (11/26) ¢/lb.	96.0	92.0	88.2
COTTON (11/26) strict low middling 1-1/16 in., ¢/lb.	72.85	72.16	23.3
OIL (11/29) $/bbl.	17.97	17.48	17.1

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (11/30)	98.93	98.04	108.93
GERMAN MARK (11/30)	1.57	1.55	1.72
BRITISH POUND (11/30)	1.57	1.57	1.49
FRENCH FRANC (11/30)	5.38	5.33	5.93
ITALIAN LIRA (11/30)	1617.0	1604.7	1723.5
CANADIAN DOLLAR (11/30)	1.38	1.37	1.33
MEXICAN PESO (11/30)³	3.437	3.444	3.098

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense
ment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

HOME SALES

ay, Dec. 5, 10 a.m. ▶ Sales of new
-family homes likely fell in October to
nual rate of 685,000, says the median
ast of economists surveyed by MMS
national, a unit of McGraw-Hill Inc.
in September were 703,000. With
age rates up sharply from last year,
households can afford to buy a new
. Single-family housing starts fell
in October, and builders report weaker
traffic this autumn.

CLE SALES

ay, Dec. 5 ▶ Sales of U.S.-made cars
ght trucks were probably little
ged in November from October's annual rate of 13.1 million, says the MMS survey. Purchases of motor vehicles peaked in the first quarter. And some auto makers are starting to lower their production schedules. General Motors Corp., for instance, announced cuts in the January production of some Cadillac models.

INSTALLMENT CREDIT

Wednesday, Dec. 7 ▶ Consumers likely continued to take on more debt in October. The MMS economists project that installment credit grew an additional $10 billion during the month. That's on top of monthly increases averaging $10.9 billion over the past six months. In September, consumers added $10.6 billion in debt. Credit cards have always been convenient for big-ticket purchases, but households are now using credit cards for even small items, since plastic is accepted by so many more outlets, such as grocery stores and discount chains. In addition, card users can accumulate such perks as frequent-flier miles and rebates when they say: "Charge it."

UNEMPLOYMENT CLAIMS

Thursday, Dec. 8, 8:30 a.m. ▶ During the week ended Dec. 3, new claims for state unemployment benefits probably rose to about 350,000, up from 326,000 in the week ended Nov. 19. Filings typically increase in the week after a holiday, and state offices were closed on Nov. 24 for Thanksgiving.

Fidelity Investment Challenge
LEADERS
Week#1• Closing Values as of 11/18/94

Here are this weeks' leaders in the Fidelity Investment Challenge. On November 14, over 3,500 amateur investors began trading with a fictional $250,000 portfolio. Over the course of the next 2 months, they will buy, sell, or short sell any stock listed on the NYSE, AMEX, or OTC.

At the conclusion of the competition, February 10, 1995, the participant with the highest equity value will win a Eagle Vision TSi plus $2,000 in cash. Other participants will win cash. Fidelity OnLine Xpress℠ software and Market Master t-shirts for their performance.

THE TOP 30 AMATEUR INVESTORS

Rank	Investor	City, State	Equity Value
1	Calvin Causey	Garland, TX	$383,514
2	King Look	Parsippany NJ	$365,944
3	Marvin Miller	Sugarcreek, OH	$364.504
4	Antoinette Salinetro	Pittsburgh, PA	$321,697
5	Hal Rabin	Messa, AZ	$316,388
6	Richard Tierney	Pittsfield, MA	$310,329
7	David Evansen	Boca Raton, FL	$304,530
8	Benjamin Ridge	Ripley, MS	$302,709
9	Christopher Oully	Englewood, NJ	$299,677
10	John Calderone	Glenview, IL	$295,513
11	Maria Himmel	Boca Raton, FL	$291,641
12	Michael Fung	Oakland, CA	$289,919
13	Ronald Cleveland	Memphis, TN	$289,766
14	Percy Williams	Del Mar, CA	$288,815
15	Robert Fisher	Chelmsford, MA	$288,290
16	Robert Schwagerl	Syosset, NY	$287,076
17	John Corn	Memphis, TN	$282,127
18	Leo Schacht	Saugus, MA	$281,980
19	Arnold Bemben	Eatontown, NJ	$281,744
20	Roger Topp	Saint Louis, MO	$280,855
21	Eric Baird	New York, NY	$279,820
22	Michael Serezo	Augusta, GA	$279,034
23	Don Douglas	San Antonio, TX	$278,170
24	Jamie Weiss	Portsmouth, NH	$277,095
25	Ron Rodgers	Allen, TX	$277,044
26	Carlena Fransen	Prescott, AZ	$276,629
27	Thathanh Pham	San Jose, CA	$276,505
28	Michael Filipkowski	Moosic, PA	$274,781
29	Jay M. Plisco	Cold Spring Harbor, NY	$274,027
30	Arco Vanantwerpen	Edmund, OK	$271,479

THE COMPETITION UP CLOSE

Average Portfolio Value	$249,084
Average Percentage Increase	-.37%
Average Number of Trades Used	15
Portfolio Value of the 100th Ranked Account	$257,569

The Fidelity Investment Challenge is Sponsored By
Fidelity Investments
With Special Thanks To
EAGLE

For information on upcoming Fidelity Challenges, call
1 800 545.8808 Ext.57

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A
Abbott Laboratories 95
Active Imagination 112
Alamo 44
Amblin Entertainment 36
American Express 42, 68
American Water 39
Ameritech 107
Andersen Consulting 42
Apple Computer 106
Aramis 8
Astec 56
AST Research 56
AT&T 56, 84, 107
Avis 44

B
Bank of America 15
Barclays de Zoete Wedd 58
Bear Stearns 43, 100
Bell Atlantic 36
BIS Strategic Decisions 106
Bloomingdale's 42
Blue Cross/Blue Shield of Michigan 39
Booz, Allen & Hamilton 68
Brach & Brock Confections 70
British Sky Broadcasting 90
Broderbund Software 112

C
California Private Transportation 39
Canon 114
Capital/Cities ABC 36
Cardinal Health 84
Castle Rock Entertainment36
CBS 90
CC Pollen 96
Centex Telemanagement 107
CFE 63
Chevy Chase Federal Savings Bank 92
Chrysler 58
CIBA-Vision 105
Citicorp 15
C.J. Lawrence 107
Coca-Cola 66, 68, 115
Colorado National Bankshares 70
Comcast 107
Compaq Computer 22, 106
CompUSA 106
Converse 86
Corning 105
Corrections Corp. 39
Cott 66
Cox 107

D
Daewoo 58
DeBeers 50
Dell 22, 86, 106
Digital Equipment 106
Donaldson, Lufkin & Jenrette 66
Donna Karan 8
Dow Chemical 102
DRI/McGraw-Hill 42
Duracell 115

E
Eastman Kodak 53
Edmark 112
Enterprise Rent-A-Car 44
Exxon 84

F
Federal Express 39
Fidelity Investments 115
Fiscal Associates 40
Ford 58
Fox 36
Franklin Electric 84

G
Gap 56
Gartner Group 106
GE 50, 68, 84
Giant Food 42
Giftrust Investors 115
GM 86, 95
Goldman Sachs 43, 100
Growth-Link Overseas 56

H
HealthCare Fraud Prevention 10
Hertz 44
Hewlett-Packard 53, 106
Hill & Barlow 92
Home Box Office 84, 90
Honda 58
Humongous Entertainment 112
Hyde Athletic 86
Hyundai 58

I
IBM 22, 53, 63, 106
Intel 22
Interchange State Bank 115
International Management Group 90
Internet 8
Isuzu 58
Itochu 84
Ito Yokado 66
ITT 68

J
John Labatt 66
John Sibbald Associates 68
Joseph E. Seagram & Sons 68
Josephthal, Lyon & Ross 66
J.P. Morgan 30, 56
J. Sainsbury 66

K
Kaman Sciences 105
Kansas City Southern Industries 70
Kaufman Photographs & Camera Shop 114
KeyCorp 115
Kia Motors 58
Kmart 56
Knowledge Adventure 112
Konica 114
Kroger 42

L
Laurence Meyer & Associates 40
Learning Company 112
Lehman Brothers 40, 90, 100
Living Books 112
Loblaw 66
Lomak Petroleum 70

M
Marshalls 43
MasterCard 42
Mattel 68
Mazda 58
McDonald's 66, 115
McGraw-Hill 56
Medallion Investment Management 84
Medtronic 68
Megahertz 70
Merck 68
Merrill Lynch 70
MFS Communications 107
Microsoft 36, 63, 112
MidSouth 70
Milton Bradley 56
Minolta 114
Mitsubishi Bank 33
Moody's Investors Service 40
Morrison Knudsen 107
MXC Crown 56

N
NBC 36, 90
New Balance 86
New Line Cinema 36
News Corp. 90
NFL 90
NHL 90
Nike 56, 86
Nikon 114
Nordstrom 42
Nynex 36

O
Odd-Job Trading 56
Oil Dynamics 84
Olivetti 106
Olympus 114
Oppenheimer Management 70
Owens-Corning Fiberglas 50

P
Pacific Telesis 36
Packard Bell 22, 112
Paramount Communications 36
Paul Kagan & Associates 90
Paul Schulman 90
PC Warehouse 106
Pemex 63
Pentax 114
PepsiCo 66, 68
Peter Kiewit Sons 107
PGA 90
Price/Costco 42
Procter & Gamble 106
Putnam Investments 43

Q
Quadra Logic Technologies 105

R
Random House 112
Raznoimport 100
Red Eagle Resources 70
Regional Financial Associates 30, 42
Rent-A-Wreck 44
Ricoh 114
R.J. Reynolds Tobacco 6
RJR Nabisco 68
Robinson-Humphre
Rural/Metro 39

S
Safeway 66
Samsung 114
Schreiber Grana & Yonley 10
Seiden Associates
Shikiar Asset Management 84
Sony 56
Spencer Stuart 68
Sprint 107
Star TV 90
SteinRoe 115
Styles on Video 84
SunAmerica 84

T
Tandy 106
Tele-Communications 3 107
Teleport Communications 1
Telstra 90
Texas Instruments
Thomas James Associates 84
Thomson Financial Services 70
Time Warner 15, 70
TJ Maxx Stores 43
TJX 43
Toshiba 84, 106
Tower Group International 56
Toyota 58, 86
Toys 'R' Us 41, 56
Trans World International 90
Turner Broadcasting
Twentieth Century 1

U
United Airlines 42
Universal Pictures 3
UPS 39
U.S. Robotics 70
U S West 84

V
Vertex Pharmaceuticals 1
Viacom 84
Virgin Group 66
Visa USA 42
Vobis Microcompute

W
Wal-Mart 42, 56, 66
Walt Disney 36, 68, 115
Warner Bros. 36
Wegman's Food Markets 66
Wertheim Schroder

X
Xerox 15, 68

Y
Yankee Group 107
Yankelovich Partners
Young & Riley 6
Young Investor Fund

Z
Zenith Data Systems

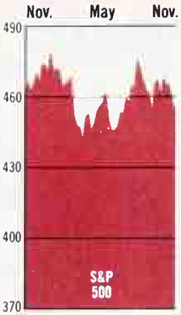
Business Week (ISSN 0007-7135) published weekly, except for one issue in January, by McGraw-Hill Inc. Executive, Editorial, Circulatio
Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate $46.95/year; Canada: CDN $69/year. S
class postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publicatio
Product Sales Agreement No. 246484. Postmaster: Send address changes to BUSINESS WEEK. P.O. Box 430, Hightstown, N.J. 0

vestment Figures of the Week

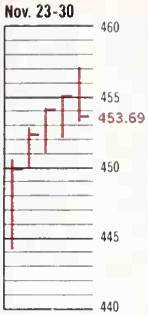
ITARY

market regained some of sure after its 92-point Nov. 22. Investors gave market gains on Friday ay, but saw the fun halted t two trading sessions, market treaded water. Mo- illers included comments ral Reserve official about mely strong" economy, an-expected consumer con- vels, and robust holiday re- . The yield on the long bond week a shade under 8%.

STOCKS

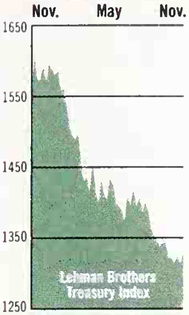


52-week change
−1.8%

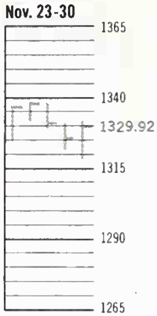


1-week change
+0.8%

BONDS

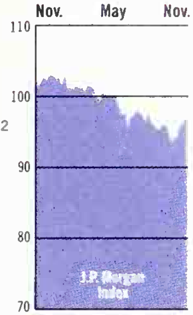


52-week change
−16.0%

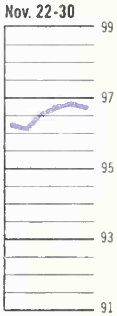


1-week change
+0.4%

THE DOLLAR



52-week change
−5.5%



1-week change
+0.5%

KET ANALYSIS

CKS	Latest	% change Week	52-week
ES INDUSTRIALS	3739.2	1.7	1.1
COMPANIES (S&P MidCap Index)	168.2	1.3	−3.2
MPANIES (Russell 2000)	244.3	0.8	−3.3
ANIES (Russell 3000)	260.1	0.9	−2.3

STOCKS	Latest	% change (local currency) Week	52-week
FINANCIAL TIMES 100)	3081.4	0.1	−4.7
KKEI INDEX)	19,075.6	0.6	11.4
(TSE COMPOSITE)	4093.4	0.9	−3.0

FUNDAMENTALS	Latest	Week Ago	Year ago
90-DAY TREASURY BILL YIELD	5.71%	5.43%	3.18%
30-YEAR TREASURY BOND YIELD	7.99%	8.04%	6.26%
S&P 500 DIVIDEND YIELD	2.83%	2.85%	2.73%
S&P 500 PRICE/EARNINGS RATIO	16.6	16.5	22.5

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	459.0	459.4	Negative
Stocks above 200-day moving average	25.0%	24.0%r	Positive
Speculative sentiment: Put/call ratio	0.82	0.83 r	Positive
Insider sentiment: Vickers sell/buy ratio	1.30	1.29	Positive

BLOOMBERG FINANCIAL MARKETS

STRY GROUPS

EEK LEADERS	% change 4-week	52-week	Strongest stock in group	% change 4-week	52-week	Price
ALTY APPAREL RETAILERS	6.5	−19.2	GAP	9.1	−6.8	36 1/8
TAINMENT	3.4	−5.2	WALT DISNEY	10.3	13.5	44 1/8
WHOLESALERS	3.0	3.5	SYSCO	4.6	−8.8	25 7/8
NAL LOANS	2.6	4.2	HOUSEHOLD INTERNATIONAL	8.5	7.3	38 1/2
S	2.6	11.5	SCHERING-PLOUGH	4.9	10.8	74 3/8

EEK LAGGARDS	% change 4-week	52-week	Weakest stock in group	% change 4-week	52-week	Price
EERING AND CONSTRUCTION	−14.2	−8.4	FOSTER WHEELER	−21.7	−18.1	28 3/8
PLORATION AND PRODUCTION	−14.2	−22.0	MAXUS ENERGY	−18.4	−31.1	3 7/8
INE TOOLS	−13.6	−15.8	CINCINNATI MILACRON	−16.0	13.6	23
TION CONTROL	−13.3	−2.2	BROWNING-FERRIS INDUSTRIES	−16.3	4.5	26 3/8
FACTURED HOUSING	−12.3	−18.0	FLEETWOOD ENTERPRISES	−13.5	−15.9	19 1/4

UAL FUNDS

MORNINGSTAR INC

S

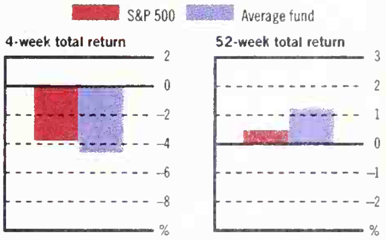
k total return	%
URSA	5.2
T SMALLER COMPANIES	2.7
US STRATEGIC GROWTH	1.7

total return	%
MAN COMMUNICATIONS & INFORM. A	41.4
T SMALLER COMPANIES	29.6
TY SELECT MEDICAL DELIVERY	27.9

LAGGARDS

Four-week total return	%
LEXINGTON STRATEGIC INVESTMENTS	−15.0
MONITREND GOLD	−13.2
STEADMAN AMERICAN INDUSTRY	−12.7

52-week total return	%
MONITREND GOLD	−50.7
STEADMAN AMERICAN INDUSTRY	−34.2
AMERICAN HERITAGE	−33.4



ATIVE PORTFOLIOS

DRI/McGRAW-HILL

nounts represent the value of $10,000 one year ago portfolio

ages indicate total returns

Foreign stocks	Money market fund	Gold	U.S. stocks	Treasury bonds
$11,439	$10,470	$10,228	$10,137	$8,747
−0.70%	+0.39%	−0.16%	−0.68%	+0.92%

n this page are as of market close Wednesday, Nov. 30, 1994, unless otherwise in- dustry groups include S&P 500 companies only; performance and share prices are as of market close Nov. 29. Mutual fund returns are as of Nov. 25. Relative portfolios are valued as of Nov. 29. A more detailed explanation of this page is available on request. r=revised

IS 'DYNAMIC SCORING' JUST VOODOO ECONOMICS?

"Dynamic scoring" is the fashionable economic idea of the moment (page 40). As an intellectual concept in the growing debate over tax cuts, it is compelling. As a political weapon, it is powerful. But as a fiscal measure, it may be the most dangerous thing to hit Washington since politicians discovered how to print money.

Dynamic scoring states simply that cutting taxes has a real impact on both individual economic behavior and macroeconomic growth. Cutting taxes tends to generate more economic activity and thus more tax revenues. In contrast, static analysis of tax policy posits no change in macroeconomic activity when taxes are cut. During the Bush and Clinton Administrations, the Treasury operated under essentially static assumptions. The new Republican majority in the Congress wants to shift to dynamic scoring.

The budgetary implications of the tax debate are clear and momentous: If dynamic scoring works, tax cuts may pay for themselves. Taxes can be cut without damaging the budget, even if government spending remains high. In fact, the deficit can actually be reduced. A capital-gains tax cut from 28% to 14%, for example, would cost about $56 billion over five years but would, by one dynamic scoring estimate, boost government revenues by $126 billion by the year 2000. If static analysis works, however, then the $56 billion loss is a real hit on the deficit. This makes dynamic scoring appealing. However, there are big analytical problems. No one knows how much economic activity is generated by each $1 cut in taxes. Does a $1 cut in taxes produce $1.00, 50¢, 5¢, or zip in additional tax revenues?

One huge uncertainty is the global economy. A cut in U. S. taxes puts cash directly into the hands of Americans, but they are certain to spend a considerable portion of it or ports—toys, VCRs, cars, or personal computers. That doesn't go into the domestic economy or boost tax reven Sure, foreign demand for American goods may rise, boos domestic growth and tax revenues. But this is so indirect, does it get measured? Nobody knows.

Two things are clear. First, tax and spend is bad, but and spend is foolhardy. Throughout the '80s, politicians sh a shallow disregard for fiscal discipline. The deficit explo America became a debtor nation, and the bond vigilantes came a force to be reckoned with. They already sniff the sibility of deja voodoo economics adding inflationary p sures to an economy growing at about 4% a year.

Second, the whole point of cutting taxes is to shrink the of government, not to maintain it. The Newt Gingrich Rep licans are being hoisted on their own intellectual petard by voring dynamic analysis in the tax-cut debate. Their appro encourages big-government programs and pretends no on paying for them.

We prefer pay as you go. It's probably true that big tax generate some offsetting revenues because of econo change. In a complex global economy, however, dynamic a ysis cannot accurately predict the amount of the gain. At moment, Congress is bound by law to cut a dollar's wort spending for every dollar in tax cuts. That's a discipline w keeping until Washington shows the citizenry that it has self-control to be trusted with discretionary spending. I ture tax cuts generate surprising new revenues, call it a nus, and use it to pay down the federal debt. The de might even disappear in our lifetime. Now, that's a goal w fighting for.

WANTED: CLEARER LAWS ON INSIDER TRADING

Can it be coincidence? A BUSINESS WEEK analysis of 100 of the largest 1994 merger or takeover deals shows that 34 were preceded by unexplained stock-price runups or volume surges—the telltale signs of insider trading (page 70). Nearly a decade after the Wall Street scandals, insider trading appears to be alive and well, active not in the screaming trading rooms of Manhattan but on the quiet streets of Middle America.

Today, inside traders are likely to be corporate executives and their friends and relatives. There is good reason for the change in venue. A 1988 law made brokerages liable in some cases for their employees' insider trading. Wall Street cracked down and that—plus the image of "masters of the universe" being led off in handcuffs—changed the risk-reward ratio in the minds of most investment bankers and brokers.

But corporate officials, their friends and kin, haven't gotten the message. For them, the risk-reward ratio continues to make insider trading tempting. One reason is that ther no specific law on the books against trading on inside infor tion. Indeed, the whole concept of insider trading is mur

Chances are, most people trading on inside informat know full well that they are breaking the law. But the gove ment has been defeated in court by a broker who got t from a relative of a corporate titan and by an analyst who inside dope from someone trying to expose corporate fra Apparently, neither case involved information that was s len or violated company policies, either of which can get y in trouble.

Congress could help by drafting explicit legislation t states what is legal and what is not. And the Securities & E change Commission, which has favored vagueness over sp ificity in the past, should back the legislative effort. Invest rightly demand fairness in the markets, and that means cl rules of the game that stop trading on inside informati

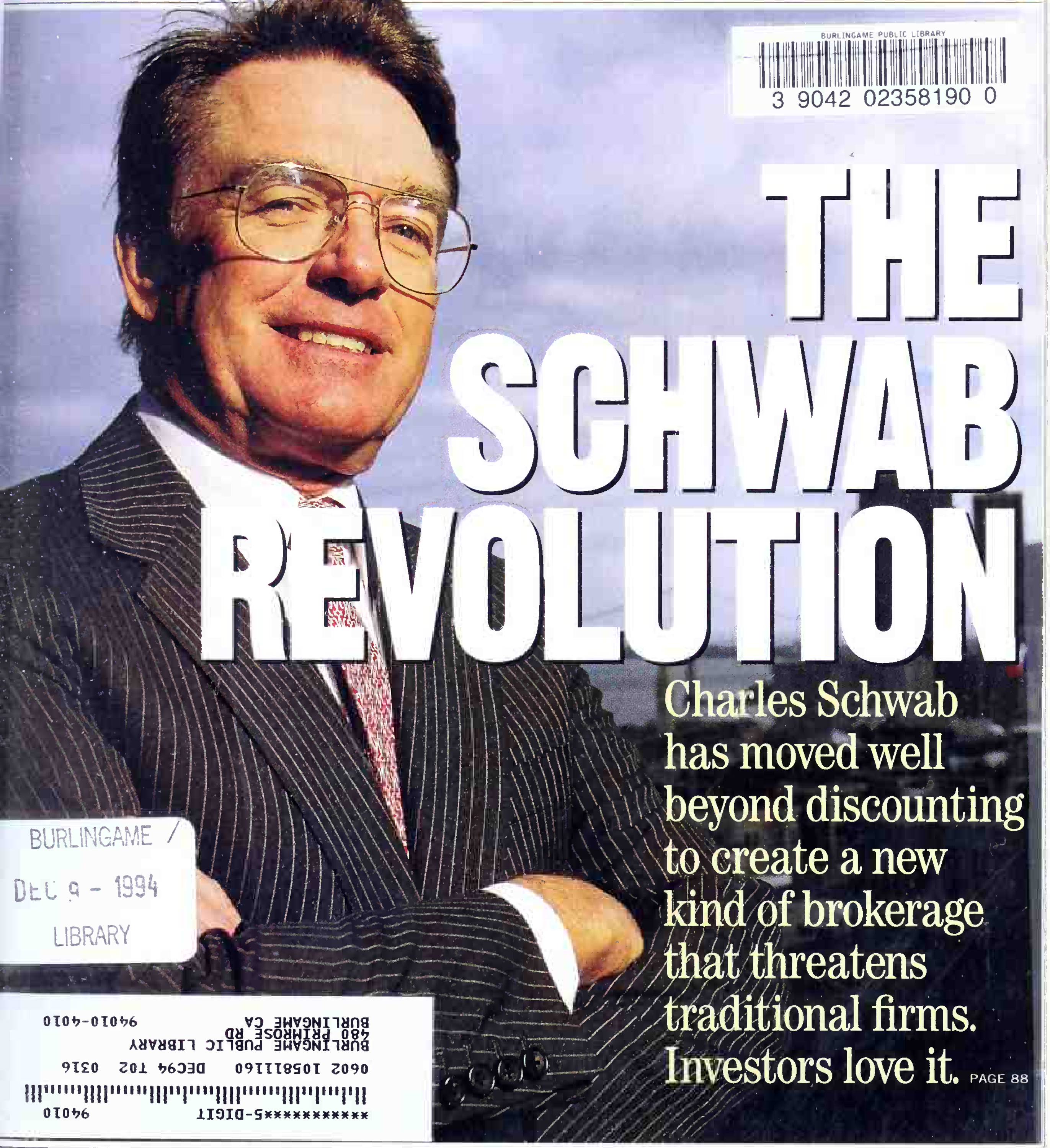
IOS GONE TOO FAR? INVESTIGATIONS BAD NUMBERS ECONOMICS NEW TEAM

INESS WEEK
4 December 19

BusinessWeek

CEMBER 19, 1994 A McGRAW-HILL PUBLICATION / $2.95

BURLINGAME PUBLIC LIBRARY
3 9042 02358190 0

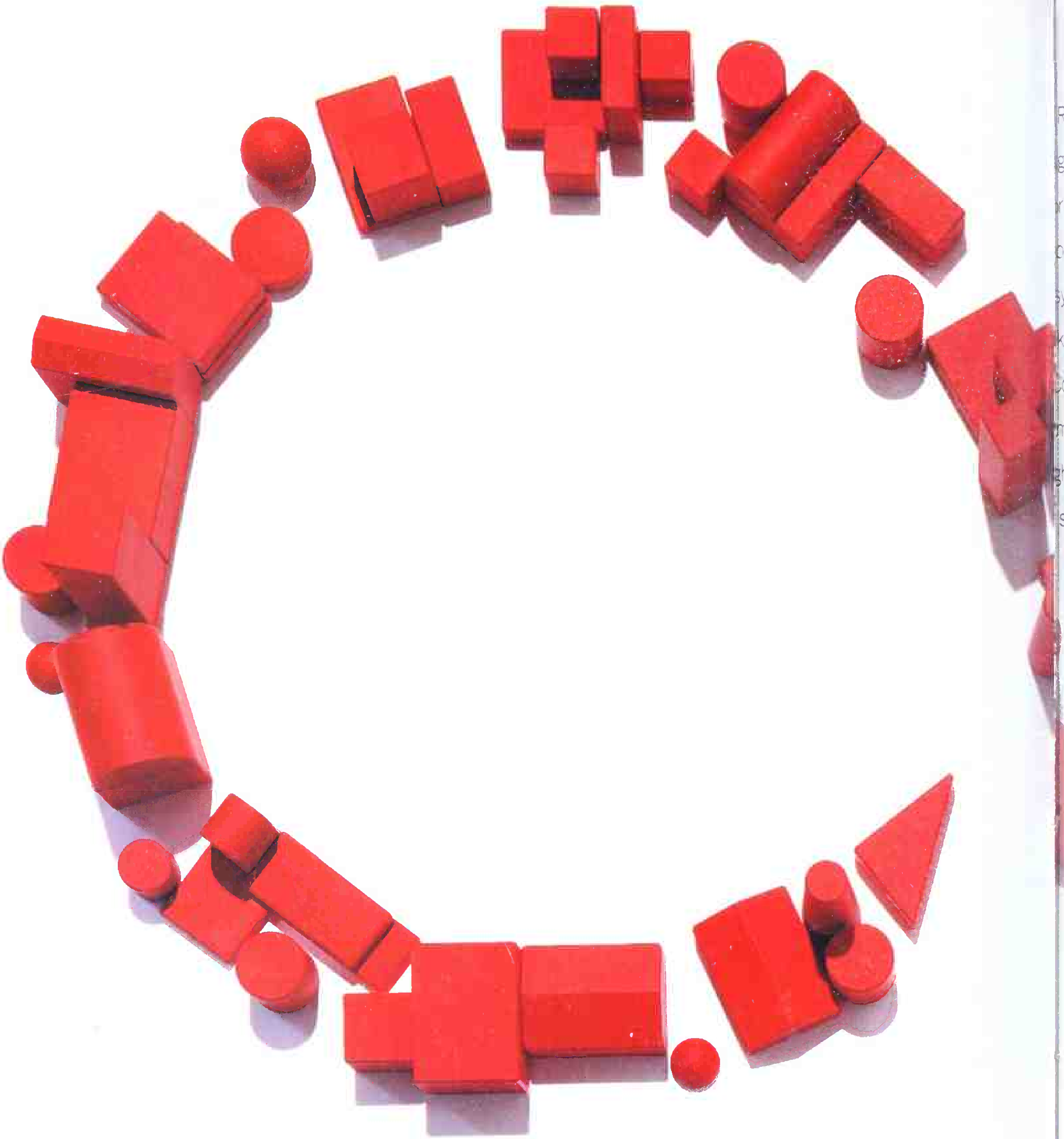


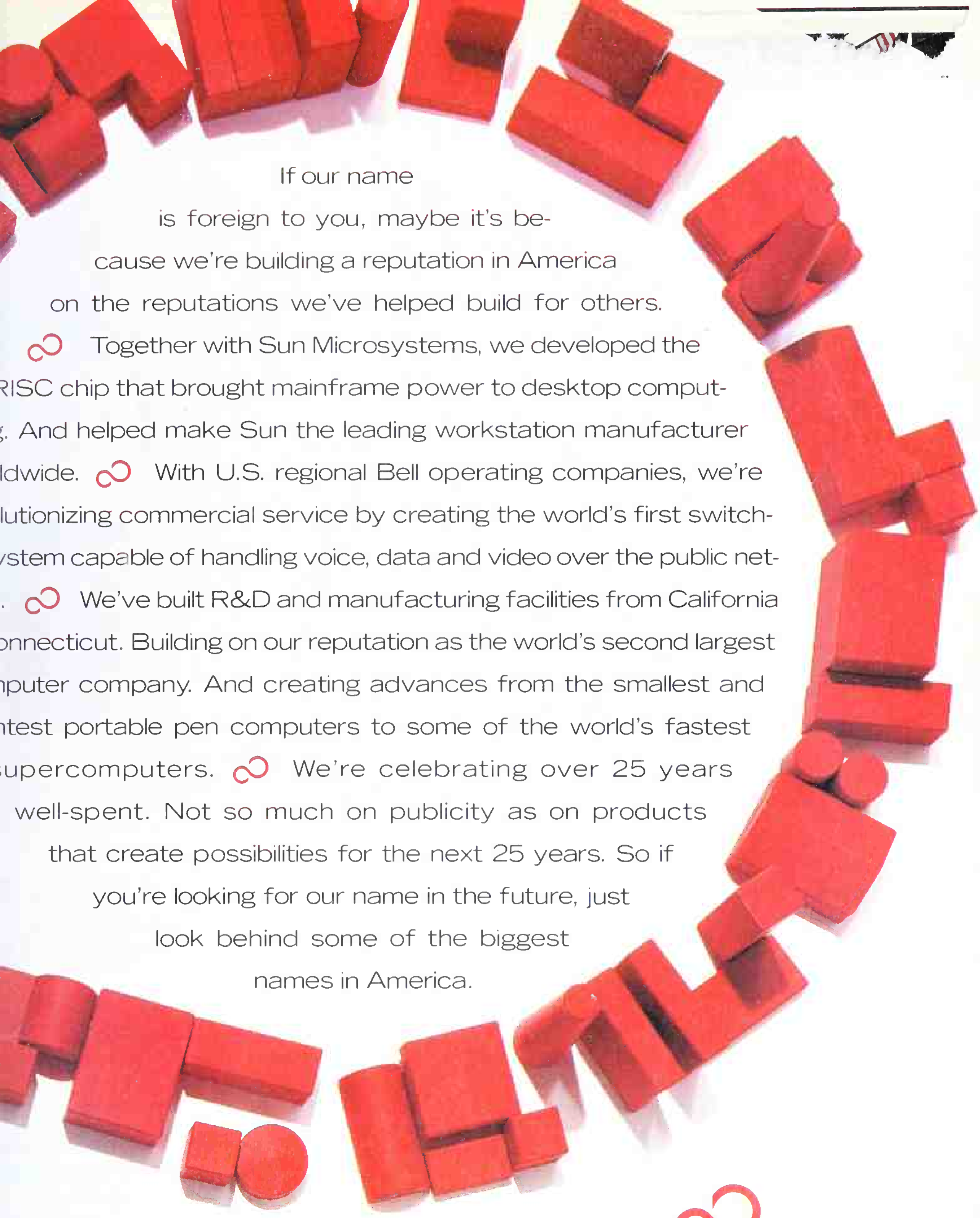
THE SCHWAB REVOLUTION

Charles Schwab has moved well beyond discounting to create a new kind of brokerage that threatens traditional firms. Investors love it. PAGE 88

BURLINGAME
DEC 9 - 1994
LIBRARY

***********5-DIGIT 94010
0602 10581160 DEC94 T02 0316
BURLINGAME PUBLIC LIBRARY
480 PRIMROSE RD
BURLINGAME CA 94010-4010





If our name
is foreign to you, maybe it's because we're building a reputation in America
on the reputations we've helped build for others.
∞ Together with Sun Microsystems, we developed the
RISC chip that brought mainframe power to desktop comput-
. And helped make Sun the leading workstation manufacturer
ldwide. ∞ With U.S. regional Bell operating companies, we're
lutionizing commercial service by creating the world's first switch-
ystem capable of handling voice, data and video over the public net-
. ∞ We've built R&D and manufacturing facilities from California
onnecticut. Building on our reputation as the world's second largest
nputer company. And creating advances from the smallest and
ntest portable pen computers to some of the world's fastest
upercomputers. ∞ We're celebrating over 25 years
well-spent. Not so much on publicity as on products
that create possibilities for the next 25 years. So if
you're looking for our name in the future, just
look behind some of the biggest
names in America.

FUJITSU

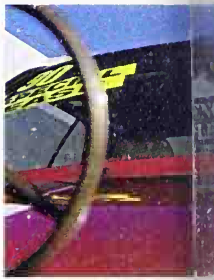
COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

BusinessWeek
DECEMBER 19, 1994

COVER ST

SCHWAB VI
Billions are p
into the disc
broker, which
customers w
radical appr
High-tech, lo
no-pressure
page 88

(Left) Dawn G. Lepore, Chi
Officer, Charles Schwab Co



Cover Story

88 THE SCHWAB REVOLUTION
Brokerage Charles Schwab has startled Wall Street with the huge success of its no-frills customer service and innovative investment programs, ranging from no-fee mutual funds to computerized stock trading. As Schwab rakes in assets, its stock sits pretty, and rivals are awakening to an altered landscape

98 HOW SCHWAB SEES IT
The brokerage boss's unique perspective

News: Analysis & Commentary

28 MUNICIPAL MELTDOWN
Orange County's bankruptcy has bond dealers skittish over other holdings

30 "PUSHING THE ENVELOPE"
How Orange County Treasurer Bob Citron generated those stellar returns

31 GUNS, SOLDIERS, OR BUTTER?
The Pentagon may have the troops—but not the next generation of weapons

32 BENTSEN OUT, RUBIN IN
Is Treasury Secretary Bentsen passing Bob Rubin a torch—or a hot potato?

33 COMMENTARY
The unkindest cuts facing deficit slashers: Entitlements

34 THIS DIAMOND CASE WAS FLAWED
Why the Feds couldn't prove their charges against General Electric

35 MIFFED AT MICROSOFT, PART II
Rivals and PC customers wonder: What consent decree?

36 NOW, IT'S C. EVERETT KOOP INC.
The ex-Surgeon General has teamed up with Time Life and others to become a health-education conglomerate

38 BUSINESS WEEK/HARRIS POLL
Sports fans have a few messages for owners, players, and Corporate America

42 IN BUSINESS THIS WEEK
Fidelity's red face, CNA buys Continental, Lands' End, Nucor, oil to the Queen, Northland Cranberries

International Business

50 CHINA
Why so many of those sweet deals foreigners thought they had in place are going sour

52 COMMENTARY
GATT: Tales from the dark side clo
bright hour for free trade

53 INTERNATIONAL OUTLOOK
Ichiro Ozawa: The shadow warrio
could soon be boss in Japan

Economic Analysis

21 ECONOMIC VIEWPOINT
Kuttner: The capital-gains-tax de
could play right into Clinton's han

24 ECONOMIC TRENDS
Easier loans may be fueling the U
boom, whispers of inflation, the ye
passes its peak, gift wrap as indic

25 BUSINESS OUTLOOK
Strong growth, low inflation: Dam
rate hikes, full speed ahead

Government

47 WASHINGTON OUTLOOK
Why the Federal Reserve could st
pulling its punches in 1995

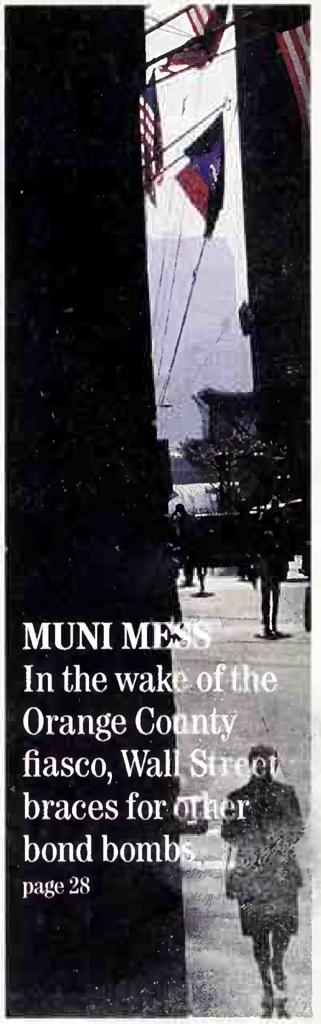
105 THE GOP'S GENDER GAP
To widen its base, the party is woo
women voters—and candidates

GH EXIT IN WASHINGTON
on's crack economic team is breaking up
s bruising budget battles loom page 32

WHEELS
ased vehicles
up for resale,
makers can only
the used-car
et will stay solid

BETTER LATE
Richard McCormick's come-from-behind leap gives U S West a running start on the Info Highway page 114

NUMBERS GAME
Was Bausch & Lomb's inventory buildup a marketing push or an accounting gimmick?
page 108



MUNI MESS
In the wake of the Orange County fiasco, Wall Street braces for other bond bombs
page 28

dustries

TOS: HAS LEASING GONE TOO FAR?
s of auto leases are expiring, and that
ld mean big losses if used-car prices
't stay at their lofty levels

arketing

E NEW MAIL ORDER
w three grizzled veterans of the
alog business—L.L. Bean, Sears, and
lian Vernon—are coping with the new
npetitive frenzy

nance

NKERS' HOURS DON'T LOOK SO HOT
revenue growth slows, banks are
ching up with other industries and
nding out the pink slips

AD PLAY FOR THE BANKS
ing interest-rate hikes are crunching
ir portfolios

IDE WALL STREET
hn's recipe for 131% returns
pollution gear, Sonic could clean up
an may put UNUM back on its feet

ESTMENT FIGURES OF THE WEEK

The Corporation

108 **BAD MATH AT BAUSCH & LOMB?**
The company may have inflated yearend sales figures. And shareholders are hopping mad

112 **PENALTY FLAGS FOR TARKENTON**
His KnowledgeWare faces a shareholder suit alleging financial misdeeds

Information Processing

15 **TECHNOLOGY & YOU**
Metamorphosis: Your office PC may soon become a telephone

114 **U S WEST HITS THE I-WAY RUNNING**
It may have been dealt the worst hand of the Baby Bells, but it now has the most ambitious plans

115 **INTERACTIVE TV: A SNEAK PREVIEW**
Trial runs in Orlando and Omaha will help Time Warner and U S West

Legal Affairs

117 **KIMBERLY-CLARK: NICOTINE STAINS?**
A little-known business that allegedly enables cigarette makers to regulate nicotine levels may become a liability

Science & Technology

118 **TIME BOMBS IN SILICON VALLEY**
Flaws in microprocessors are causing worry—and costing billions

120 **DEVELOPMENTS TO WATCH**
Listening to the ocean, coupon swaps, stinky plants repel bugs, inventors-to-go

Personal Business

122 **INSURANCE:** New twists on term life
SMART MONEY: Tax-swap strategies
AUTOS: Detroit's new compact sedans

Features

4 **UP FRONT**
10 **READERS REPORT**
14 **CORRECTIONS & CLARIFICATIONS**
18 **BOOKS**
Grose: *Gentleman Spy*
Lewis and Walker: *"Why Should White Guys Have All the Fun?"*
129 **BUSINESS WEEK INDEX**
130 **INDEX TO COMPANIES**
132 **EDITORIALS**
It's a whole different economy
No bailout for Orange County, Calif.

Up Front

TALK SHOW “He’s not just an out-of-control radio talk-s host. He’s the Speaker of the House of Representatives.”

—White House Chief of Staff Leon Panetta, referring to Newt Gingrich, who said 25% of White House staffers have used drugs

EDITED BY LARRY LIGHT & JULIE TILSNER

STREET NEWS

DID NOMURA HELP OUT ITS LITTLE BRO?

THE FEDS ARE INVESTIGATING possible sweetheart deals for the private investment outfit owned by Max Chapman, CEO of Nomura Securities International. People close to the firm say the Securities & Exchange Commission is focusing on whether Nomura gave Moran Group any preferential treatment in trading or underwriting arrangements.

The relationship between Moran and Nomura is close. Chapman’s full-time job is heading the U.S. operations of Japan’s Nomura, the world’s largest brokerage, but he also has run Moran on the side. Moran is a small money-management firm that Chapman set up two years ago, with offices in the same building as Nomura. Chapman, 51, declined to comment for this story. In the past, Chapman has denied receiving special treatment from Nomura for Moran, noting that a Nomura oversight committee reviews every trade he does—and can cancel them. Moran’s business, he has said, takes “second fiddle to the firm’s business.”

CHAPMAN: *He faces* SEC *heat*

Queried by BUSINESS WEEK, Nomura says it is the target of an SEC inquiry, a less formal, less serious proceeding than a full-fledged investigation. Nomura calls the action a “routine” review involving employees’ personal trading, not just Chapman’s. “There have been no allegations concerning any employee’s trading,” the firm says in a statement. *Leah Nathans Spiro*

ALOHA JET: *Little cracks, big problems*

AIR SAFETY

SOME INSPECTORS FAIL INSPECTION

REMEMBER THE AIRLINER whose roof peeled off in flight, sucking a flight attendant to her death? Since that 1988 accident, the Federal Aviation Administration has required much tougher inspections of metal fatigue on aging planes. But according to a study by Sandia National Laboratories for the FAA, obtained by BUSINESS WEEK, there’s room for improvement.

More than half of the inspectors, who use magnetic crack detectors, found at least 95% of the cracks measuring at least a tenth of an inch, the target minimum length for routine detection. Yet results for some facilities ranged far lower—the FAA won’t specify before the full report is released. The danger: Numerous tiny cracks can grow into a “zipper.” That’s what happened in the 1988 accident involving an Aloha Airlines jet. An inquiry found Aloha’s inspectors had obeyed rules then in place.

Another worrisome finding: Sandia says many inspectors make up their own minds about how to interpret signals from their magnetic crack detectors. The FAA says it’s coping with that by urging use of a new automated system.

The Sandia researchers openly observed 45 inspections conducted by nine airlines, including Aloha. To get their cooperation, Sandia won’t disclose particular carriers’ results. *Peter Coy*

SPORTS BIZ

NO RIVERBOAT, NO RAILBIRDS

HORSE RACING IS PULLING UP lame, so is it time to set up turfside casinos? Track owners, watching the money bet drop 5.5% in 1993, to $8.8 billion, blame the growing casino business. So casinos for railbirds look like a good idea.

Trouble is, that’s not easy. Take Arlington International Racecourse, one of America’s premier tracks. Owner Richard Duchossois, a brash Chicago industrialist, has been foiled by Illinois officials in his quest for a riverboat-casino license. Arlington is nowhere near a river, so Duchossois wants to dig a moat for his gaming parlor. But the state insists on navigable waters. A miffed Duchossois now threatens to shut Arlington.

In New Jersey, financier Robert Brennan has met opposition to his plan to float casinos in an artificial lagoon by Meadowlands Race Track, which he wants to buy. One plus: This summer, a card parlor opened beside Hollywood Park racetrack in Inglewood, Calif. *Richard A. Melcher*

DUCHOSSOIS: *Foiled so far*

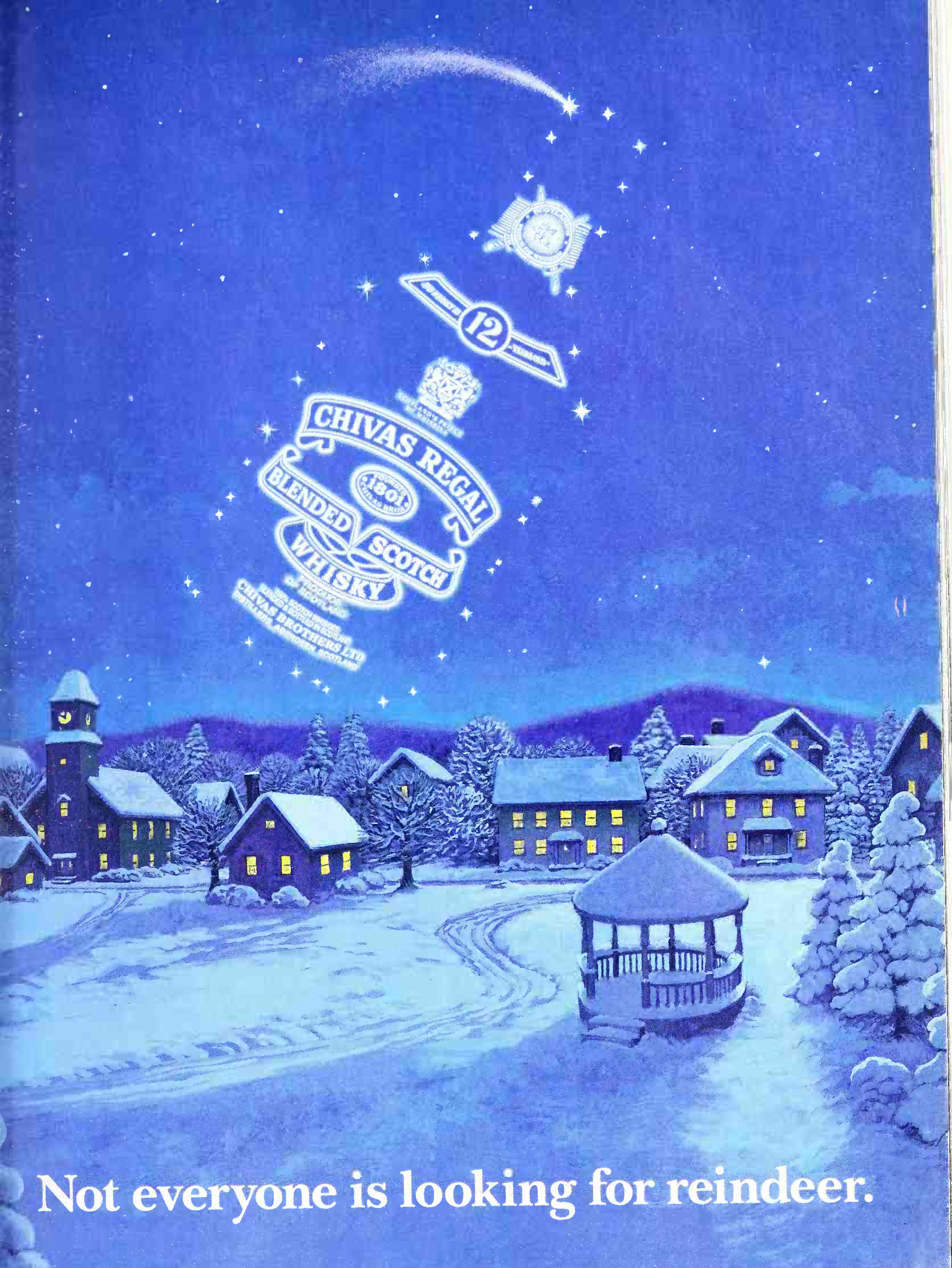
I-WAY PATROL

MAKING A FEDERAL CASE OUT OF E-MA

IT SEEMS LIKE A SIMPLE I Make bureaucrats save t E-mail in case historians law enforcement officia want to trace the backgr of some action. The hi Proposed new rules, se take effect next year, a federal agencies themse to decide what will be sa and sent to the National chives, the repository fo government records. Critics fear agencies will deep-six anything embarra ing or incriminating.

The new system grows of the Iran-contra scan when the Reagan Wh House deleted most of the mail that could have shed ditional light on the affair. advocacy group got a co ruling that has resulted in government’s first-ever mail rules. The National chives, which came up w the rules, says they are r sonable—designed to all deletion of trivial messag while requiring preservat of ones relevant to gove ment business.

But the rules “aren’t f safe” because the agencies cide what to save, says chael Tankersley, lawyer the advocacy group. Defe ers of the rules note that th at least make deleting cru E-mail illegal. The rules a have riled up agencies, w complain that they will quire costly computer ba up systems. *Mark Lew*


12
CHIVAS REGAL
1801
BLENDED SCOTCH
WHISKY
CHIVAS BROTHERS LTD
Not everyone is looking for reindeer.

To brighten someone's holiday, send a special gift of Chivas Regal. Call 1 800 238-4373. (Void where prohibited.)
Chivas Regal • 12-year-old worldwide • Blended Scotch Whisky • 40% alcohol by volume (80 proof). • Chivas Bros. Import Co. • NY, NY
For those who appreciate our quality, please enjoy it responsibly.

Up Front

SLUGFESTS

CAN'T WE ALL JUST SCHUSS TOGETHER?

THE SKI-BUSINESS RIVALRY between Utah and Colorado has really gone downhill. Latest fusillade: a Utah Ski Assn. direct-mail appeal that slams the yet-to-be-opened Denver International Airport for its luggage system that in tests has crunched and misdirected bags. The mailer, sent to 30,000 skiers, reads "In Denver, You Could Lose Your Luggage" and shows a picture of bent skis poking out of a ripped bag. It continues: "In Utah, You Could Lose Yourself."

In Denver, You Could Lose Your Luggage.

UTAH AD: *Rocky Mountain low*

Colorado Ski Country USA, a trade organization, shrugs off the mailer. After all, Colorado, the nation's No. 1 skiing destination, far outpaces its neighbor, last season logging 11 million "skier days"—that's one skier per day—vs. 2.8 million for Utah.

Still, the war between the states seems to be snowballing. Colorado Ski Country once put out a map of the U.S. that somehow entirely eliminated Utah but showed an oversize Colorado. And Steamboat Ski & Resort has tweaked Utah's blue laws with an advertisement that proclaimed Steamboat Springs, Colo., has more bars than the entire state of Utah. *Sandra Atchison*

READER SURVEY

ON YOUR MARK, GET SET—FAX US

WHAT'S YOUR TAKE? HERE'S Up Front's second annual fax survey on issues great and small. Fax us at 212 512-3344 by Wednesday, Dec. 21. Please enclose your name, address, and phone. Or, hey, mail it to us at: Up Front Fax Survey, c/o Julie Tilsner, BUSINESS WEEK, 1221 Avenue of the Americas, 39th floor, New York, N. Y. 10020.

FAX POLL

1. How do you feel about your personal job security, compared with a year ago:
☐ *More secure*
☐ *Less secure* ☐ *The same*

GUNS OR BUTTER? *Your call*

2. Do you expect to be working for the same company a year from now:
☐ *Yes* ☐ *No*
Five years from now:
☐ *Yes* ☐ *No*

3. To help balance the federal budget, which should be sliced the most:
☐ *Defense*
☐ *Welfare*
☐ *Medicare/Medicaid*
☐ *Social Security*
Other: ______________

4. The bigger problem is:
☐ *Welfare for individuals*
☐ *Welfare for corporations*
☐ *They are about the same*
☐ *Neither is a problem*

5. The highest-return investment in 1995 will be:
☐ *Stocks* ☐ *Real estate*
☐ *Bonds* ☐ *Commodities*

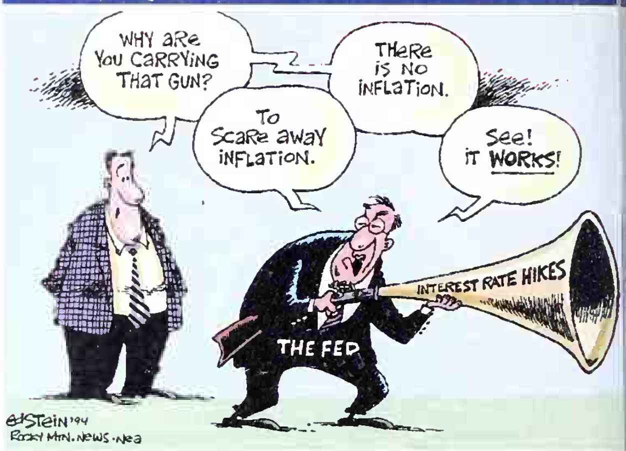
6. Fill in the blank: If you could pass one law, it would be:______________________

____

____

____

DRAWN & QUARTERED

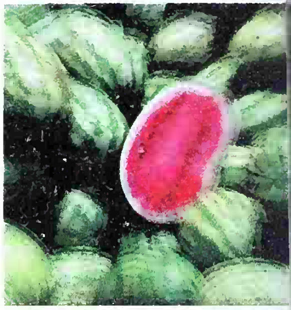

WHY aRe You CaRRYiNG That GUN?
To Scare away iNFLaTioN.
THeRe is No iNFLaTioN.
See! iT WoRKS!
INTEREST RATE HIKES
THE FED
edSTeiN '94
Rocky MtN. NewS · Nea

ON THE FARM

WATERMELONS OF WRATH

THE WATERMELON SHORTAGE has been averted. Although this doesn't rank up there with the thinning ozone layer, a blight called watermelon fruit blotch threatened the melon crop. Melons melt into a stinking, oozing mess in the fields. Actually, legal tangles threatened the crop much more than the blight: 1994 crop damage was minimal. Some farmers sued seed companies, blaming them for the blight, and the companies retaliated by refusing to supply farms. Planting starts now across the Southwest and Southeast for next summer.

Petoseed of Santicoy, Calif., just lost a $350,000 judgment and has a dozen more suits pending. Jay Hulbert, Peto's director of North Ameri sales, says the claims are " reasonable." His reasoni The blight doesn't alwa come from seeds. Carriers, says, can be contamina soil, farm equipment, or ot crops such as cantaloupes.



HEALTHY FRUIT: *No shorta*

Good news for that July picnic, though: Seed supplie are shipping again, aft agreeing to beef up testing blight. Customers must agr not to sue. *Ruth Coxe*

THE BIG PICTURE

EAST IS EAST, WEST IS WEST

For American manufacturers investing overseas, legal and cultural barriers are most formidable in the Far East. So they prefer joint ventures with local folks. In Europe, U.S. investors tend to buy existing businesses.

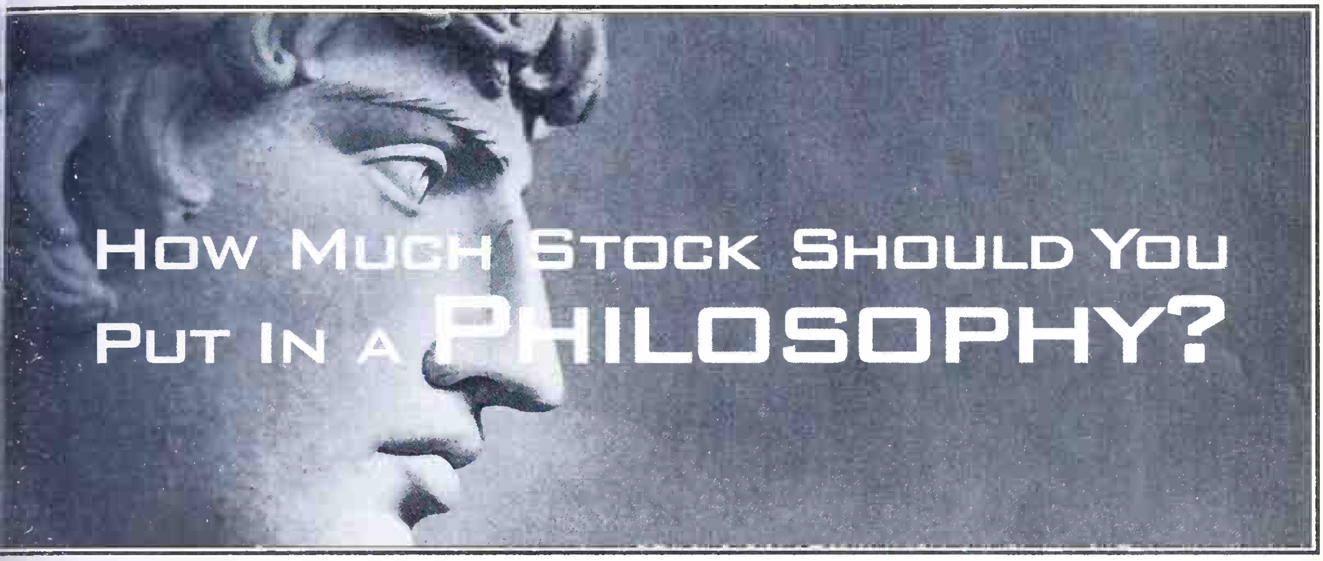
NEW MANUFACTURING PROJECTS, 1993:

	EUROPE	ASIA/PACIFIC RIM
ACQUISITIONS	225	27
JOINT VENTURES	67	91

DATA: ERNST & YOUNG

FOOTNOTES Japan's share of U.S. audio- and video-equipment imports in 1989: 62%. In 1993: 43%

Ordinarily, you wouldn't think of financial people as being the philosophical type. Then again, Smith Barney is no ordinary company. We've developed a very definite philosophy about investing. It's based on three guiding principles, practiced and perfected for well over a century.



INVESTING VERSUS TRADING.

Investors take the long view. They understand a short-term drop means little in the life of a quality investment. (Since 1925, stocks have outperformed every other major investment.)* Traders tend to buy and sell with the ups and downs of the market, while investors see patience as their greatest virtue.

WE DO OUR RESEARCH.

Promising investment opportunities are only found if you look hard for them. At Smith Barney, many investments have to be approved by our Investment Policy Committee, a group with more than two hundred years of combined investing experience, before they can ever be recommended to you.

KNOW WHERE YOU'RE HEADED.

Helping you define your financial goals is as important as helping you reach them. It's the philosophy every Smith Barney Financial Consultant lives by. It may not be the meaning of life, just the means to help get more out of it.

SMITH BARNEY

We make money the old-fashioned way. We earn it.℠

©1994 Smith Barney Inc. Member SIPC. *Source: Ibbotson Associates.

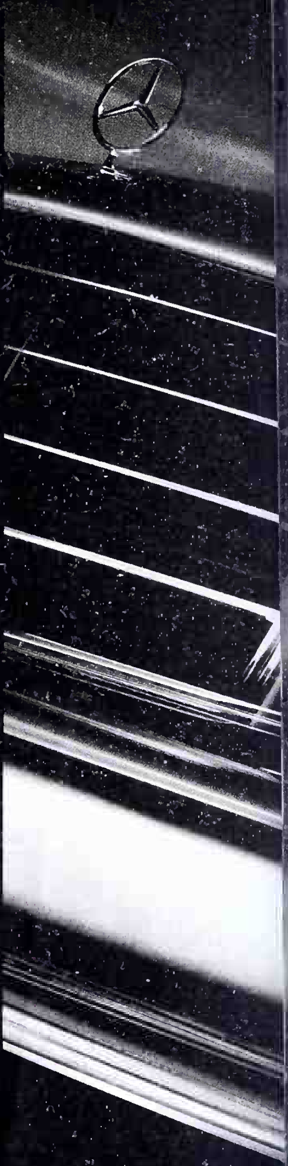
A Member of *TravelersGroup*

How Would Driving A Car Like This Make You Appear?

Very, Very Early.

Or very, very blurry. Endowed with a torque-rich, 275 horsepower V-8, the Mercedes-Benz E 420 rockets from 0 to 60 in a mere 7.1 seconds[†]—not exactly the subject of country club gossip, but certainly enough to keep the valets buzzing. ¶ Yet, the E 420 accommodates more than just your right foot. Nestled into its hand-tailored leather upholstery, you feel an undeniable sense of confidence behind the wheel, due largely to what *Automobile Magazine* calls its "bank-vault solidity". Of course, the E 420 hardly insulates you from the driving experience. To the contrary, its patented multilink suspension provides you with precise handling, while allowing you to maintain a constant feel for the road. ¶ It's the engineering under the hood, however, that puts the E 420 ahead of other luxury sedans. Built with precision more common to race cars than passenger cars, the 32-valve, all-alloy engine makes the E 420 not only the powerhouse of the E-Class, but one of the fastest sedans we put on the planet. All of which may indeed affect how you appear: soon, we suspect, at your authorized Mercedes-Benz dealer. ¶ If we can assist you in any way, please call 1-800-FOR-MERCEDES.

The Mercedes-Benz E420 Sedan



Mercedes-Benz

◀
The car you see here is the most recent example of an over one-hundred-year-long inquest into the art of automotive performance. Another recent example: The winner of the 1994 Indianapolis 500® was powered by Mercedes-Benz.

Watch the *Mercedes Championships* on ESPN and ABC, January 6–8, 1995.

†Stated rates of acceleration are based upon manufacturer's track results & may vary depending upon model, environmental & road surface conditions, driving style, altitude above sea level & vehicle load. ©1994 Mercedes-Benz of North America, Inc., Montvale, N.J. Member of the Daimler-Benz Group.

BusinessWeek

EDITOR-IN-CHIEF: Stephen B. Shepard

MANAGING EDITOR: Mark Morrison

CHIEF ECONOMIST: William Wolman

ASSISTANT MANAGING EDITORS:
Sarah Bartlett, Robert J. Dowling, G. David Wallace

ART DIRECTOR: Malcolm Frouman

CHIEF OF CORRESPONDENTS: Keith G. Felcyn

SENIOR EDITORS: Bob Arnold, Frank J. Comes, Deidre A. Depke, Judith H. Dobrzynski, James E. Ellis, Marc Frons, Geoff Lewis, Ciro Scotti, Mark N. Vamos, Lee Walczak (Washington), Elizabeth Weiner, Chris Welles, Seymour Zucker

EDITORIAL PAGE EDITOR: Bruce Nussbaum

INTERNATIONAL EDITION: William J. Holstein (Editor); John E. Pluenneke (Sr. Editor)

SENIOR WRITERS: John A. Byrne, William Glasgall, Jeffrey M. Laderman, Gene G. Marcial, John Pearson, Karen Pennar, Otis Port

ASSOCIATE EDITORS: Duane E. Anderson, Catherine Arnst, Amy Dunkin, William D. Marbach, John Meehan, Michael Oneal, Thane Peterson, Gary Weiss

DIRECTOR, EDITORIAL OPERATIONS: Thomas J. Reed

PICTURE EDITOR: Lawrence Lippmann

ECONOMICS: James C. Cooper (Sr. Economist/Business Outlook editor), Kathleen Madigan (Assoc.). Christopher Farrell, Michael J. Mandel (Economics editors). Gene Koretz (Economic Trends editor).

DEPARTMENT EDITORS: **Books**: Denise Demong. **Computers**: Ira Sager. **Corporate Finance**: Phillip L. Zweig. **Corporate Strategies**: Jane A. Sasseen. **Information Management**: John W. Verity. **International Finance**: Joan Warner. **International News**: Christopher Power. **International Outlook**: Stanley Reed. **Investment Banking**: Leah Nathans Spiro. **Legal Affairs**: Linda Himelstein. **Media**: Mark Landler. **Money & Banking**: Kelley Holland. **News**: Keith H. Hammonds. **Personal Business**: Edward C. Baig. **Science**: Emily T. Smith. **Scoreboards**: Frederick F. Jespersen. **Social Issues**: Michele Galen. **Software**: Amy Cortese. **Technology**: Peter Coy, Neil Gross. **Up Front**: Larry Light. **The Workplace**: Aaron Bernstein.

STAFF EDITORS: Pam Black, Veronica Byrd, Bruce Einhorn, Paul M. Eng, Elizabeth Lesly, Ron Stodghill II, Amey Stone, Suzanne Woolley, Laura Zinn

ASSISTANT EDITORS: Lori Bongiorno, Julie Tilsner

COPY EDITORS: Harry Maurer, Michael Mercurio (Deputy chiefs); Prudence Crowther, Marc Miller (Asst. chiefs); Tim Belknap, Aleta Kaufman, Jack Robbins, Jim Taibi (Sr. copy editors); Carl Desens, Hardy Green, Cynthia McClean, Joseph Mandel, David Pengilly, Malka Percal, Doug Royalty, Maria Chapin, Gail Fowler, Jeneen Hobby, Aida Rosario (Researchers)

PRODUCTION COPY EDITORS: Donald Halsband (Chief), Lawrence Dark (Deputy), Hallberg Hallmundsson, Celine Keating, Robert S. Norman, Robert J. Rosenberg, Eva Stettner

ART: Francesca Messina, Steven Taylor (Deputy directors), Cynthia Friedman, Jay Petrow, Christine Silver (Assoc. directors), Alice Cheung (Asst. director). **Graphics**: Arthur Eves (Director), Joan Danaher (Deputy director), Rob Doyle (Sr. Illustrator), Lisa Knouse Braiman, Alberto Mena, Ray Vella (Illustrators), Jaime Beauchamp (Computer artist). **Production**: Stephen J. Romeo (Mgr.), Annette Kennedy (Asst. manager), Alan Bomzer (Coordinator)

PHOTOS: Scott Mlyn (Deputy Picture editor); Todd James (Senior Picture editor), Anne Murray, Ronnie Weil (Assoc. Picture editors); Bettina Baudoin (Paris), Kathleen Moore (Asst. Picture editors); M. Margarita Eiroa (Traffic manager). Lawrence Crowe (Librarian); Michael Hirsch (Researcher)

EDITORIAL OPERATIONS: Yvonne Rodriguez (Production chief). Richard Balestrino, A. Peter Clem, Nicholas M. White (Production managers). Karen Butcher, Thomas R. Dowd, Fidel Lee, Jose L. Martin, Jane M. Perkinson, Craig Sturgis, Edgardo Torres, Karen Turok, Ilse V. Walton (Makeup editors). Bruce M. Arnold, Stephen R. Lebron (Asst. Makeup editors). Donald C. Pearson (Traffic manager)

CORRESPONDENTS: **Atlanta**: David Greising (Mgr.), Maria Mallory. **Boston**: Mark Maremont (Mgr.), Gary McWilliams, Geoffrey Smith. **Chicago**: Richard A. Melcher (Mgr.), Greg Burns, Susan Chandler, Kevin Kelly. **Cleveland**: Zachary Schiller (Mgr.). **Connecticut**: Tim Smart (Mgr.). **Dallas**: Wendy Zellner (Mgr.), Peter Burrows, Stephanie Anderson Forest. **Detroit**: Kathleen Kerwin (Mgr.), James B. Treece (Sr. Correspondent), David Woodruff. **Los Angeles**: Ronald Grover (Mgr.), Larry Armstrong (Sr. Correspondent), Nanette Byrnes, Eric Schine. **Miami**: Gail DeGeorge (Mgr.). **Philadelphia**: Joseph Weber (Mgr.). **Pittsburgh**: Stephen Baker (Mgr.), Keith L. Alexander. **San Francisco**: Russell Mitchell (Mgr.), Richard Brandt, Joan O'C. Hamilton, Robert Hof, Kathy Rebello. **Seattle**: Dori Jones Yang (Mgr.). **Washington**: Stan Crock, Owen Ullmann (News Editors), Amy Barrett, Amy Borrus, John Carey (Sr. correspondent), Christina Del Valle, Richard S. Dunham, Dean Foust, Susan B. Garland, Howard Gleckman (Sr. correspondent), Douglas Harbrecht, Mark Lewyn, Paul Magnusson, Mike McNamee, Mary Beth Regan, Michael Schroeder, Stephen H. Wildstrom (Technology & You), Catherine Yang. **Bonn**: John Templeman (Mgr.), Karen Lowry Miller. **Hong Kong**: Joyce Barnathan (Mgr.), Pete Engardio. **London**: Paula Dwyer (Mgr.), Julia Flynn. **Mexico City**: Geri Smith (Mgr.). **Moscow**: Peter Galuszka (Mgr.). **Paris**: Stewart Toy (Mgr.), Gail Edmondson, Bill Javetski. **Rome**: John Rossant (Mgr.). **Tokyo**: Robert Neff (Mgr.), Larry Holyoke. **Toronto**: William C. Symonds (Mgr.)

EDITORIAL SERVICES: **Broadcasting**: Ray Hoffman. **Business Manager**: Barbara Boynton. **Information Services**: Jamie B. Russell (Director), Judi Crowe (Asst. editor), Heather Hartley, Fred Katzenberg, Maria Maronak, Karen Stevens. **Office Manager**: Roselyn Kopit. **Public Relations**: Christine Summerson, Josephine Coppola. **Readers Report**: Yvette Hernandez. **Reprint Permission**: Janet Gonzalez. **Systems**: Ina L. Kichen (Mgr.), Andrew Bernardo, Marie Brown-Bryant, Marta Skrelja

PRESIDENT: John W. Patten

PUBLISHER: David G. Ferm

SR. VP, OPERATIONS: Gary B. Hopkins

VP, CONSUMER MARKETING/CIRCULATION: Robert Montemayor

VP, INTERNATIONAL: Gerd Hinske

VP, STRATEGIC PLANNING & DEVELOPMENT: Cara Erickson

VP, MARKETING: Harold K. Somerdyk

VPs, SALES: Constance E. Bennett (Eastern Region), Dan Dunn (Midwestern Region), Louis R. Mohn (Western Region)

VP, STRATEGIC PROGRAMS: James H. McGraw IV

CONTROLLER: Gary M. Singer

DIRECTOR, ADVERTISING BUSINESS: Linda F. Carvalho

DIRECTOR, PRODUCTION: Mario J. Tailuto

Readers Report

IT WASN'T LIBERALISM THAT GOT CENTRIST VOTERS' GOAT

Your editorial "The choice: Middle ground or quicksand" (Nov. 28) inaccurately portrays Democrats as lurching away from the centrist platform that got them elected to the left "on gays in the military, a big-government solution to health care, and raising taxes on the rich." President Clinton clearly promised to promote these measures if elected. If any lurching has occurred, one could argue that it has been in a rightward direction. President Clinton backed away from his promises for universal health coverage and for an unconditional lifting of the ban on gays in the military. He also adopted President Bush's positions on NAFTA and Haitian refugees. The implication that Democrats betrayed centrist voters by unexpectedly promoting a liberal agenda is not supported by the facts.

Stephen R. Hawk
Kenosha, Wis.

MEMO TO CHRYSLER: PAY OFF SOME DEBT

Regarding your article "Kerkorian to Chrysler: It's payback time" (News: Analysis & Commentary, Nov. 28), it concerns me that Chrysler is about to be forced to address the desires of a greedy individual at the expense of other shareholders. I would use the excess cash to pay down debt until Chrysler has a triple-A credit rating. During this process, the borrowing costs would be reduced, and Chrysler could then use the increased amount of cash to purchase stock and possibly raise the dividend.

Peter Brothers
Lake George, N. Y.

A FRANCHISEE DEFENDS GENERAL NUTRITION

I am a newly elected member of the GNC National Advisory Council representing over 430 owners of more than 700 franchised stores. We strongly object to your article on GNC ("Is General Nutrition headed for civil war?" The Corporation, Nov. 21). The story is in no way indicative of the relationship GNC franchisees share with our franchisor, General Nutrition Inc. It was quite irresponsible on your part to allow several unhappy franchisees to manipulate your artic and leverage their own agenda.

I am a multiple franchise owner stores) who, along with other sin and multiple-store operators, enjoy the working relationship with GNC and view it like a family and strategic partn

Leonard Fa
M

IS THE POWERPC A SAFER BET THAN PENTIUM POWER?

There was an amusing contrast between your articles on buying Pent computers ("Are you ready for a tium power trip?" Personal Busin Nov. 21) and the Hewlett-Packard/I venture to create a new chip ("Can chip make the next quantum leap?" ence & Technology), which ran simu neously. In the Pentium article you that people should buy a Pentium-ba computer instead of a PowerPC-ba one because Apple and IBM are " now agreeing on a common hardw design." Actually, our new shared de sign is just an evolution of what w building today. Our current compu are a safe investment that will only better over time. Meanwhile, Intel's venture with HP is a radical replacem for the Pentium that may result in tomers, as you point out, "trashing t existing programs." Intel customers some extremely difficult transition the years ahead.

Michael Me
Manager, Competitive Analysis
Apple Computer
Cupertino, Calif

BLOOMINGDALE'S CHIEF BEGS TO DIFFER

"Allen Questrom's ultimate quest" (People, Nov. 28) was profoundly inaccurate with respect to the relationship that exists between Allen Questrom and myself. In fact, precisely the opposite of what was reported is true. Allen and I have enjoyed a friendship of 24 years.

Although for good reason these matters generally remain private, I fe

BUSINESS WEEK
DECEMBER 19, 1994 3404
ISSN 0007-7135 * * *

Published weekly, except for one issue in January, by McGraw-Hill, Inc. Founder: James H. McGraw (1860-1948).

Executive, Editorial, Circulation, and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127039; Intl. 2360127039. U.S. subscription rate $46.95 per year; 2 years, $78.95; 3 years, $104.95. Single copies, $2.75; back issues, $5. Write for rates in other countries. Subscriber Services: 1-800-635-1200. TDD: 1-800-554-1579

Postmaster: Send address changes to BUSINESS WEEK, P.O. Bo Hightstown, N.J. 08520. Second-class postage paid at New York, N.Y. at additional mailing offices. Postage paid at Montreal, P.Q. Canada International Publications Mail Product Sales Agreement No. 2 Registered for GST as McGraw-Hill, Inc. GST #R123075673. Copyrigh by McGraw-Hill Inc. All rights reserved. Title registered in U.S. P Office. European Circulation Center, McGraw-Hill House, Maiden Berks, England. Telephone: 0628-23431; Telex: 848640.
Officers of McGraw-Hill, Inc.: Joseph L. Dionne, Chairman and Chi ecutive Officer; Harold W. McGraw, III, President and Chief Operati ficer; Robert N. Landes, Executive Vice President, General Counse Secretary; Robert J. Bahash, Executive Vice President and Chief F cial Officer; Frank D. Penglase, Senior Vice President, Treasury Opera

PHOTOCOPY PERMISSION: Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance ter (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy any article herein for the flat fee of $1.50 per copy of each article. Send payme the CCC. Copying for other than personal or internal reference use without express permission of McGraw-Hill is prohibited. Address requests fo tomized bulk reprints to Business Week Reprints, P.O. Box 457, Hightstown, N.J. 08520, or call 609-426-5494. ISSN 0007-7135/94/$2.75
PRINTED IN THE U.S.A.

AT&T **True USA**℠ Savings *Presents 40% Off Sundays* All Holiday Season.

This should make more than just our *True USA*℠ Savings members happy.

Favorite nephew of a True USA Savings member.

Former roommate of a True USA Savings member.

Father of a True USA Savings member.

Every Sunday through New Year's Day, we're giving our **True USA**℠ Savings members a special 40% off AT&T calls to anybody in the U.S.* So you can call anyone and everyone you care about, as much as you want. The savings are yours automatically, just for being a part of AT&T **True USA**℠ Savings.

It's our way of making sure that you and everyone you call are happy this holiday. *For questions, call* 1 800-TRUE-USA.℠

AT&T *True USA*℠ Savings

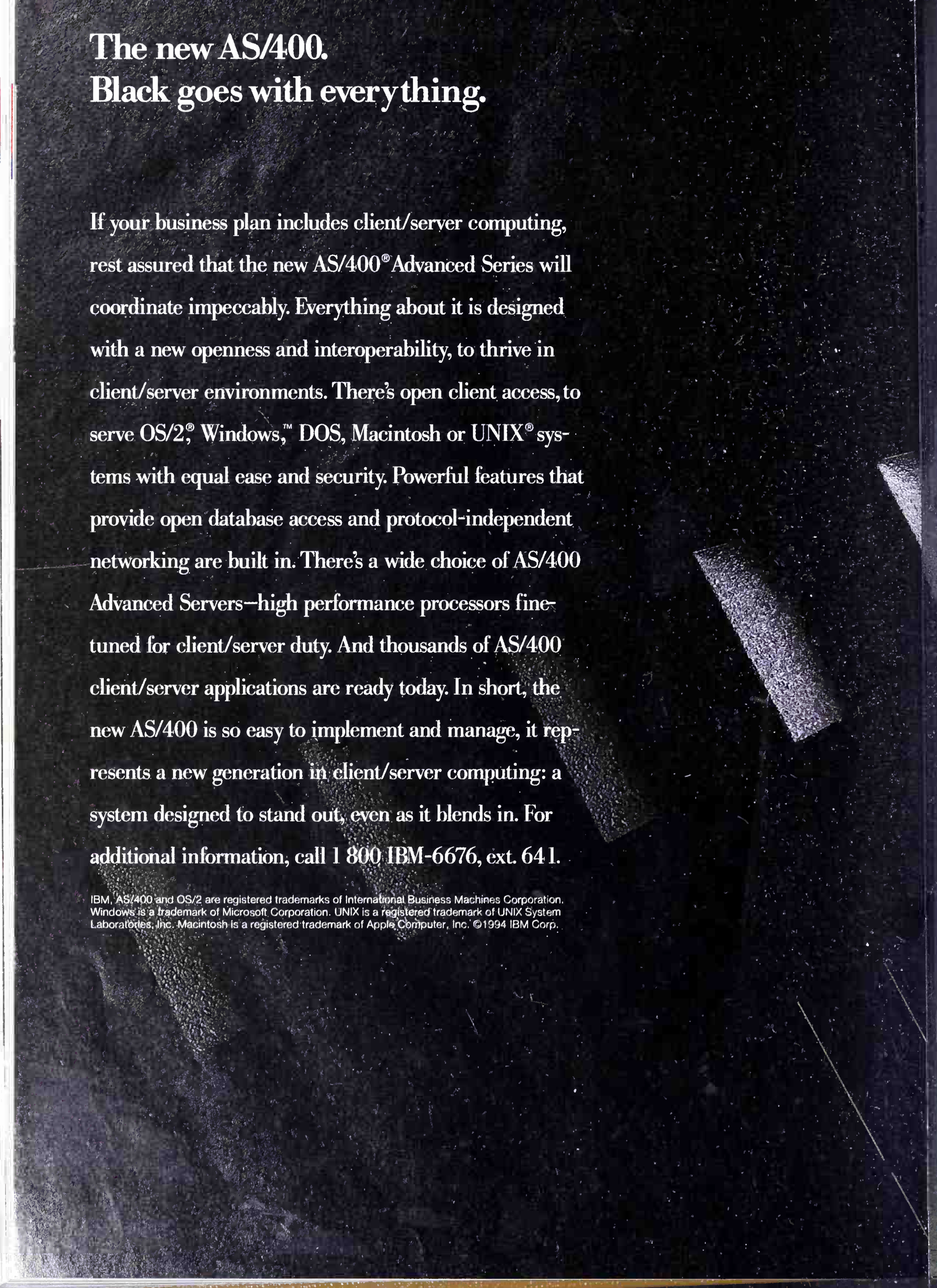
AT&T

---

* $10 monthly minimum required. 40% is in lieu of regular AT&T **True USA**℠ Savings discount. Available in most areas. Certain exclusions apply. Pending tariff effectiveness.

© 1994 AT&T

The new AS/400.
Black goes with everything.



If your business plan includes client/server computing, rest assured that the new AS/400® Advanced Series will coordinate impeccably. Everything about it is designed with a new openness and interoperability, to thrive in client/server environments. There's open client access, to serve OS/2,® Windows,™ DOS, Macintosh or UNIX® systems with equal ease and security. Powerful features that provide open database access and protocol-independent networking are built in. There's a wide choice of AS/400 Advanced Servers—high performance processors fine-tuned for client/server duty. And thousands of AS/400 client/server applications are ready today. In short, the new AS/400 is so easy to implement and manage, it represents a new generation in client/server computing: a system designed to stand out, even as it blends in. For additional information, call 1 800 IBM-6676, ext. 641.

IBM, AS/400 and OS/2 are registered trademarks of International Business Machines Corporation. Windows is a trademark of Microsoft Corporation. UNIX is a registered trademark of UNIX System Laboratories, Inc. Macintosh is a registered trademark of Apple Computer, Inc. ©1994 IBM Corp.

Processor Activity
1
2
3
4
Low
High
Low
High
The new AS/400 Advanced Series from IBM

HALFWAY THERE

A POWERFUL DRAMA FOR ALCOHOL AND DRUG ABUSE PREVENTION

Millions of teens use alcohol and drugs each year. *Halfway There* helps to change young people's perception about illegal alcohol and drug use.

Over 700,000 young people have experienced live performances of *Halfway There* in schools across the country and internationally.

For information about helping to make a difference by sponsoring *Halfway There* in your community contact:

periwinkle
NATIONAL THEATRE FOR YOUNG AUDIENCES
19 Clinton Avenue, Monticello, NY 12701 (914) 794-1666

This advertisement is a contribution to the national drug abuse prevention effort.

Readers Repor

CORRECTIONS & CLARIFICATIO

"Why we love trucks" (Cover, Dec. 5)
the wrong title for Millard S. Drexle
president and chief operating officer o
Inc. A companion story, "Why the truc
Japan behind," overstated the yet-t
determined list price for Honda Motor
new Odyssey minivan; it is expected
about $24,000.

A story on MFS Communications Co., "
niche player to phone jack-of-all-tra
(Information Processing, Dec. 12), err
quoting revenue estimates for the com
from C. J. Lawrence Inc. The correct
mates are $280 million for 1994 and
million for 1995.

---

compelled to inform you that I
higher-paying job for the opport
to work with Allen. Also, it is true
our families socialize on a frequent
apart from the corporate milieu.

The errors are not limited to pe
al information. Our 1994 earnings
jection [by Wertheim Schroder
been grossly understated.

Michael
Chairman &
Bloomingd
New

IT'S PALMER AND PENNZOIL, GOT IT?

Oops . . . right product, wrong b

Arnold Palmer has been keepin
old tractor running all these years
Pennzoil and has been saying so i
for a long time ("Big George and
'over-the-hill' gang," Sports Busi
Nov. 21). Sorry, but Arnold has n
been in the Quaker State camp.

Doc G
Administrative Assista
Arnold Pa
Youngstown

HOW TO REACH BUSINESS WEEK

LETTERS FOR READERS REPORT

All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space.
Mail: Business Week, 1221 Avenue of the Americas, 39th floor, New York, NY 10020
Fax: (212) 512-4721
Internet: bwreader@mgh.com

SUBSCRIBER SERVICES

For individual subscriptions, corporate subscriptions, renewals, changes or problems, and single copies.
Phone: (800) 635-1200 or (609) 426-7500

COPYRIGHT PERMISSIONS

Before quoting or reproducing editorial material.
Phone: (212) 512-3396
Fax: (212) 512-4938

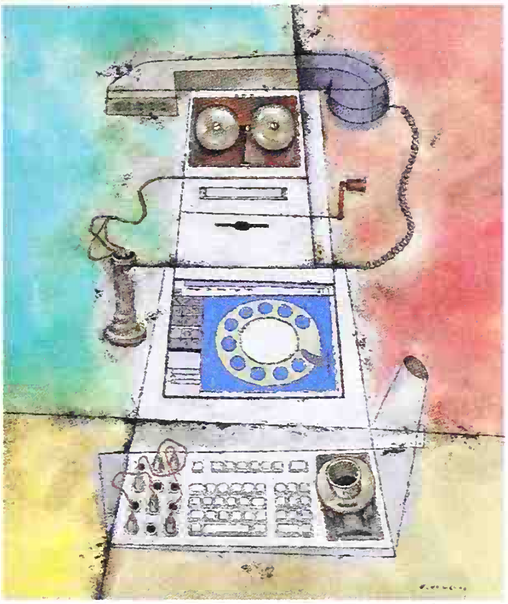
TED BY STEPHEN H. WILDSTROM

HONING CAN BE RIENDLIER VIA PC

When I want to delete a message from my office voice
l, I press *3. If my timing
ı little off, though, that
ıe *3 command instead
s the system to send all
calls to voice mail. So
ile the computer industry
rying to make a PC that's
easy to use as a toaster, I
uld settle for a
one that's as user-
endly as a PC.

Well, phones aren't
oming simpler, but
sktop computers
edging into tele-
one territory. Inno-
ions ranging from
ital signal-process-
technology to im-
ved data-compres-
n techniques allow
s to handle voice
nmunications as ef-
ently as data. In
ne, they not only
l replace the tele-
one and the an-
ering machine as
have known them
also will take over
ny of the functions
he costly, hard-to-manage
vate branch exchange.
ks are the brains behind
buttons that let us trans-
calls to other people or
ıdle voice mail.

YPTIC CODES. For now, the
efits of such computer-
ephone integration are lim-
d mainly to homes and the
allest offices, where
ones are connected direct-
o the public telephone net-
rk rather than run through
ks. There's a simple way to
l if you can use your com-
ter as a phone in the office:
you must use a special
one instrument supplied by the company that designed your system, you won't be able to use a computer's bells and whistles to replace your phone. If you use standard phones, you can take advantage of phone features including speaker-phones and answering machines on such computers as the Compaq Presario and IBM Aptiva, both starting at well under $2,000. If you have an older computer, add-in boards—such as the $299 Best Data Products Inc. ACE—can provide these features.



Perhaps the most sophisticated computer-telephones come, not surprisingly, from AT&T Global Information Solutions. AT&T's $1,899 Globalyst 360TPC includes a speaker-phone with voice mail. Functions are controlled by a point-and-click interface, in place of the cryptic keypad codes and interminable voice menus that phones offer. You can select a voice-mail message you want to hear from a list of headers, instead of playing through them one by one to find the message you want.

Software companies are working to increase the telephone capabilities of PCs. Microsoft is offering programming standards to help developers build advanced phone tools into software. Novell Inc. has written similar tools to simplify integration between PBXs and computers on local-area networks. Apple Computer Inc. chose a hardware-software combination, called GeoPort, to make it easier to use computers with phone systems of all types, including proprietary PBXs and the digital networks now under construction. GeoPort is built into some Macintosh models, and Apple is licensing it for other systems.

BIG LEAP. Such developments as GeoPort will make possible the next big leap: letting you use computer-based phone features on the proprietary office telephone systems supplied by AT&T, Northern Telecom, Rolm, and others. When that happens, desktop PCs will begin to pick up the smart functions of the PBX, from voice mail to conferencing to selecting the cheapest route for a call. The result will be less expensive and more flexible phone systems, in which users will have much more control over services.

You'll have to wait a while. The technology is just beginning to develop, and corporations have multibillion-dollar investments in long-lived PBX systems. For now, you'll just have to remember which *3 does what. But the time is not that far off when you will see PC-based phones that are both more powerful and much easier to use. *S.W.*

BULLETIN BOARD

SOFTWARE

NINE DIGITS—POSTHASTE

The U.S. Postal Service says you'll get faster, and sometimes cheaper, delivery if you address your mail using nine-digit Zip Codes. But finding the information can be tough: The post office's $500 ZIP+4 directory runs to 35 volumes. USA Unzipped from CD Light

USA UNZIPPED
light
disc
1994/95

(800 571-3914) reduces the information to a single $50, Windows-compatible CD-ROM. Type in a street address anywhere in the U.S. or its territories, and the program will quickly come back with the nine-digit code. The software also allows you to find the city and street associated with any code. And if you give it a business name and a city, the program gives you the street address.

HOME COMPUTERS

ROOM FOR GROWTH

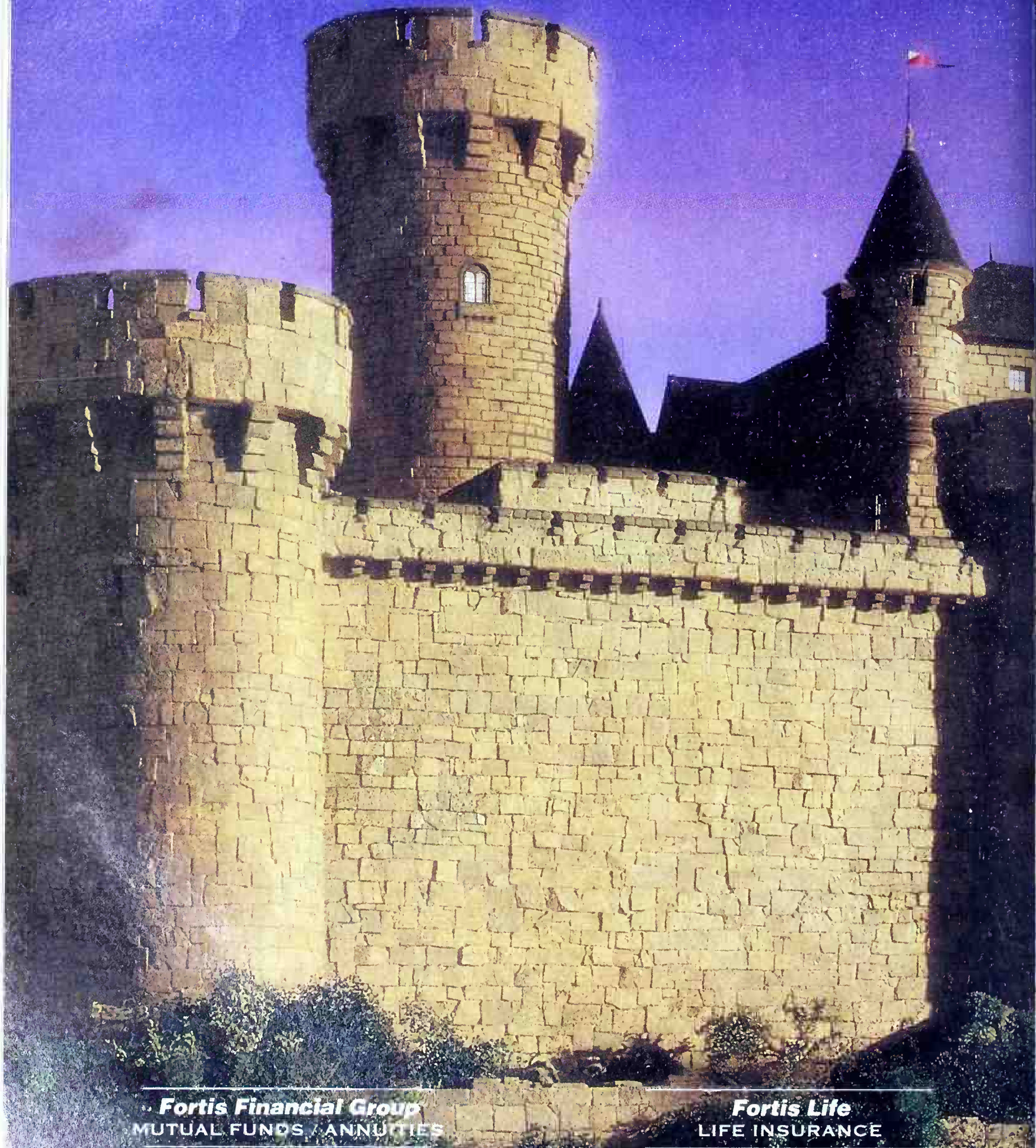
If you feel like you're the last household on your block to get a PC, relax. Estimates based on extrapolations from total computer sales suggested that almost a third of U.S. families own computers. But a survey of households by Forrester Research Inc. shows that the real number is closer to a fifth. Even among families earning more than $50,000 a year, fewer than a quarter own computers. As a result, the Cambridge (Mass.) market-research firm expects family PC ownership to nearly double, to 43 million, by 1997.

ILLUSTRATION BY FERRUCCIO

QUESTIONS? COMMENTS? techandu@mgh.com on Internet or fax (202) 383-2125

FORTIS IS HERE TO PROTEC

In a rapidly changing world, you and the people you love need solid financial answers. That's the strength of Fortis — a worldwide financial services organization $100 billion strong. Built on a foundation of solid answers for over 165 years, Fortis stands for powerful choices when you need health insurance with today and tomorrow in mind. Life insurance



Fortis Financial Group
MUTUAL FUNDS / ANNUITIES

Fortis Life
LIFE INSURANCE

*Securities offered through Fortis Investors, Inc., St. Paul, MN 55164 1-800-800-2638. Other insurance contracts are issued by Fortis Benefits Insurance Company, St. Paul, MN an

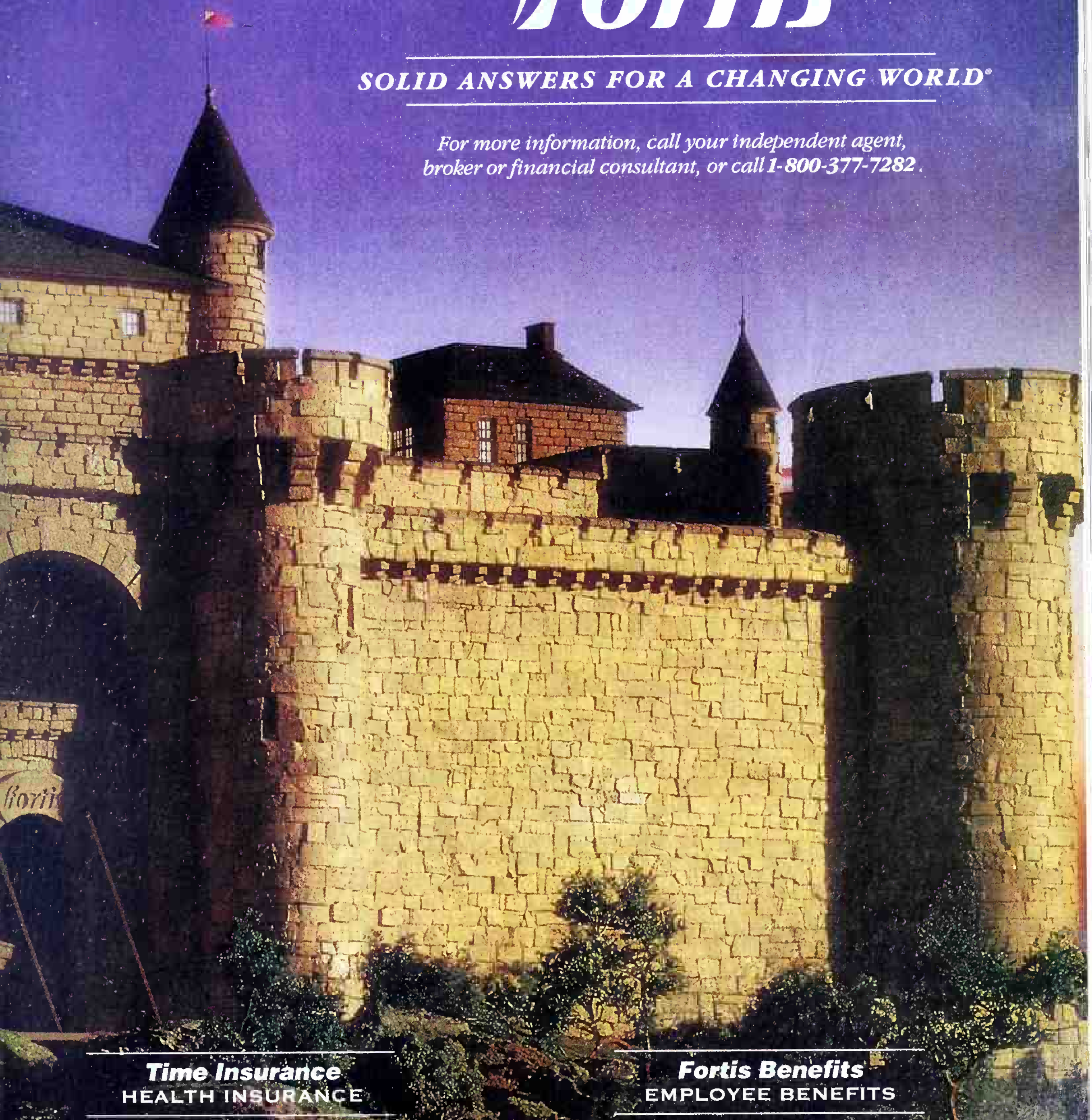
VERYONE IN YOUR CASTLE.

hat can help you live a better life. Employee benefit plans that can even benefit the mployer. Mutual funds carefully managed to help meet your investment objectives. And annuities to help your golden years shine brighter. Solid answers for everyone in your castle. From Fortis. A name you can trust around the world...and right in your own backyard.

fortis℠

SOLID ANSWERS FOR A CHANGING WORLD®

For more information, call your independent agent, broker or financial consultant, or call ***1-800-377-7282****.*



Time Insurance
HEALTH INSURANCE

Fortis Benefits
EMPLOYEE BENEFITS

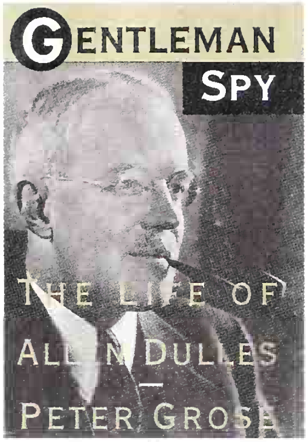
ompany, Milwaukee, WI. In New York State, insurance products are issued and underwritten by First Fortis Life Insurance Company, Syracuse, NY. © 1994 Fortis, Inc.

GENTLEMAN SPY
The Life of Allen Dulles
By Peter Grose
Houghton Mifflin • 641pp • $30

DULLES: LORD OF THE SPIES

This is not the Central Intelligence Agency's finest hour. Congress is looking askance at the $28 billion spent yearly on intelligence, even as the public starts to question the secret agency's usefulness. After all, from its creation in 1947 to the outlawing of the Soviet Communist Party in 1991, the agency's paramount foe was the Soviet Union. The conservative British weekly *The Spectator* argued recently that the CIA "has spent more than $100 billion of public money in the five years since its main reason for existence disappeared. There is almost nothing to show for it."

What does show is troubling. Take the 1993 arrests of operative Aldrich H. Ames and his wife. Ames rose to run the key counterintelligence unit of the agency's Soviet division in 1983 despite his heavy drinking and sloppy work. Although his sudden wealth should have set off alarms, he spent nine years turning over reams of information to the high-paying Soviet KGB—treachery that meant death for at least 10 CIA agents.



As Peter Grose argues in his masterful biography of Allen Dulles, who guided the CIA during its 1950s heyday, the Firm fell victim to its own success. When it started, the Central Intelligence Group had barely 100 employees. Days before he left the CIA in 1961, Dulles transferred its huge bureaucracy to sprawling headquarters in Langley, Va. Writes Grose, a former *New York Times* correspondent: "With remarkable accuracy, the dynamism and effectiveness of a bureaucracy can be measured in inverse proportion to the physical elegance in which it operates."

It may be, as Grose seems to suggest, that combining a superpower's intelligence-gathering and covert political operations simply produces a rogue elephant. Dulles, the erudite son of a Presbyterian minister, whose grandfather, uncle, and brother were all Secretaries of State, was always happier doing risky spy work or improvising spectacular covert operations with his Ivy League golden boys than he was managing a runaway bureaucracy.

He first practiced the spymaster's craft as head of the Office of Strategic Services network in neutral Switzerland in 1942, and Grose's account of his early successes is as breathtaking as any spy thriller. With almost no staff, he skillfully ran agents in and out of the Third Reich. Among them were Fritz Kolbe, a functionary of the Nazi Foreign Office who smuggled 1,600 top-secret Nazi documents to Dulles' modest villa during the war's last two years, and Eduard Schulte, a German industrialist who brought Dulles the first detailed reports of the Holocaust in 1943.

America's greatest spymaster, Grose reveals, was also a great womanizer. His liaisons included Queen Frederika of Greece and the daughter of conductor Arturo Toscanini. The looser sexual mores of wartime only partially explain these affairs. Dulles' lovers were invariably powerful and intelligent women who could be useful in his work. Wally Toscanini, for example, was a key link between the OSS and Italian resistance fighters.

The cold war's early years were golden ones for Dulles and the CIA. The Stalinist grip was tightening on central Europe, and the fragile postwar Italian
French democracies were vulnera
Thanks to infusions of CIA cash, It
Christian Democrats, not the favo
Communists, won key elections in 1
In 1953, Dulles oversaw a counterc
in Iran against the anti-Western Pr
Minister Mohammed Mossadegh.
following year, the CIA organized a
cessful coup against the left-wing
temalan government of Jacobo Arb
Voluminous material released un
the Freedom of Information Act
scores of interviews with retired ag
let Grose shed fresh light on s
episodes.

These successes, of course, had t
dark side. The National Security Co
cil's 1948 directive giving the CIA
sponsibility for political warfare to co
ter the Soviet threat set the stage
much of the abuse that in the end ba
fired against U. S. interests around
world. By the mid-1950s, the agency
engaged in far-flung assassination p
grams against foreign leaders while
home, it was testing LSD on unwitt
human guinea pigs. Diplomat George
Kennan later called the NSC directi
which he helped sponsor, "the great
mistake I ever made."

Operations such as Guatemala a
Iran left the CIA and Dulles feeling d
gerously omnipotent, and by the la
1950s, the agency was slipping up ba
ly. It bungled a coup against Indonesi
rulers in 1958 and left President Dwig
D. Eisenhower with egg on his face
ter the Soviets shot down a U-2 s
plane in 1960. The CIA's institutional
bris led directly to Dulles' biggest cat
trophe: the Bay of Pigs operation
bring down Cuba's Fidel Castro. Aft
the invasion failed, President John
Kennedy had no choice but to repla
the 68-year-old Dulles.

The intelligence business thrives
conflict: Dulles learned his craft in t
apocalyptic days of World War II, a
his CIA became the West's key weap
during 40 years of cold war. But ev
during this post-cold-war lull, the U.
needs a strong intelligence servic
Think of Saddam Hussein, the Nor
Koreans, Islamic fundamentalists: T
world is in many ways scarier and le
predictable than during the old balan
of terror. Proving how vital intelligen
is to a democracy is Dulles' legacy. B
the failures of the CIA on his watch r

SUCCESSFUL OPERATIONS IN THE 1950s LEFT THE CIA AND DULLES WITH A SENSE OF OMNIPOTENCE

If your doctor says you've got symptomatic benign prostate enlargement, help can be in the palm of your hand.

Many men mistakenly believe that an enlarged prostate is treated the same way for all men. But today there are more options than ever. By speaking frankly about your symptoms, you and your doctor can decide what is appropriate for you.

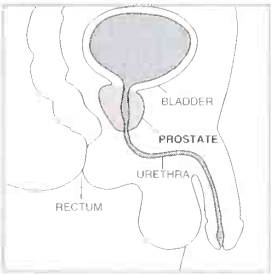
s this you?	Yes	No
o you get up more than once or twice a night to urinate?	☐	☐
o you often have sudden, uncontrollable urges to urinate?	☐	☐
o you have a hesitant or slow urine stream?	☐	☐
o you have a frequent need to urinate?	☐	☐

f you answered yes to even one question, tell your doctor. Your symp-oms may be caused by a condition called benign prostate enlargement BPH). But remember, only a doctor can evaluate your symptoms and heir possible causes. *While BPH is not cancer and does not lead to ancer, the two conditions can exist at the same time.*

Symptomatic BPH can be treated in several ways. In addition to surgery and monitoring the condition with regular checkups, now your doctor has oral prescription medicines. One oral medicine is PROSCAR, the only medicine for the treatment of symptomatic BPH that can shrink the prostate.

PROSCAR works by blocking a hormone that can cause the prostate to enlarge. *But it is important to know: PROSCAR doesn't work for everyone. Although the prostate may shrink, there may not be an improvement in urinary symptoms. However, in clinical studies with PROSCAR, some men have seen an improvement in their urinary symptoms after 2 weeks. Others have found that PROSCAR took up to several months to help them.* Because all men are different, you and your doctor will need to determine how PROSCAR is working for you.

Today you don't have to live with the discomfort of symptomatic BPH. Ask your family doctor or a urologist if PROSCAR is right for you. For free information that will help you discuss your symptoms with your doctor, call 1-800-261-8186.



The prostate surrounds part of the urethra, the tube that carries urine from the bladder. As the prostate enlarges, it can squeeze the urethra and cause urinary problems.

For the treatment of symptomatic BPH

PROSCAR® 5mg
(FINASTERIDE)

The only medicine that can shrink the prostate.

MERCK

Please see the patient information on the next page.

©1994, Merck & Co., Inc.
All rights reserved.
J4PO47(302)-MKP4032-8186

PATIENT INFORMATION ABOUT PROSCAR® (Prahs-car)
Generic name: finasteride (fin-AS-tur-eyed)

PROSCAR is for the treatment of symptomatic benign prostatic hyperplasia and for use by men only.

Your doctor may prescribe PROSCAR if you have a medical condition called benign prostatic hyperplasia or BPH. This occurs only in men.

Please read this information, as well as the leaflet which accompanies your medication, before you start taking PROSCAR. Also, read the leaflet each time you renew your prescription, just in case anything has changed. Remember, this leaflet does not take the place of careful discussions with your doctor. You and your doctor should discuss PROSCAR when you start taking your medication and at regular checkups.

What is BPH?

BPH is an enlargement of the prostate gland. After age 50, most men develop enlarged prostates. The prostate is located below the bladder. As the prostate enlarges, it may slowly restrict the flow of urine. This can lead to symptoms such as:

- a weak or interrupted urinary stream
- a feeling that you cannot empty your bladder completely
- a feeling of delay or hesitation when you start to urinate
- a need to urinate often, especially at night
- a feeling that you must urinate right away.

Treatment options for BPH

There are three main treatment options for BPH:

- **Program of monitoring or "Watchful Waiting".** If a man has an enlarged prostate gland and no symptoms or if his symptoms do not bother him, he and his doctor may decide on a program of monitoring which would include regular checkups, instead of medication or surgery.
- **Medication.** Your doctor may prescribe PROSCAR for BPH. See **"What PROSCAR does"** below.
- **Surgery.** Some patients may need surgery. Your doctor can describe several different surgical procedures for BPH. Which procedure is best depends on your symptoms and medical condition.

What PROSCAR does

PROSCAR lowers levels of a key hormone called DHT (dihydrotestosterone), which is a major cause of prostate growth. Lowering DHT leads to shrinkage of the enlarged prostate gland in most men. This can lead to gradual improvement in urine flow and symptoms over the next several months. However, since each case of BPH is different, you should know that:

- Even though the prostate shrinks, you may NOT see an improvement in urine flow or symptoms.
- You may need to take PROSCAR for six (6) months or more to see whether it helps you.
- Even though you take PROSCAR and it may help you, it is not known whether PROSCAR reduces the need for surgery.

What you need to know while taking PROSCAR

- **You must see your doctor regularly.** While taking PROSCAR, you must have regular checkups. Follow your doctor's advice about when to have these checkups.
- **About side effects.** Like all prescription drugs, PROSCAR may cause side effects. Side effects due to PROSCAR may include impotence (or inability to have an erection) and less desire for sex. Each of these side effects occurred in less than 4% of patients in clinical studies. In some cases side effects went away while the patient continued to take PROSCAR.

  Some men taking PROSCAR® (Finasteride) may have a decrease in the amount of semen released during sex. This decrease does not appear to interfere with normal sexual function. Rarely, some men have reported breast swelling and/or tenderness or allergic reactions such as lip swelling and rash.

You should discuss side effects with your doctor before taking PROSCAR and anytime you think you are having a side effect.

- **Checking for prostate cancer.** Your doctor has prescribed PROSCAR for symptomatic BPH and not for cancer—but a man can have BPH and prostate cancer at the same time. Doctors usually recommend that men be checked for prostate cancer once a year when they turn 50 (or 40 if a family member has had prostate cancer). These checks should continue while you take PROSCAR. PROSCAR is not a treatment for prostate cancer.
- **About prostate specific antigen (PSA).** Your doctor may have done a blood test called PSA. PROSCAR can alter PSA values. For more information, talk to your doctor.
- **A warning about PROSCAR and pregnancy.**

  PROSCAR is for use by MEN only.

  PROSCAR is generally well tolerated in men. However, women who are pregnant, or women who could become pregnant, should avoid the active ingredient in PROSCAR.

  If the active ingredient is absorbed by a woman who is pregnant with a male baby, it may cause the male baby to be born with abnormalities of the sex organs. Therefore, any woman who is pregnant or who could become pregnant must not come into direct contact with the active ingredient in PROSCAR.

Two of the ways in which a woman might absorb the active ingredient in PROSCAR are:

Sexual contact. Your semen may contain a small amount of the active ingredient of the drug. If your partner is pregnant, or if you and your partner decide to have a baby, you must stop taking PROSCAR and talk to your doctor. If your partner could become pregnant, proper use of a condom can reduce the risk of exposing her to your semen (discuss this further with your doctor).

Handling broken tablets. Women who are pregnant or who could become pregnant must not handle broken tablets of PROSCAR. PROSCAR tablets are coated to prevent contact with the active ingredient during normal handling. If this coating is broken, the tablets should not be handled by women who are pregnant or who could become pregnant.

If a woman who is pregnant comes into contact with the active ingredient in PROSCAR, a doctor should be consulted.

Remember, these warnings apply only if the woman exposed to PROSCAR is pregnant or could become pregnant.

How to take PROSCAR

Follow your doctor's advice about how to take PROSCAR. You must take it every day. You may take it with or between meals. To avoid forgetting to take PROSCAR, it may be helpful to take it the same time every day.

Do not share PROSCAR with anyone else; it was prescribed only for you.

Keep PROSCAR and all medicines out of the reach of children.

FOR MORE INFORMATION ABOUT 'PROSCAR' AND BPH, TALK WITH YOUR DOCTOR. IN ADDITION, TALK TO YOUR PHARMACIST OR OTHER HEALTH CARE PROVIDER.

MERCK
© 1994, Merck & Co., Inc.
West Point, PA 19486
J4PO47(302)-MKP4032

mind us what disasters can occur wher there is little efficiency and accoun bility in intelligence-gathering.

BY JOHN ROS

Rossant heads BUSINESS WE Rome bureau.

BOOK BRIEF

"WHY SHOULD WHITE GUYS HAVE ALL THE FUN?"
By Reginald F. Lewis and Blair S. Walker
Wiley • 318pp • $22.95

THE RISE AND RISE OF REG LEW

In 1987, a young African Ameri Reginald Lewis, broke the color rier of high finance with his $985 lion leveraged buyout of Beatrice international operations. Acquiring $1.6 billion food conglomerate made brash Baltimorean a Wall Street ce rity—and a beacon of hope to bl struggling to rise into American in try's highest ranks. But little has b written about the enigmatic, press- Lewis, who died in 1993 at 50 from b cancer.

"Why Should White Guys Have the Fun?" How Reginald Lewis Cre a Billion-Dollar Business Empire breezy, informative read, but i marred by its odd narration, wh weaves excerpts from Lewis' never- ished memoirs into a third-person count by former *USA Today* repor Blair S. Walker. The hybrid of Walk dispassionate reportage and Lewis' ollections, which verge on self-pro tion, can be unsettling.

Still, the book has virtues. For one voyages deep into the frenzied, comp world of LBO transactions, from Lev $22.5 million purchase of McCall P tern Co. in 1984 to his monumen quest to wrest Beatrice from Kohlbe Kravis, Roberts & Co., a deal th paired him with LBO kingpin Mich Milken. Witnessing Lewis' epic rise, see him stumble over a range of obs cles, including his notorious temper, spirit-deflating autocratic style, and peers' subtle and blatant racial pre dices. He comes across as analytic driven, and intensely self-critical, a m who labored every step of the way. Le is died a noted philanthropist with $400 million fortune. But despite his ography's title, his journey to busin stardom doesn't seem to have be much fun at all.

BY RON STODGHIL

ROBERT KUTTNER

APITAL GAINS: HERE'S ONE HE DEMOCRATS CAN WIN

It will take a lot to rescue Bill Clinton and the Democrats. But the Republicans could do just that by going to the barricades for a capital-gains tax cut.

We have been here before. During the first supply-side era, lower taxes on capital gains were supposed to pay for themselves—in two ways. First, a lower capital-gains tax would unlock long-held investments by encouraging investors to cash them in. Investors would then pay taxes at a lower rate, but the increase in taxable transactions would bring in more revenue. Second, the greater amount of capital freed to seek its most efficient use would yield more growth, more investment, and more revenue.

Alas, the experiment of the 1980s was inconclusive at best. Taxpayers did cash in more capital gains. However, most studies find that taking stock profits fluctuates with stock prices, not with changes in tax laws. The stock market boomed during the mid-1980s mainly because of steady disinflation and the decline in interest rates. Low inflation and low interest rates are usually good for stock prices—but that has far more to do with what the Federal Reserve does than with the tax code. The even stronger bull markets of the late 1980s and early 1990s occurred after the Tax Reform Act of 1986 raised the top capital-gains rate from 20% back to 28%.

The current Republican proposal would give a 50% tax exclusion on capital gains and also index gains for inflation. This would produce an average effective tax rate on capital gains of barely 10%. With such a generous tax cut, no conceivable increase in stock sales would make up the revenue loss. The Congressional Joint Tax Committee, which assumes that there would be significant stock sales in response to the lower rate, still projects an accelerating revenue loss to the Treasury that would reach $22 billion a year by 1999 and $40 billion a year by 2004.

OVER A BARREL. The promise of capital mobility enhancing economic efficiency is also dubious. Any increased efficiency effect will likely be offset by inefficient investment decisions motivated by tax avoidance. The 1981 tax act, which created a preference for capital gains, lit a boom in tax shelters. The 1986 Tax Reform Act eliminated the extreme gimmicks. But a new 50% exclusion on capital gains will reopen the game of converting ordinary income to capital gains purely to duck taxes—hardly an efficient use of scarce capital.

It is also paradoxical that enthusiasts of a capital-gains tax cut hymn the virtues of increased portfolio churning just when many students of the U. S. economy think investors are too quick to sell stocks rather than hold for the long term. If a capital-gains preference is to be considered at all, it should be limited to long-term holdings and new stock issues. But the GOP plan doesn't differentiate between long- and short-term holdings, nor between productive assets and investments in Impressionist paintings, rare books, pre-Columbian art, and other investments that do nothing for productivity.

SILVER SPOONFUL. So the proposal for a capital-gains tax cut is unconvincing on its own terms. And because about 50% of the value of stocks and 60% of bonds are held by the richest 1% of the population, the cut would bestow tax relief on the wealthiest Americans at a time when the bottom 80% of the population, which would get 5% of the tax relief, has seen real incomes fall.

Therein lies the political vulnerability of the proposed tax cut. Much of the GOP's Contract With America makes political sense. Voters are feeling tough on crime, illegal immigration, and welfare. But just when hapless Democrats are looking in vain for populist themes to offer angry middle-class voters, here come the Republicans with a tax cut for the rich.

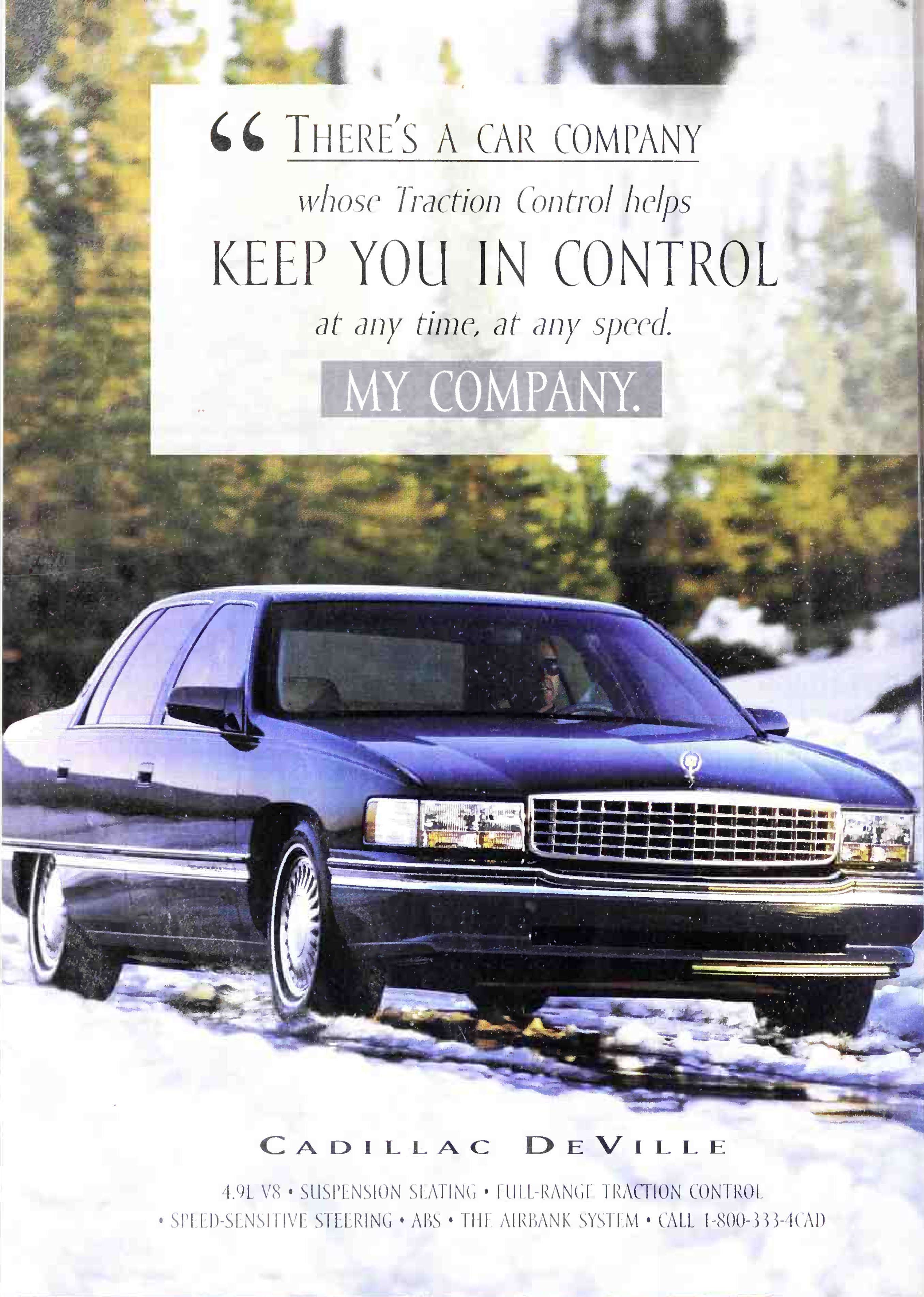
The GOP contract offers a $500-per-child tax credit, too. But here is the rare "bidding war" on tax cuts that Democrats can actually win—simply by insisting that every nickel of any tax relief go to the stressed middle class.

Of course, it's not yet clear that Democrats will rise to the challenge. When Senate Majority Leader Bob Dole (R-Kan.) briefly threatened to hold the General Agreement on Tariffs & Trade hostage for the capital-gains tax cut, I was waiting for President Clinton to reply: "Go ahead, make my day." Instead, Clinton cut a deal with Dole. Democrats could also blunder politically by trying to be the more fiscally responsible party and resisting any tax relief. It would be shrewder politics to fight over who gets the relief.

The GOP has the upper hand on social issues, but Republicans shouldn't get cocky. Ordinary voters revert to supporting Democrats based on pocketbook issues whenever the GOP starts behaving like the country-club party.

IG BREAK:
he GOP may
and Clinton
perfect issue
y pushing for
capital-gains
ax cut–which
vould be a
ift to the
ich, not the
niddle class

bert Kuttner is co-editor of *The*
nerican Prospect and author of *The*
d of Laissez-Faire


"THERE'S A CAR COMPANY
whose Traction Control helps
KEEP YOU IN CONTROL
at any time, at any speed.
MY COMPANY.
CADILLAC DEVILLE
4.9L V8 • SUSPENSION SEATING • FULL-RANGE TRACTION CONTROL
• SPEED-SENSITIVE STEERING • ABS • THE AIRBANK SYSTEM • CALL 1-800-333-4CAD

Robert J. Reuter

Robert Reuter, Cadillac Staff Project Engineer ”

TRACTION CONTROL “Traction systems in some cars turn off at about 30 mph. But people drive faster than that. So we designed the DeVille's Traction Control to work at any speed. So if it's raining or you hit a patch of ice, the DeVille automatically senses the wheels slipping and helps keep you in control. And it works so smoothly, you may not even know it's there. It's just one of the ways we're helping you drive safely through a wider range of conditions at my company: Cadillac.”

CADILLAC®

CREATING A HIGHER STANDARD®

ys wear safety belts, even with air bags.
994 GM Corp. All rights reserved.
ILLAC, DEVILLE, AIRBANK...

BY GENE KORETZ

WHAT'S FUELING THE U.S. BOOM?

Some say it's easier bank lending

The U.S. economic boom in 1994 is something of a puzzle. On the fiscal side, the economy has been buffeted by the largest marginal income-tax hike to come along since the 1960s and by a sharp slowdown in federal spending. On the monetary side, it has experienced a rise of 250 basis points in interest rates, a shrinkage in bank reserves, and a decline in the growth rate of the M2 money supply, to less than 1%. Yet it has managed to grow a heady 4.4% in the past year.

How to explain the boom? According to some experts, the answer is to be found in the easier credit stance of a newly healthy and hungry banking system. Having bolstered their capital positions and posted record earnings, commercial banks have in many cases been vying to reclaim market share by easing their lending conditions for business. Since the start of 1994, commercial and industrial loans have soared by more than $50 billion.

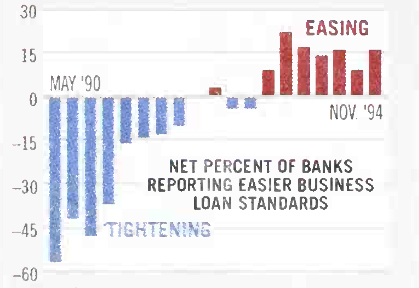
"Banks are the major source of credit for small and medium-size businesses," notes economist Maury N. Harris of PaineWebber Inc. "And such businesses are largely responsible for the sharp pickup in job creation we've seen over the past year."

In a speech delivered to bankers in October, Federal Reserve Board Chairman Alan Greenspan cautioned the industry about the general easing of credit terms for business. And Fed Governor John P. LaWare recently noted the lending pickup "at thousands of smaller banks whose loans are made almost exclusively to small business, as well as at large domestic and foreign banks."

Despite jawboning by Fed officials, however, bank loan officers who were surveyed in November reported they were continuing to ease terms and standards (chart). As economist Richard B. Berner of Mellon Bank observes, "credit for small and medium-size businesses has never been more readily available." Thus, it may be no coincidence that the National Federation of Independent Business recently reported that its members are boosting hiring plans in the face of "one of the tightest labor markets in years."

In view of competitive pressures, many banks may be reluctant to stop easing credit standards—and thereby reinforce the Fed's efforts to slow the economy. Until they do, however, Harris believes the Fed will have little choice but to continue to raise interest rates.

BANKS: STILL EASING CREDIT



DATA: FEDERAL RESERVE

INFLATION METERS ARE TWITCHING

A temporary surge may lie ahead

Although key inflation yardsticks have registered negligible price pressure in recent months, their readings for the final two months of 1994 may jolt financial markets a bit. According to economist Donald Ratajczak of Georgia State University's Economic Forecasting Center, the producer price index (PPI) for finished goods will show a jump of about 0.5% in November. And the consumer price index (CPI) is likely to climb by about 0.4%.

Behind the anticipated strength in producer prices is a pickup in petroleum-product costs, vegetable prices affected by tropical storm Gordon, and hikes in the cost of a variety of goods such as children's clothes, cosmetics, pharmaceuticals, and tobacco products. Perhaps the biggest impact, however, will come from a big rise in prices of cars and trucks, which were unduly depressed in October by seasonal adjustment procedures that no longer reflect the auto industry's pricing patterns.

Similar seasonal procedures for retail auto prices will affect the CPI, which will also be lifted by the impact of new environmental rules on gasoline prices, higher vegetable prices, a decline in airline discounting, and rising medical fees. The good news, says Ratajczak, is that the pickup in inflation readings, which may be repeated in December, does not appear to reflect a long-term ratcheting up.

THE YEN'S PEAK HAS PASSED

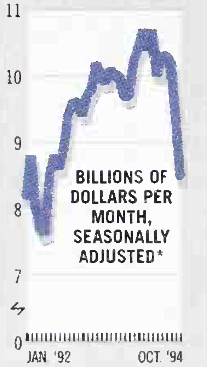
And Japan's trade edge narrow

It was a long time coming, but th anese trade surplus and the va the yen both appear to be receding surplus has now fallen from year- er levels for three straight month is down on a seasonally adjusted from a $130 billion annual rate in F ary to $102 billion in October. Wit port volum 18% over the year and r far faster exports, ec mists at Sal Brothers think the su could fall to its peak l within a yea

The shrin surplus ha ready helpe bilize the ye lar exchange and should downward p sure on the as it contin But Solly's economists also note Japanese investors are gradually coming more willing to add to their ings of long-term foreign securities, ticularly foreign bonds. At the time, foreign investors have rec become net sellers of both Japa bonds and equities.

These shifts in capital flows, com with Japan's shrinking trade sur suggest that the yen will weaken estly over the next year, Solly say

JAPAN'S TRADE SURPLUS EBBS



*3-MONTH MOVING AVERAGE

DATA: JAPANESE FINANCE MINISTRY, SALOMON BROTHERS INC

TIDINGS OF PROFIT AND JOY

The gift-wrap gauge points upwa

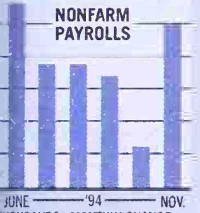
Just how good a Christmas season retailers ring up? According to ter Appert, an analyst at Alex. Brow Sons, a highly reliable clue is the am of gift wrapping that merchants th selves buy in the months just prio the holiday. This year, he reports, wrap shipments indicate that fou quarter sales of clothing and other durable items will be up about 6.2% generous increase over the 4.6% s gain wrapped up last year.

JAMES C. COOPER & KATHLEEN MADIGAN

AMN THE RATE HIKES, ULL SPEED AHEAD

U.S. ECONOMY As if to add an exclamation point to 1994, the data are em- sizing the year's two biggest surprises: unexpectedly ong growth and the Federal Reserve's startling hikes nterest rates.

he latest numbers give no hint that growth is cooling in the way the Fed would like. November payrolls ged 350,000, a gain characteristic of the early-boom ge of a recovery, not a 3½-year old expansion (chart). spite rising rates, October sales of new houses are up % from June, and November demand for U. S.-made s and light trucks matched March's 7½-year high.



NOVEMBER HIRING ROARS BACK

HOUSANDS , MONTHLY CHANGE

DATA: LABOR DEPT.

Moreover, real consumer spending in October was up at an annual rate of 3.5% from the third quarter, compared with last quarter's 3.3% increase, suggesting that the pace of buying this quarter could end up even faster than last quarter. And U. S. purchasing managers said November industrial activity hit a 10-year high.

Admitting that the Fed had somewhat underestimated the nomy's strength, Chairman Alan Greenspan preached anti-inflation sermon to Congress on Dec. 7. He warned t "the good economic times could tempt producers into sing prices soon to cover rising costs." That inflation rm was echoed by the Fed's latest survey of regional nomies released on the same day.

iven that, further rate hikes seem assured. There is in- asing speculation that the Fed will move as early as the c. 20 policy meeting. But given the large three-quarter- nt increase on Nov. 15, the Jan. 31-Feb. 1 powwow ght be the better bet.

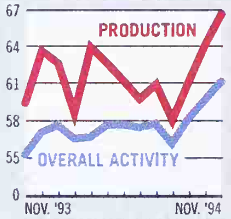
E INTERESTING SIDELIGHT to the economy's bull- cast, which suggests that the Fed might delay its next ve, is the bond market's recent rally. The yield on the chmark 30-year Treasury bond fell below 7.9% on Dec. efore the Orange County (Calif.) bankruptcy hit the nicipal market.

lthough strong growth portends higher inflation, the d market may be starting to believe in the widely ecast 1995 slowdown—and in the Fed's resolve to make appen.

he November employment report challenges that re- ve. The job gain was not only one of the largest this year but also one of the broadest. Some 61% of the 356 industries surveyed added workers to their payrolls. High-paying goods producers put on the most new hires in 4½ years.

Those gains included 51,000 jobs in manufacturing and 71,000 in construction. Unusually warm weather exaggerated the construction increase, but the factory additions look real. Combined with October's 42,000 new factory slots, that's the largest two-month gain in manufacturing jobs in six years. Service producers added 230,000 workers, close to this year's average monthly gain.

INDUSTRIAL ACTIVITY SURGES AHEAD



▲PERCENT REPORTING IMPROVEMENT

DATA: NATIONAL ASSOCIATION OF PURCHASING MANAGEMENT

In addition, further job gains will push the unemployment rate lower in coming months, just at the time when joblessness is already at levels that heighten worries about inflation's No. 1 fuel: faster wage growth. The jobless rate fell to 5.6%, down from 5.8% in October. In manufacturing, the unemployment rate shrank to just 4.9%.

The chief implication of the November job data is that fourth-quarter growth in real gross domestic product is on track to match—or even exceed—last quarter's 3.9% pace. Although overall work time fell in November, reflecting an 18-minute drop in the workweek, total hours worked this quarter are still running 4.7% above the third quarter, at an annual rate. That's more than twice the third-quarter increase. Even if productivity shows no rise, that means real GDP growth could easily reach 4%.

MANUFACTURERS, fueled by shop-happy consumers and a relentless boom in business-equipment investment, are certainly feeling their oats. The National Association of Purchasing Management's index of industrial activity jumped from 59.7% in October to 61.2% in November.

The index, comprising production, orders, delivery times, inventories, and employment, posted a third consecutive increase (chart). The production index was the highest since 1983, says the NAPM, and the orders index was near last January's level, which was a 10-year high.

The industrial sector's vigor should carry forward into 1995, if only because consumers seem determined not to let higher interest rates get in the way of their holiday shopping. Retailers went into the season with heavy inventories, but solid sales are paring them down and clear-

ERIC HOFFMANN/BW

ing the way for reordering and further output gains.

Shoppers were on a roll even before the season began. In October, real consumer spending jumped 0.7%. November results will not be as strong, given the month's moderate reports from retailers. But post-Thanksgiving activity appears to have picked up.

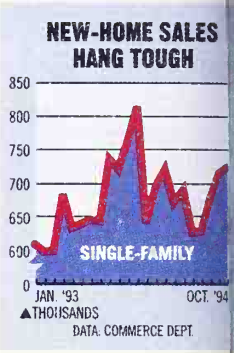
One source of buying power stems from consumers' new affinity for credit purchases. Households continued to add lustily to their installment debt in October, and the increase for all of 1994 is on a record-setting pace.

THE KEY SUPPORT under borrowing and spending is the strong labor market, which is generating healthy income growth. Personal income soared 1.4% in October, and even after adjusting for taxes and inflation, real disposable earnings still rose a stout 1.3%. That means real income growth started the fourth quarter at an annual rate of nearly 7% above last quarter, suggesting that consumers are flush with cash as they prepare for the holidays.

Better job markets are also a big reason why home buying is holding up, even though mortgage rates have jumped two percentage points since the Fed began to tighten. Sales of new single-family houses rose 1.3% in October, to an annual rate of 726,000, after a 5.6% gain in September (chart). The proliferation of cheaper adjustable-rate mortgages is one reason for this resilience. But consumers are also just better off. Third-quarter mortgage delinquencies, for example, dropped to the lowest leve 21 years, says the Mortgage Bankers Assn.

To be sure, the economy is destined to slow down, pr ably by the second half of next year. Despite the buoy demand now, the housing sector is already flashing so signs of slower growth later on. Contracts for new re dential construction, which is a leading indicator of ac al building, have been falling in recent months, accord to F. W. Dodge Div./McGraw-Hill Inc.

More broadly, the government's index of 11 leading indicators, designed to predict the economy's course six to nine months in advance, fell in October for the first time in 15 months. Of interest to inflation worriers: The indicator posting the largest decline was commodity prices, which slowed for the second month in a row.



NEW-HOME SALES HANG TOUGH

DATA: COMMERCE DEPT.

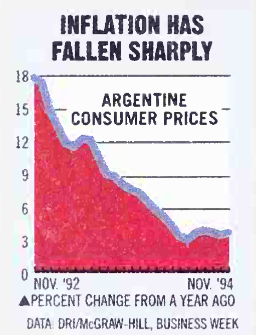
Given the Fed's resolve, the surprise of 1995 is not likely to be a repeat of 1994's mu cular growth. Instead, higher rates will eventually be this expansion more in line with the Fed's wishes. But a little while longer, at least, the present dream com nation of strong growth and low inflation will contin to feel mighty nice.

LATIN AMERICA

DON'T CRY FOR ARGENTINA NOW

If economic issues are, in fact, most dear to voters, then Argentina's President Carlos S. Menem should have little trouble in his bid for reelection in May, 1995. The country's economic progress is being watched closely by many outside Buenos Aires as well. The nation has been targeted by the U. S. as a big emerging market with great potential for buying exports.

Certainly, the Argentine economy is going like gangbusters. Real gross domestic product in the first half grew by 7.4% from a year ago. For all of 1994, growth of 6% to 7% is forecast, and the 1995 expansion should top 5%.



INFLATION HAS FALLEN SHARPLY

DATA: DRI/McGRAW-HILL, BUSINESS WEEK

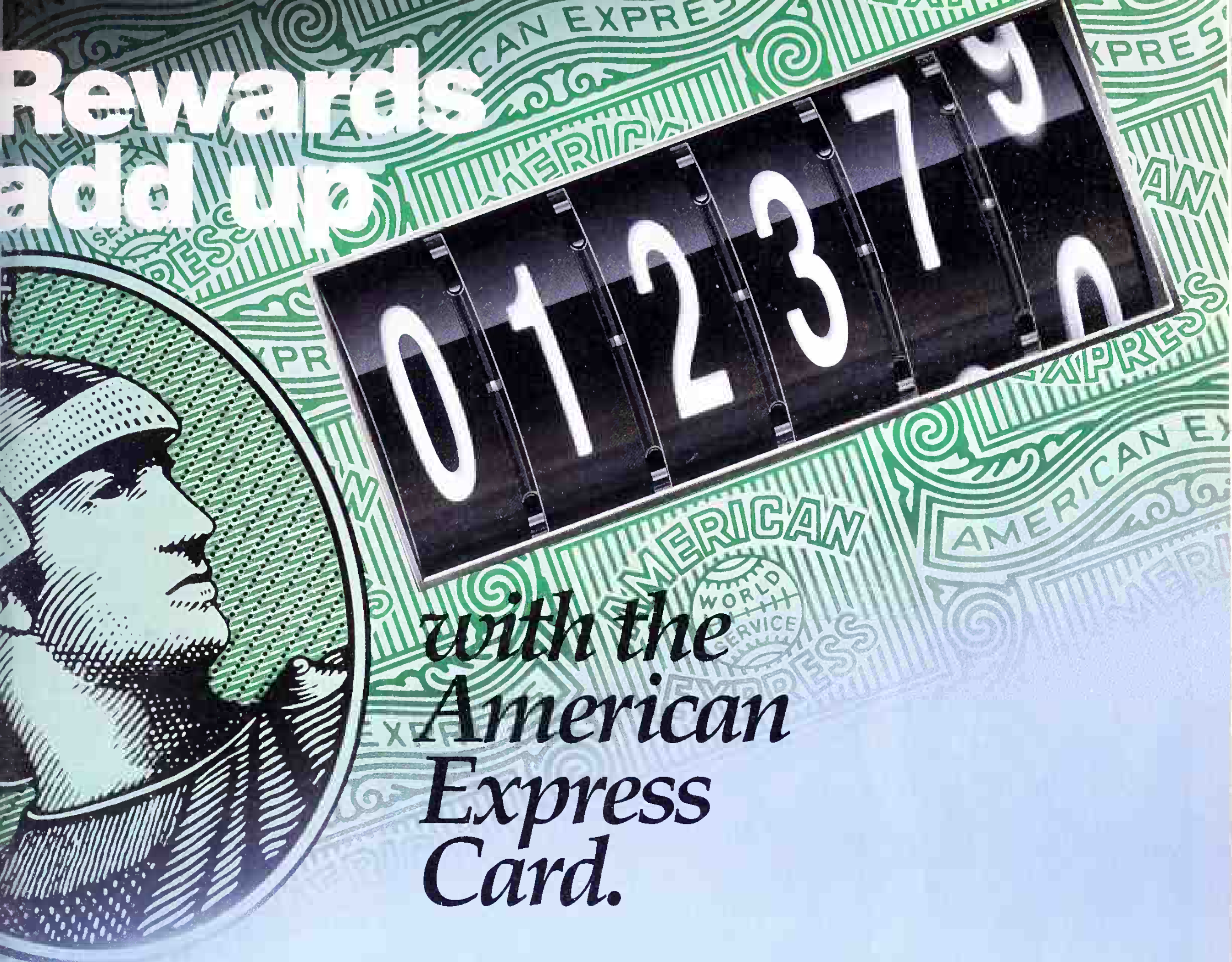
The latest data show that Argentina continues to make strides on two fronts: inflation and trade. Consumer prices edged up 0.2% in November. And the country's yearly inflation rate has slowed to 3.6%—which is a big drop from the 18% pace of two years ago (chart). The government's stabilization plan, which includes tariff reductions and pegging the peso to the U. S. dollar, has helped to whip inflation.

Trade reform and strong demand are damaging Argentina's trade position, but the third quarter had at least some good news. The trade deficit widened to $1.4 billion, up from $1.2 billion a year ago. Exports, however, were up 21.1% from the year before, exceeding the 19.7% gain in imports.

Moreover, capital goods are leading the import wave, and such productivity-enhancing equipment will keep inflation low in 1995. Exports will improve next year, too, lifted by January tariff cuts within the Mercosur trade group: Argentina, Brazil, Uruguay, and Paraguay.

Argentina's progress does not mean clear sailing ahead. High unemployment, income inequality, and a poor educational system still plague the nation. These social ills raise the prospect of an increase in public spending before the election. But that will hardly hurt Buenos Aires' fiscal position. By law, the federal government cannot spend more than it takes in, and the government is running a small surplus so far in 1994.

ERIC HOFFMANN/BW



Rewards add up

with the American Express Card.

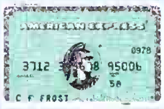
Only the American Express® Card rewards you with such a choice of airlines to fly on, hotels to stay in, and experiences to enjoy.

It's all part of the *Membership Miles*® program: the rewards program that gives you a choice of 6 premium airlines and their international affil-
ates; 5 world-class hotel chains and resorts; special
/acation Awards, including trips to Hawaii and
lorida; and our exclusive Unique Experiences,
vhich offer something truly different.

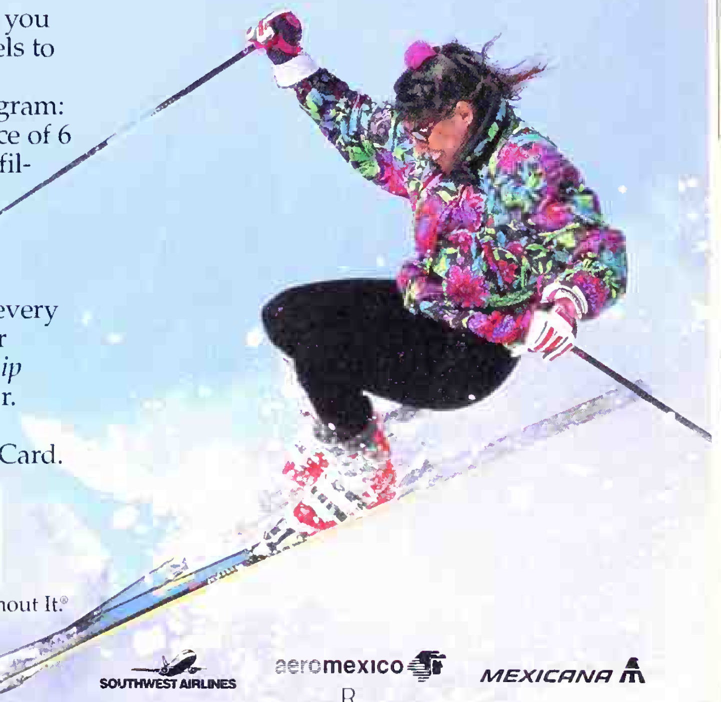
When you enroll, you'll earn one program mile for every
lollar you spend on the Card. So you can redeem your
ewards faster than ever! And best of all, the *Membership*
Ailes annual program fee of $25 is waived the first year.

The *Membership Miles* program is our way of saying
thank you' every time you use the American Express Card.

To enroll in the *Membership Miles*
rogram or to apply for the Card, call
800 AXP-MILE (1 800 297-6453).
hen watch how quickly your
ewards add up.



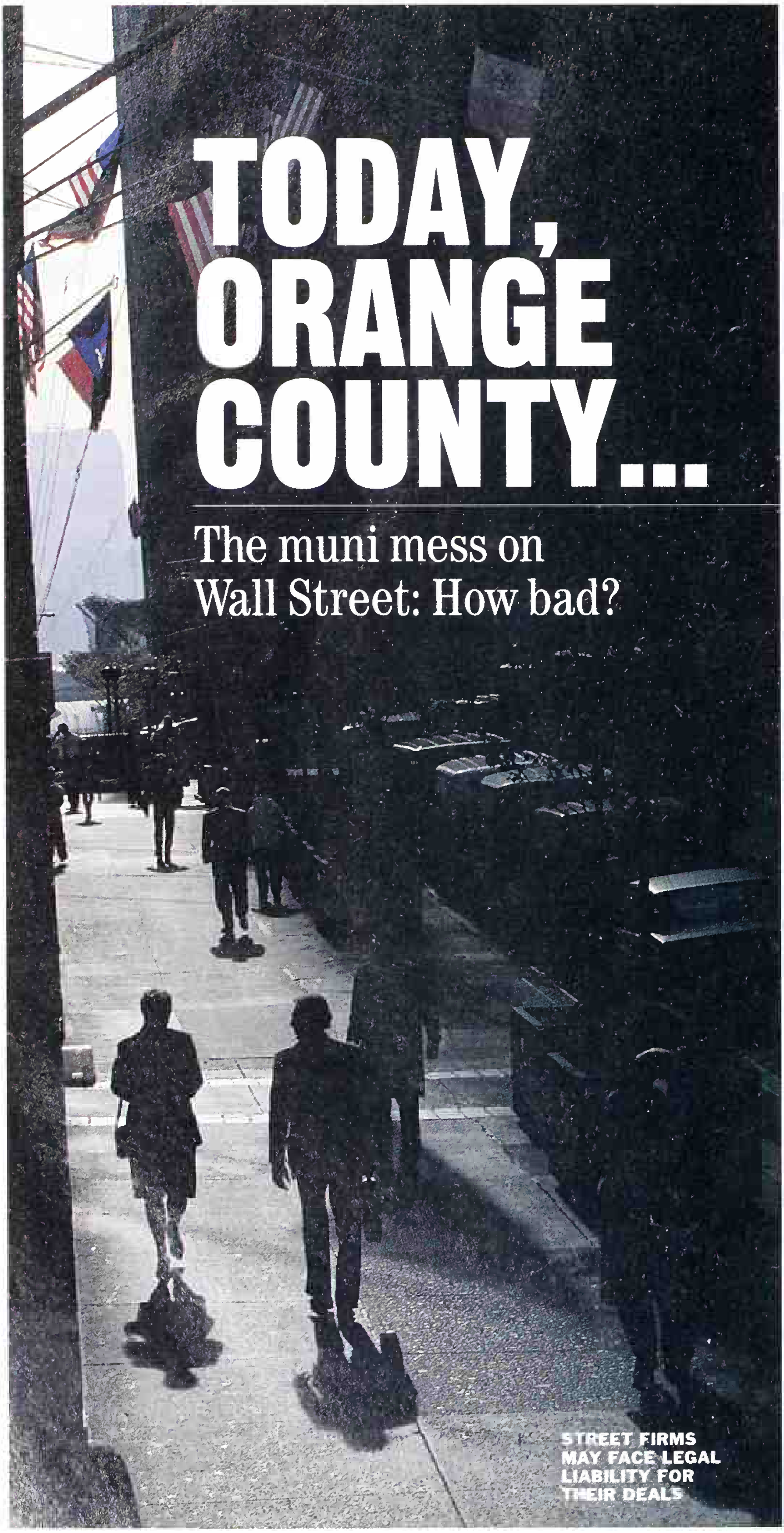
Don't Leave Home Without It.®



DELTA AIR LINES USAir Continental SOUTHWEST AIRLINES aeromexico MEXICANA

Marriott HOTELS RESORTS SUITES ITT Sheraton Hilton WESTIN HOTELS & RESORTS RENAISSANCE HOTELS AND RESORTS

Cardmembers can begin redeeming miles once $5,000 is charged on all enrolled Cards.
Membership Miles program partners subject to change. Some Corporate Cards, Optima℠ Cards and Cardmembers with foreign addresses may not be eligible for enrollment. The fee for some Corporate Cards may be $50 and terms may vary.



TODAY, ORANGE COUNTY...

The muni mess on Wall Street: How bad?

STREET FIRMS MAY FACE LEGAL LIABILITY FOR THEIR DEALS

Wall Street's municipal bo
dealers aren't known for p
icking easily. But on Dec.
they did.

Five days earlier, California's Orar
County had announced that its inve
ment fund of $7.4 billion faced los
of $1.5 billion, the result of a conf
ence of sharply higher interest rat
and an investment strategy that reli
primarily on derivatives and enorm
leverage. The problem, in a nutsh
County Treasurer Robert L. Citr
borrowed $14 billion, investing t
money in interest-sensitive derivati
contracts, hoping to increase retur
for his fund. When rates turned up, (
ange County was forced to pay mo
on its borrowings than it was earni
on its investments.

With the county's supervisors me
ing privately in a Santa Ana munici
building, rumors of bankruptcy we
rampant. Wall Street investment ban
had billions in loans outstanding to t
county. Yet the affluent California m
nicipality was stonewalling deman
for information. Frustrated and w
ried, at least one firm appealed to t
governor of California and the Feder
Reserve Board to intervene.

Quickly, the crisis played itself ou
First, Orange County missed a $2
million payment on $2.6 billion in r
verse repurchase agreements, a for
of securitized loans, to First Bost
Corp. With the county close to defau
First Boston immediately liquidated i
entire holdings of Orange County c
lateral, made up primarily of gover
ment bonds.

"SCARED TO DEATH." At 5 p.m. Califo
nia time, the county supervisors hois
ed the white flag. Facing the prospe
of further liquidations and pressu
from agencies clamoring to recov
their investments in the fund, Oran
County and its fund filed for Chapter
protection from bankruptcy in San
Ana Federal Court. Suddenly, up to
dozen firms, among them Merrill Lync
Morgan Stanley, and Nomura Secu
ities International, were stuck holdi
billions in loans that Orange Count
would not honor. It still isn't clea
whether those firms are prohibite
from liquidating their collateral in th
wake of the filing. "People are scared t
death," says one Wall Street executiv
"No one wants to be last to get the
money."

Orange County's stunning bankrupt
filing, the largest ever in the municip
world, cast a chill over U. S. markets-
driven partly by investor worries abo
other portfolio losses. On Dec. 7, price

As municipalities "wait for rates to change, they make it worse. Some of these people are out of their depth"

ie $1.2 trillion municipal bond market
 more than a full point—a huge drop
iat market. Treasuries took a hit as
, pushing the yield on 30-year bonds
o 7.89%. Even stocks were hurt, with
Dow Jones industrial average de-
ng 10.43, led by financial companies,
iding brokerages that lent money to
nge County.
he shock waves from the Orange
nty disaster will be felt for months.
he short term, other California
nties may find it tough to raise
ls; already, trading in California and
er muni bonds has dried up, says
 Payden, who runs Payden & Ry-
 a Los Angeles bond firm.
UTINY. The meltdown also could in-
 an era of far more
ense regulation in
 the municipal and
ivatives markets—
 of which, until now,
e largely avoided
shington's gaze.
iat is being ducked
 by everyone is ac-
ntability," says Rep-
entative Jim Leach
owa), the incoming
rman of the House
king Committee.
ch promises to rein-
luce a bill requiring
 Securities & Ex-
nge Commission to
blish accounting and
er standards for all
ivatives investors.
cross the U.S., ris-
 rates have stung
ers as well. On Dec.
'exas acknowledged
ses of $70 million
n repurchase agree-
nts and reverse re-
 in a state invest-
nt pool. And San
go County and the
rida State treasurer
 they have racked
a combined total of
0 million in paper
ses brought on by
erest-rate hikes.
m Charles County,
, to Cuyahoga Coun-
Ohio, local officials
 have used leverage
 dabbled in exotic interest-rate derivatives to boost returns have been caught short (table). "Perhaps because the returns were so good, there was not enough attention to risk," says Dennis J. Roche, a consultant to Cuyahoga County.

There likely are many more blowups in the making. But no one knows just how many problems are out there. That's because municipalities' investments are subject to far less stringent rules than mutual funds and other investments. Federal regulations are few, and municipal funds aren't required to price their holdings daily, as are private investors such as pension fund managers. Says Robert B. Lamb, professor of finance at New York University's Stern School of Business and an adviser to many municipalities: "You will not see losses until they declare them. They are hidden, buried. As they wait for rates to turn around, they make it worse. Some of these people are out of their depth."

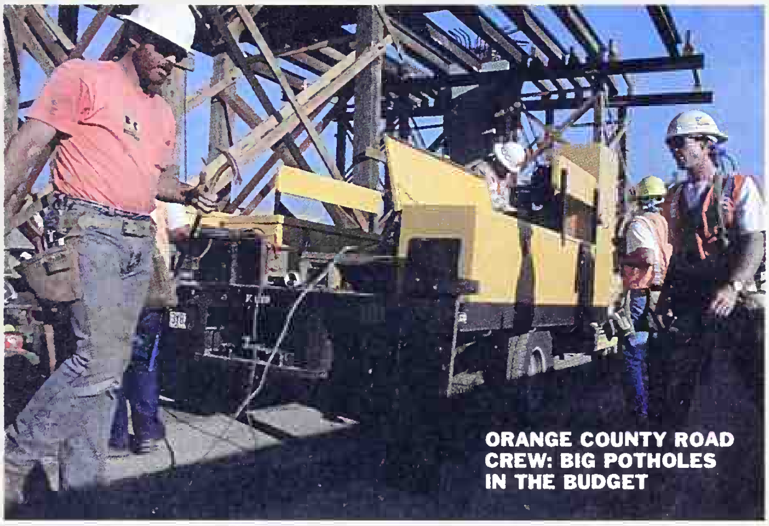
Back in Orange County, lawyers and regulators are sharpening their claws. Many of the 187 school districts, transportation authorities, and cities that invested in the fund already are mulling suits. The most likely targets: the Wall Street firms that lent Orange County money. The agencies expect "securities firms to shoulder some of the responsibility," says Haig Nargesian, senior analyst at Moody's Investors Service. Regulators also are probing the fund. The Commodity Futures Trading Commission has announced an investigation. And the SEC wants to know if Orange County was using the proceeds of bond issues to invest in derivatives—and, if so, whether proper disclosures were made about such financing.

The SEC also may ask whether Merrill, which underwrote a $600 million note for the county earlier this year, informed investors where the money was going. "Something is amiss when the system can tolerate this kind of situation," says one SEC official. Says a Merrill spokesman: "We believe that we have conducted ourselves in a totally ethical and proper manner in our dealings with Orange County."

Meanwhile, Orange County citizens face a loss of interest income and, probably, a delay in repayment of principal. Ultimately, the county's towns and agencies may have to make up the fund's losses, either in the form of reduced ser-

TAXPAYER, BEWARE

Public entities with recent large investment losses


ORANGE COUNTY ROAD CREW: BIG POTHOLES IN THE BUDGET

AXEL KOESTER

ORANGE COUNTY, CALIF. Its $7.4 billion fund lost $1.5 billion on derivatives and reverse repos when the bond market collapsed.

CHARLES COUNTY, MD. Lost $8.3 million in mid-1994 by investing 98% of its assets in collateralized mortgage obligations and structured notes. The county sued 12 brokerage firms for losses.

CUYAHOGA COUNTY, OHIO's highly leveraged $1.8 billion fund lost $137 million when bond prices fell. A local prosecutor is investigating eight securities firms and two banks.

ODESSA COLLEGE The Texas school lost $7 million in mid–1994 after investing $22 million in collateralized mortgage obligations. It issued new debt to cover the loss.

WEST VIRGINIA Morgan Stanley is still fighting a $48 million court award stemming from the state's $279 million loss in 1986 and 1987 on Treasuries, reverse repos, and options.

vices or higher taxes. The county itself expected to earn $150 million in interest in 1995 to help fund its $3.7 billion annual budget. That money just disappeared. Says Peter Whittingham, the executive assistant to Gaddi Vasquez, one of five county supervisors: "This will have an effect upon county services and delivery of services." Financing costs could rise sharply, as well.

Despite the magnitude of Orange County's losses, the fund's risky investment strategy should be no surprise, either to investors or to voters. John Moorlach, the Costa Mesa accountant who challenged Citron's reelection this past spring, made a major campaign issue of the investment strategy. "There was no exit plan," says Moorlach, who lost decisively. "If you want to make a killing, you've got to be prepared to killed. But when you do it with my t dollars, the question is: Why were y able to do that?" On Dec. 6, investo regulators, and Wall Street started as ing the very same question.

By Leah Nathans Spiro in New Yo and Nanette Byrnes in Los Angele with Zachary Schiller in Cleveland a bureau reports

WITH RETURNS LIKE THESE, WHY ASK QUESTIONS?

HOT SEAT: *Citron and County Attorney Terry Aldus*

ORANGE COUNTY REGISTER

Robert L. Citron, 69, enjoyed few of the trappings of power. He dressed in inexpensive suits, and returned each night to the modest home that he and his wife of 39 years, Terry, bought two decades ago. But in the nondescript offices where he worked 24 years as treasurer for Orange County, Citron reigned virtually unchecked as one of the most potent political figures in Southern California's wealthiest county.

For more than two decades, Citron's investment fund was California's star performer, producing annual returns of 9% for Orange County when the state fund was earning half that amount. As a result, assets under management soared nearly eightfold, to $7.4 billion, from 1988 to 1994. On Dec. 4, though, Citron's run ended, three days after Orange County revealed $1.5 billion in losses from his investments in derivatives and so-called reverse repos. After declaring earlier that he had acted responsibly in every way, Citron resigned from his $100,339-a-year job without public statement.

"MAVERICK." The rapid downfall didn't completely surprise associates and peers, who characterized Citron as a classic risk-taker. "Citron was known for years to be a maverick and a very aggressive trader who was pushing the envelope," says Linda Patterson, a former assistant deputy treasurer from Texas.

Citron bet heavily that interest rates would continue falling this year, investing $8 billion in structured securities, largely derivatives such as inverse floaters. He tried to lift yields by borrowing as much as $14 billion in short-term securitized loans. As rates rose, Orange County's funds got squeezed. Citron didn't return phone calls to his Santa Ana home.

For such a high roller, Citron enjoyed a remarkable freedom from accountability. He reported on the status of the county's funds just once a year. The fund's last report, dated Sept. 26, 1994, and covering the fiscal year ended last June 30, was typical, "basically blowing their own horn," says Donald L. Watson, treasurer of Huntington Beach, which has $48 million in the pool. Watson says he now wants to see reports quarterly.

Watson, like others, says he found Citron inaccessible. Private and quiet, the treasurer avoided public attention. "He's a hardworking fellow, a shy fellow," says George W. Jeffries, chief investment officer of Los Angeles County. "You wouldn't see him in the society pages, if you read that stuff." Indeed, investors say they tended to rely for information on second-in-command Matthew Raabe, who was named acting treasurer following Citron's resignation.

The lack of disclosure ultimately brought pressure. Peer Swan, chairman of the Irvine Ranch Water District, says he decided to withdraw 25% of the District's $400 million from the pool this fall when "the information we got was not adequate. We couldn't see what specific assets were in there." Many investments, Swan says, looked solid; "it wasn't readily apparent that they were derivative products."

Such criticism may be disingenuous, others say. Given the returns, "anyone in this pool would be naive if they said they had no idea Bob [Citron] was investing in securities with some risk," says Jim Kenan, director of finance and administration at the Orange County Transportation Authority.

Still, Citron faces questions about what he did and didn't disclose. Bill McDonald, assistant commissioner of enforcement at the California Corporations Dept., says his agency has joined the Securities & Exchange Commission in trying to determine whether investors were given enough information.

Citron's long run of invincibility appeared to be winding down, anyway. Last spring, for the first time in 24 years, he faced a challenger for his elected office. Citron won the race handily, but the stress of the campaign, he said afterwards, was too much for him and his wife. The election would be his last, he said. He was right.

By Nanette Byrnes in Los Angeles

IE PENTAGON'S EAL READINESS CRISIS

tomorrow's soldiers be stuck with yesterday's weapons?

I-BOUND MARINES: *Critics say troops are stretched too thin*

ter six months at sea in the Medi- erranean and off the coast of Somalia, the U.S. 24th Marine Expe- nary Unit was counting on a long at its Camp Lejeune (N.C.) home . But on July 5, after just 10 days, ,000-soldier unit sailed for a three- stint off the coast of Haiti. No oth- nphibious force was available.

tely, the U.S. military clearly has ts hands full. And Republicans are laining loudly that years of Pen- n budget cuts have left the armed es woefully overextended. Presi- Clinton seems to be taking the iness problem seriously, too. On 1, he announced a plan to boost nse spending by $25 billion during next six years. The new money d pay for a military pay hike, more ing and battalions, and other meas- to ease pressure on the troops and t morale.

MOTH FORCE. But Clinton hasn't ad- sed a far more critical problem at Defense Dept.: how to plug a budget of up to $150 billion without making esale cuts in research and procure- of next-generation technologies.

g-term U.S. defense readiness, ex- s say, could well ride on keeping with an emerging military-technol- revolution.

t since 1987, the Pentagon has cut spending by 22%, and it plans to hack off 25% more by 1999. Meanwhile, Defense maintains a mammoth force—2 million active and reserve troops—and a massive network of bases despite the absence of a major threat. And there are no plans to shrink manpower much further. "We're robbing our future military capability to maintain our existing forces," frets Andrew F. Krepinevich, director of the Defense Budget Project, an independent Washington think tank. "That sets up the conditions for a train wreck between what the military will need and the resources likely to be available."

Of course, the U.S. doesn't have to have every item on the Pentagon's wish list of weapons. But not staying a step ahead in some critical technologies could have dire consequences. Given international arms trafficking, it's only a matter of time before other countries catch up with current U.S. knowhow.

Still, Clinton's $25 billion pledge and the GOP takeover of Capitol Hill have cheered defense contractors. Kent Kresa, chairman of Northrop-Grumman Corp., says he thinks the $25 billion is "good news" for his company's B-2 bomber, which Defense Secretary William J. Perry had vowed to kill, because it may free up more money for weapons. GOP pledges to revive Star Wars-style missile defenses are a plus for Lockheed Martin Corp. More good news for Lockheed Martin: Its F-22 fighter will be built mostly in Marietta, Ga., smack in GOP Speaker Newt Gingrich's district.

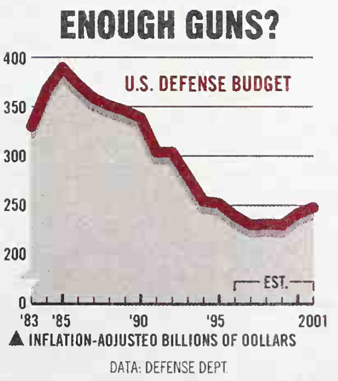
But some independent defense experts doubt that the Pentagon can afford more hardware, thanks to the defense budget gap. And for now, the Clintonites' priority seems to be keeping soldiers at the expense of technology and weapons. They say they long had been mulling ways to improve preparedness. But the postelection timing and the setting of the funding announcement—in the White House Rose Garden, with Perry and the Joint Chiefs of Staffs flanking the President—suggests politics was the driving factor. Clinton doesn't want to be blamed for presiding over a "hollow force"—as Jimmy Carter was in the late 1970s.

HEAVY DEMANDS. It's not surprising that backlogs of military-equipment repairs are piling up or that U.S. forces aren't always meeting training benchmarks. The problem is that the Administration, Congress, and the military insist that U.S. forces be able to fight two major wars at once, despite added tasks such as peacekeeping and humanitarian assistance. "They've demanded the military be all it used to be and more," says Daniel Gouré, director of political-military studies at the Center for Strategic & International Studies in Washington.

However, even the military denies that there's a readiness crisis. Marines train for rapid deployments on short notice, like that of the 24th Marine Expeditionary Unit. Likewise, the Air Force granted waivers from training requirements to some European F-15 crews that were busy on patrols over Bosnia—but says it sees no indication of diminished combat fitness. "Our overall readiness is higher now than it was during Desert Storm," insists an Air Force official.

But if the U.S. military ever encounters a new megathreat, its ability to respond will depend on tough choices made today. And tomorrow's soldiers may pay heavily if those choices favor manpower over technology to too great a degree.

By Amy Borrus in Washington, with Eric Schine in Los Angeles



PHOTOGRAPH BY TIM WRIGHT. CHART BY ALBERTO MENA/BW

BENTSEN OUT, RUBIN IN: *Passing the torch—or a hot potat*

DENNIS BRACK/BLACK STAR

THE WHITE HOUSE

SUDDENLY, CLINTON'S STRONG SUIT IS IN JEOPARDY

His crack economic team is breaking up as tough battles loom

Of all the sputtering cylinders of the Clinton Administration, the one that ran smoothest was its economic team. Now, that group is breaking up, just as Bill Clinton enters the most difficult period of his Presidency.

On Dec. 6, Treasury Secretary Lloyd M. Bentsen resigned, depriving the White House of its sharpest legislative strategist on the eve of big tax and budget battles with Republicans. Bentsen's replacement: White House economic coordinator Robert E. Rubin. And in a few months, Commerce Secretary Ronald H. Brown is expected to become chairman of the Clinton reelection committee. An attorney who has helped win megadeals for U.S. exporters, he is viewed by business as the ablest Commerce chief in years.

"WELL-VERSED." The big problem: The wrong people are leaving. While the economic crew is in flux, the rest of Clinton's Cabinet chiefs—whom outsiders generally hold in far less esteem—look to be in for the duration. Nor will there be a big shakeup of the much criticized White House staff. Democratic insiders worry that the White House team will prove to be more like a pair of comfy old slippers than the shin-kickers Clinton needs to do battle with an energized GOP.

On the economics side, Rubin is a seamless replacement, since he shares Bentsen's pro-business bent. Says John W. Snow, chairman of the Business Roundtable and CEO of CSX Corp.: "Both men are sound thinkers, well-versed in finance and economics."

Rubin's political skills, though, aren't tested. And Administration aides wonder whether the former Goldman, Sachs & Co. co-chairman can get in sync with Capitol Hill's rituals before January's battles erupt. "Bentsen helped us immensely because he heard the drumbeat of the Hill," says a top White House adviser. "Bob Rubin does not." Rubin shrugs off such criticism: "I've always found that if I'm straightforward and discuss issues with people in a serious way, then things usually turn out well."

While Bentsen was the consummate arm-twister, Rubin has been working behind the scenes, whispering private advice in the President's ear and calming his financial-market chums. He is more hawkish on cutting the budget deficit. And unlike Bentsen, a scathing critic of Administration liberals such as Labor Secretary Robert B. Reich, Rubin remains an activist on social issues. Accepting his nomination, he said he hoped to use his Treasury post to "deal with
the problems of our public-edu
tion system . . . inner citi
[and] . . . ever-worsening inco
disparity." Nor does Rubin sh
Bentsen's passion for expand
tax breaks to encourage savi
and investment. Bensten, af
tionately dubbed "Looph
Lloyd" on the Hill, wrote
original legislation creating
dividual Retirement Account

While Rubin is moving into
top economic-policy job, Co
merce's Brown may be mov
over to run Clinton's reelect
campaign. Brown, who chai
the Democratic National Co
mittee during Clinton's 1992 ca
paign, would prefer to squ
CEOs around the world on exp
promotion trips. But his Rolodex of bu
ness contacts likely will serve him w
in fund-raising. Brown's possible
placement: former White House Ch
of Staff Thomas F. "Mack" McLarty
who maintains good relations with c
executives and Hill moderates.

To some Washington hands, Clint
cannibalizing of his economic te
seems a bit odd. Fans of White Ho
Chief of Staff Leon E. Panetta wo
rather see a shakeup of the Cabinet a
White House staff, but the Presid
has ruled out sweeping changes. "T
guy just hates firing people," sighs
high-level adviser. The outlook for so
other top Administration officials:

■ **AGRICULTURE.** Former Agricultu
Secretary Mike Espy's resignation o
ethics charges has left the Administ
tion in the lurch just as major farm l
islation is pending. Leading candida
are defeated Kansas Representative D
Glickman and Ruth R. Harkin, head
the Overseas Private Investment Co

■ **HOUSING.** The White House ado
Henry G. Cisneros and hopes he'll st
on the job to push Clinton's showc
"empowerment zone" project in econo
ically blighted neighborhoods. But t
Federal Bureau of Investigation is pr
ing allegations that the Texas Democ
lied to investigators about payments
a former mistress, and the GOP Sen
could begin its own probe.

■ **TRANSPORTATION.** Clinton's devoti
to diversity could save the hide of Tra
portation Secretary Frederico F. Pe
whose regulatory bumbling has da
aged relations with business. The Wh
House was furious with Peña's preli
nary decision to order a recall of Gen
al Motors Corp. pickup trucks. "Nobo

Peña," shrugs a White House offi-
"On the other hand—who cares?"
REIGN POLICY. Secretary of State
ren M. Christopher, roasted for for-
-policy fumbles, is expected to get
vish to stay on. The White House
es that with Jesse A. Helms (R-
.) astride the Senate Foreign Re-
ns panel, getting anyone else con-
ed would be a problem.
NERGY AND NATURAL RESOURCES.
nse Dept. insiders were angered
n Energy Secretary Hazel R. O'Leary released documents on early government radiation experiments on humans. O'Leary wants to stay. But Administration sources say the White House may force her departure by recommending a phaseout of department functions. And Clinton is being urged to replace Interior Secretary Bruce Babbitt, whose public-lands policies have ignited a new Sagebrush Rebellion. "Babbitt's name is mud in the West, and without the West we don't win reelection," says a Presidential intimate.

This is no time for so many personnel problems to be surfacing. Trying to shake its postelection shock, Clinton is planning a mid-December speech that will set forth his agenda for the next two years. But with so much of his Cabinet and White House staff either ducking brickbats or packing boxes, the President may not have the troops to battle newly emboldened Republicans. He can't go too far, after all, in old slippers.

By Susan B. Garland, Paul Magnusson, and Lee Walczak in Washington

---

COMMENTARY

By Howard Gleckman

THE UNKINDEST CUTS FACING BUDGET SLASHERS

The GOP's bold promise to balance the budget via a constitutional amendment is a bit like an over-
uffed lawmaker purchasing a fancy
xercise machine to work off holiday
ab. It offers the hope of a quick
im-down, but if the gear just sits in
e rec room, it won't get the job
one. Unless lawmakers work up a
veat—and risk voters' wrath—by
aking deep cuts in popular pro-
rams, the balanced-budget
roposal in the Republican
ontract With America
mply won't work.

New studies by three
isparate groups are show-
g just how hard it will be
deliver on the Contract's
romises. The Bipartisan
ommission on Entitlement
Tax Reform will vote on
adical deficit-cutting pro-
osals of its own on Dec. 14.
he centrist Democratic
eadership Council re-
ased its budget blueprint
Dec. 5. And the GOP staff
the Senate Budget Com-
ittee has just completed
internal cost estimate of the Con-
act. The message all three inquir-
s have come up with: Cutting taxes
y $200 billion, boosting defense
pending, restoring benefits for So-
al Security recipients—and balanc-
g the budget in seven years—may
e neither possible nor smart.

ACKBONE PROBLEM. The Senate pan-
has found that fulfilling the GOP
ledge would mean slashing planned
pending for all other programs by
ore than $800 billion. Incoming com-
ittee Chairman Pete V. Domenici
R-N. M.) puts the case starkly. Say
l the cuts come in 2003, when the
eficit is expected to be $350 billion. Even if the entire federal government were shuttered, except for the Pentagon and entitlements such as Social Security and Medicare, there would still be a $15 billion deficit. In other words, he says, abolish the Federal Bureau of Investigation and national parks; cut off all funding for export promotion, federal prisons, and highway construction; stop enforcing securities laws, and you've still got a deficit. The budget can't be balanced without serious cuts in entitlements.

OVER
FORT
AND
FEELI
FO

SWEPT AWAY? *A big chunk of the budget goes to seniors*

ALON REININGER/CONTACT

The reason: Just three programs—Social Security, Medicare, and Medicaid—account for more than 38% of all government spending. By 2003, they will eat up nearly half. The Medicare trust fund will be broke early in the next century. And in 20 years, the nation's retirement system will begin to collapse.

Instead of trying to balance the budget in seven years, the Entitlement Commission is looking at ways to bring spending and revenues into balance over a longer term. Some possible solutions: raise the retirement age for Social Security, increase premiums and deductibles for Medicare, or limit eligibility for wealthy retirees.

The commission's co-chairmen, Senator Bob Kerrey (D-Neb.) and John C. Danforth, the retiring Republican senator from Missouri, are putting together a package of tough spending cuts that hit both Medicare and Social Security. Even though the reductions wouldn't begin to take effect until the turn of the century, observers doubt the panel can develop a consensus. If lawmakers recoil from such a plan, how will Congress find the backbone to make cuts now—the only realistic way to balance the budget by 2002?

TAX TRIM. For its part, the DLC isn't even trying to balance the budget. Instead, the group wants to save $200 billion by trimming corporate tax breaks and other business subsidies. Half the money would be used to cut the deficit, the rest would finance a middle-class tax cut, welfare reform, and incentives for job training and privately owned low-income housing.

The Contract, drafted in close consultation with public-opinion pollsters, cannot deliver what it promises. Trying to cut taxes while protecting Social Security and other popular programs may be good politics. But it will never burn off enough calories to pare the deficit down to size.

Gleckman watches fiscal policy from Washington.

THE COURTS

THIS DIAMOND CASE HAD TOO MANY FLAWS

Why the Feds couldn't prove price-fixing at General Electric

A cloud has hung over General Electric Co. since mid-1992, when former executive Edward J. Russell raised charges that GE had conspired with rival De Beers Centenary to boost prices of industrial diamonds. Now, the cloud has lifted. On Dec. 5, U. S. District Court Judge George C. Smith threw out the government's criminal antitrust action, saying the Justice Dept. had failed to prove its case. Says a pleased GE Chairman John F. Welch Jr.: "It's a vindication of our people."

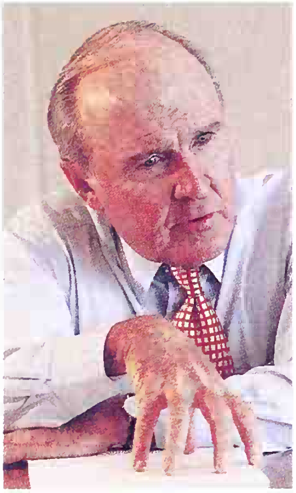
Judge Smith clearly didn't give much credence to Justice's arguments: He let the Columbus (Ohio) jury go home before they had even heard most of GE's defense. "I think everyone is quite surprised that the antitrust department wasn't able to get further with the case," says John DeQ. Briggs, chair-elect of the American Bar Assn.'s antitrust section. Indeed, the case may make "companies far more ready to take their differences to court," says Washington antitrust attorney Caswell O. Hobbs III. If that happens—and other defendants win—it would prove a blow to the drive by Anne K. Bingaman, Justice's antitrust czar, to clamp down on anticompetitive practices.

PAPER TRAIL. GE's early victory shows just how hard it is for the Feds to win a big international case where much of the evidence is overseas. But Bingaman vows to stay the course. "This in no way deters our approach in prosecuting complex international criminal cases," she insists, adding that "there will be more of these [major price-fixing cases]."

UNBOWED "This in no way deters our approach in prosecuting complex international criminal cases.... There will be more of these [major price-fixing cases]."

— ANNE K. BINGAMAN

The government had a hard row to hoe partly because its case was based on circumstantial evidence. Justice claimed that GE and De Beers worked together to fix prices during 1991 and 1992 by trading information through Philippe Liotier, the managing director of a Brussels-based GE customer called Diamant Boart, in which De Beers has an indirect interest. But Welch fought back tooth and nail. "We knew there was nothing wrong here at all," he says. "It was a pure case of a customer relationship. The government was not able to change that despite [its use of] innuendo."



VINDICATED "We knew there was nothing wrong her at all. It was a pure case of a customer relationship. The government was not able to change that despite [its use of] innuendo."

— CEO JOHN F. WELCH J

From the beginning, the U. S. case rested heavily on a raft of documents, including faxes from GE's European industrial-diamond chief, Peter Frenz, mentioning his meetings with Lio Citing 10 private meetings between two and a "continuous flow betw Liotier and Frenz of both De Beers' GE's future pricing plans," among ot things, the government maintai Liotier was a go-between to fix pr with GE on behalf of De Beers.

GE acknowledged the communica between Frenz and Liotier, but said information exchange was the sort a customer might reasonably rece Judge Smith found that plausible. he decided Justice had never pro Liotier had acted on behalf of DeBe

ABSENT WITNESSES. A chief difficu for the government was that it of found itself trying to prove a negativ for instance, that Liotier didn't sh information with others at Diam Boart. Another problem was that so key foreign witnesses couldn't be co pelled to come to the U. S. Frenz, Li er, and De Beers were indicted as co-fendants, but only Frenz testified— videotape and for the defense.

GE's attorney, Dan K. Webb, with straightforward, easy-to-understa style, also proved an effective court p former. Webb says the U. S. shot itsel the foot by using Russell as a lead witness. Russell, fired by GE in 1991 poor performance, settled his own c case with GE earlier, agreeing that had no "personal knowledge" of wro doing. At the trial, he claimed he h heard of an attempt to get price-fixi going—but GE countered him in thr days of cross-examination. "The gover ment then started in a hole," says Web

Welch, though, notes that victory co GE "tens of millions of dollars," addi that "I wouldn't have wanted to be small company" facing Justice. Fort nately for Welch, GE can afford it.

By Zachary Schiller in Clevelan with Catherine Yang in Washingt

[illegible]TOM: PHOTOGRAPHS BY RICK BLOOM/SABA; LAURIE SPARHAM/MATRIX

O SLACK OR MICROSOFT'S RIVALS

ey complain it hasn't been reined in at all by Justice

MICROSOFT CHAIRMAN BILL GATES

When Microsoft
Corp. signed a
consent decree
July with U. S.
tice Dept. trust-
ters, it emerged
ually unscathed
m the feds' five-
r probe. Still, the
estigation was a
tracted—and ex-
sive—headache
Chairman William
Gates III. And the
tlement banned
e of Microsoft's
st aggressive li-
sing practices.
experience, rival
cutives figured,
ely would leave
rosoft chastened.
o such luck. "The
sent decree seems
have set [Micro-
t] free," gripes
ert J. Franken-
g, chief executive
icrosoft rival No-
Inc. "Now, they
running rampant
r everything."
ere is little doubt that Microsoft is
peting aggressively: Even while
software giant presses its market-
re advantages in operating systems
applications programs, it is bolting
new consumer markets with its
on-line service and a plan to buy
uit Inc., the top maker of personal-
nce software. The $1.5 billion deal
uires approval of Justice, and ri-
s once again are regaling Justice
ffers with tales of Microsoft's al-
ed anticompetitive behavior.

> **NO FAIR?** Microsoft insists it hasn't strayed from the bounds of normal licensing practices

DOWS PAIN. What really stirs fresh
and loathing in the computer busi-
s, however, is Windows 95. Micro-
plans to begin shipping the up-
de of Windows by mid-1995, and
industry already is complaining
ut the software giant's pricing and
rketing plans for the software.
nputer makers, for example, have
n startled to learn that they will
asked to swallow a huge price hike
their use of Windows 95—to as
ch as $70 per PC, vs. roughly $35
ay. At the same time, Microsoft has established more rigorous technical requirements for hardware and software makers who want to claim their products are compatible with Windows. "Prices are going up and terms are becoming more restrictive," says John B. Landry, senior vice-president at Lotus Development Corp.

There are ways PC makers can lower their costs—if they agree to shipment goals and marketing tactics designed to give Windows 95 an early boost. Indeed, a new "Market Development Agreement" that Microsoft has distributed to PC makers spells out a dozen ways to cut the Windows 95 license fee. For example, a company can save $3 per system by preloading Windows 95 on at least 50% of its personal computers in the first month Windows 95 is available. In a business with ever-shrinking margins, that's a deal many PC makers can't afford to pass up, ensuring Microsoft lots of promotional help.

In Europe, where Windows' grip on the market isn't as firm as it is in the U. S., Microsoft's pricing has prompted a minirebellion. Vobis Microcomputer, the No. 1 PC maker in Germany, announced in late November that it plans to bundle IBM's OS/2 operating system, rather than Windows, with its machines starting Jan. 1. Says Theo Lieven, Vobis' CEO: "Every penny counts."

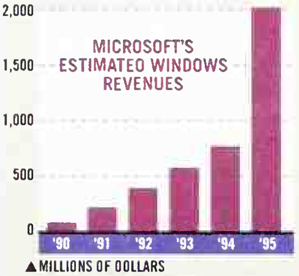
CONTINENTAL DRIFT. Lieven contends his rebellion already is working. He says sales have jumped since mid-November, when Vobis began offering OS/2 in addition to Windows, and "we think OS/2 helped" contribute to the increase. Other European computer makers, including Peacock Computer, have also quietly begun shipping OS/2 on their machines.

U. S. PC makers aren't likely to follow the Vobis lead—partly because the American market is less receptive to OS/2. But that doesn't mean they're all happy about the Windows 95 pricing. Hewlett-Packard Co. executives, for example, say they are concerned that the higher cost of Windows 95 may cause a pricing differential between Windows PCs and those equipped with OS/2. Still, says a spokesman, HP expects to bundle Windows 95—and not OS/2—into its machines. And other big U. S. PC makers also remain loyal. "We plan to move to Windows 95 as quickly as we can," says Lorie L. Strong, a vice-president at Compaq Computer Corp.

Still, with Microsoft on the offensive again, some rival software companies believe the Justice Dept. should use the Intuit inquiry to look once again at broad questions about Microsoft's dominance of the software market. Indeed, rivals say Justice has been asking them probing questions about Microsoft's potential dominance of new distribution channels such as on-line services. But others call another move from Justice wishful thinking. "We're just going to need to slug it out in the marketplace," says a resigned Frankenberg at Novell. The way things are going, that's just going to get tougher and tougher.

By Amy Cortese in New York, with Richard Brandt in San Francisco, Gail Edmundson in Paris, and bureau reports

SOFT MONEY



▲MILLIONS OF DOLLARS

DATA PAINEWEBBER INC.

PHOTOGRAPH BY RICH FRISHMAN. CHART BY RAY VELLA/BW

PEOPLE

NOW, IT'S C. EVERETT KOOP INC.

The ex-Surgeon General is a health-education conglomerate

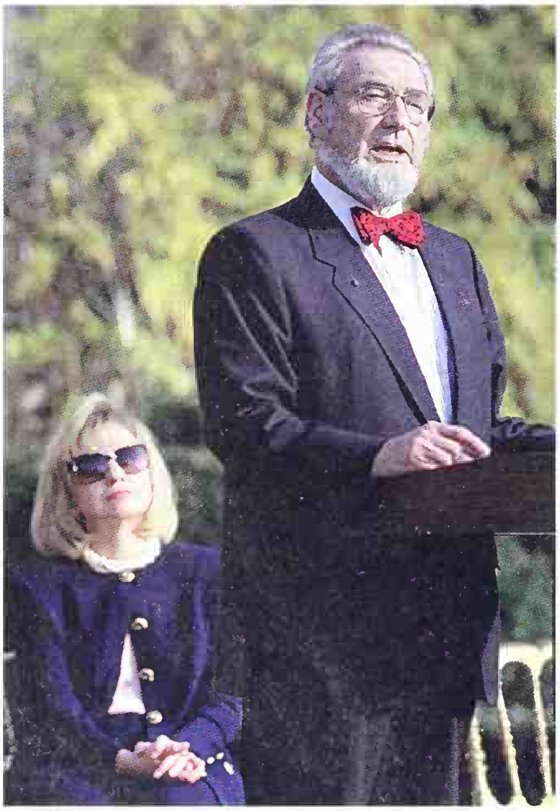
Standing on the south lawn of the White House, former Surgeon General C. Everett Koop was in fine and familiar form. He thundered into the TV cameras on the dangers of obesity, the harm television has done to the national waistline, and the need to "Shape Up America!"—his new campaign to promote weight loss and exercise. As Koop finished, Hillary Rodham Clinton bounded to the microphones and pledged to follow the admonitions of her old ally in the battle for health-care reform. "I always do everything Dr. Koop tells me," Clinton declared.

If only the rest of the nation would follow suit. Koop is at the center of a multimedia health-education conglomerate, hectoring Americans to stop smoking, drink less, exercise, and practice safe sex. And he wants everyone to listen.

A recent deal with Time Life Inc. will plaster his stern, bearded visage on $50 million worth of videotapes designed to help patients through the shock of a disease diagnosis. "Shape Up America!" will push Koop's "eat less, sweat more" message through advertising, books, videos, and school and worksite wellness programs. And he is actively promoting *The C. Everett Koop Foundation Health Letter*, a bimonthly publication promoting good health habits (subscription cost: $25).

"PEOPLE BELIEVE ME." Two months after his 78th birthday, Koop has no plans to stop playing America's real-life Marcus Welby, M. D., a mantle he acquired by speaking out on smoking, abortion, and AIDS during the Reagan and Bush Administrations. "I think people believe me," he says. "That's why it's important that I'm the figurehead for this campaign."

These days, the Koop name graces many crusades. The C. Everett Koop Institute at Dartmouth College promotes telemedicine—linking rural doctors with specialists—and experiments with medical education to produce doctors who treat patients more humanely. The C. Everett Koop National Health Awards recognize employers willing to share the secrets of their effective wellness programs with other companies. The Koop Foundation helps fund health-promotion efforts, including Koop's newsletter.



KOOP WITH CLINTON: AMERICA'S REAL-LIFE MARCUS WELBY, M.D.

The Koop crusade includes a deal for $50 million worth of videos with Time Life and 30 corporate backers for his campaign against couch potatoes

Medical videos, however, are Koop's first venture into commerce. He'll serve as chairman and medical director of Patient Education Media Inc., backed by Time Life and product developer Tucker/Green Inc. Expected on the market in early 1996, the $19.95 videos are designed to "give the patient information he needs so that his very short and precious time with the doctor can be
spent on the specifics of his case, not
the basics," Koop says. A video on an-
na, for instance, would explain t
heart's functions, common diagnos
tests, and basics of treatment.

Patient Education figures sales w
reach $50 million by 1998, when 75 v
eos will be on drugstore racks. For
cruiting medical advisers and revie
ing the tapes' content, Koop will colle
a salary that's "more than what he ma
as Surgeon General [$90,934 in fisc
1989] . . . but quite reasonable for som
one who brings as much to the project
Dr. Koop does," says J. Keith Green, t
venture's chief executive.

NUTS AND COOL WHIP. Koop's highe
profile, however, will come from his ca
paign against couch potatoes. He has e
listed 60 medical groups and 30 corpor
tions to back "Sha
Up America!" Comp
nies such as Kellog
diet-food peddler Je
ny Craig, and dru
maker Johnson
Johnson are puttin
up as much as $1 m
lion each for Olympic
style sponsorship
The aim is to pour
home the virtues
moderate exercise a
incremental weig
loss. "People tell m
'Fat people have e
cellent quality of life,
Koop says. "I sa
'You're going to die
years early, takin
blood pressure me
cine and insulin a
worrying about cance
If you call that a hig
quality life, then fin
be fat.' "

Koop admits he's
exemplar of his cree
As a pediatric su
geon, he used to snac
during operations
macadamia nuts dipped in Cool Whi
and he's still partial to steaks and ma
tinis—in moderation. But his six-foo
frame easily carries his 190 pounds—
fewer than when he took off his nav
blue Public Health Service uniform fiv
years ago—and his cholesterol reading
are normal. Not that he cares: "Whe
you get to my age, you don't have t
worry about blood levels of anythin
because you've already proven you ca
beat the odds." Now, he's trying to hel
millions of others duplicate his feat.

*By Mike McNamee in Washingto
with Geoffrey Smith in Boston*

Revolutionizing an industry happens once in a lifetime. Okay, maybe twice.

COLOR LASER COPIER 800

When the world asked for color, Canon responded with the evolutionary Color Laser Copier. ow Canon is answering today's color eeds with a visionary new generation f color solutions, the Canon Color aser Copier 800 and 700.

This new breed of copiers pro- uces images so sharp, so vivid, they're irtually indistinguishable from the riginal. And Canon's new copiers are ighly productive, too.

They make a swift seven full- olor copies per minute on a variety of aterials including card stock. Auto-feed OHP transparencies efficiently by cassette. Make multi-page documents effortlessly with the optional Recirculating Document Feeder and Sorter. And the Color Laser Copier 800 is the first color copier ever to offer *Auto Duplexing* for automatic two-sided copies.

You can also transform these new color copiers into ultrafast, full-color, plain paper printers with optional print controllers and Intelligent Processing Units (IPUs), so you can make brilliant color output directly from your computer or network.

For a free *Color Solutions Guide* that will tell you more about the new Canon Color Laser Copier 800 and 700, as well as the rest of our color copier line, call 1-800-OK-CANON. When the rest say you can't, Canon says you can.

NOW
YOU
CAN

Canon

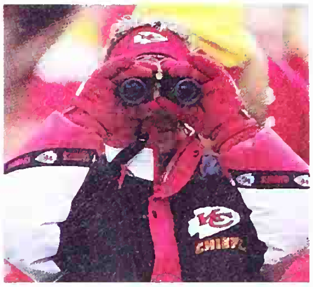
1994 Canon U.S.A., Inc.

BUSINESS WEEK/HARRIS POLL

YO, GRETZKY, SELIG! LISTEN UP

While Bud Selig, Don Fehr, and the rest of the kahunas of hockey and baseball wrangled, BUSINESS WEEK went out and asked sports fans about their favorite athletic fixations. The results are telling.

It may be the season, but NFL football appears to be the national pastime,not baseball. Hockey is way down with golf and tennis. The typical fan is more couch potato than bleacher bum—50% of those surveyed said they attend games less or somewhat less than five years ago—and few feel swayed by the Shaqs and Kerrigans hawking goods on TV.



The closeted negotiators for the striking sports might do well to heed the many fans who say they don't miss those diamond and rink contests nearly as much as they expected. Furthermore, they're convinced that players and owners are only in it for the money—and don't give a gosh-darn about them.

THE NFL WINS HANDS DOWN

If you had to choose, which of these sports would you say is your favorite?

Pro football	25%	Boxing	3%
Baseball	11%	Golf	3%
College football	9%	Hockey	3%
Figure skating	9%	Tennis	3%
Pro basketball	9%	Other	9%
Auto racing	8%	Not sure	1%
College basketball	7%		

MORE TIME IN FRONT OF THE TUBE

Of the sports you follow, how has the time you spend watching them on television changed in the past five years?

Watching much more	25%
Watching somewhat more	24%
Watching somewhat less	20%
Watching much less	15%
No difference	14%
Not sure	2%

LESS TIME IN THE STANDS

Of the sports you follow, how has your attendance at games or matches changed in the past five years?

Attending much more	10%
Attending somewhat more	16%
Attending somewhat less	17%
Attending much less	33%
No difference	21%
Not sure	3%

AS FOR THE ADS: PHOOEY

Please tell me if you agree or disagree with the following statements about commercials related to pro sports?

	AGREE	DISAGREE	NOT SURE
Commercials clutter up the broadcast and annoy me	70%	29%	1%
Athletes just sell endorsements to the highest bidder	70%	24%	6%
A clever ad campaign enhances my enjoyment of sports on TV	48%	50%	2%
An athlete's endorsement influences my purchase of the product	25%	74%	1%

DID JUST FINE WITHOUT BASEBALL...

How much would you say you missed baseball compared with what you might have expected before the strike?

Much more	13%
Somewhat more	15%
Somewhat less	19%
Much less	45%
Not sure	8%

...AND MANAGING TO LIVE WITHOUT HOCKEY, TOO

How much would you say you miss hockey compared with what you might have expected before the strike?

Much more	5%
Somewhat more	8%
Somewhat less	15%
Much less	53%
Not sure	19%

A POX ON BOTH THEIR HOUSES

I'm going to read you four statements about sports. Which one of these comes closest to your opinion about the state of sports in the wake of the baseball and hockey strikes?

Both players and owners are equally money-hungry and don't care about the fans	48%
Sports has become a big business,but it's just responding to the demands of the free market	25%
Professional sports has been taken over by a small, elite group of profit-minded executives who don't care about the fans	13%
Professional sports is dominated by players who only care about money and don't care about fans	13%
Not sure	1%

AS TO THE FUTURE—NO SWEAT

And in light of the baseball and hockey strikes, how worried are you about the future of sports in America?

Very worried	10%
Somewhat worried	26%
Not very worried	19%
Not at all worried	45%
Not sure	0%

EDITED BY MICHELE GALEN

Survey of 1,000 sports followers conducted Nov. 21-29, 1994 for BUSINESS WEEK by Louis Harris & Associates Inc. Results should be accurate to within 3.1 percentage points.

DEVOTES INCREDIBLE ATTENTION TO DETAIL

JUST LIKE A PARKER

PARKER
INSIGNIA

The PARKER INSIGNIA Laque Black shows our dedication to detail. The durable, deep gloss finish is highlighted by 14kt. Dimonite G trim, a gold-plating process we have patented. The refill in the Ball Pen is specially designed to be long-lasting and write cleanly and smoothly. Like all PARKER writing instruments it has a lifetime guarantee.

Ball Pen shown, $32.* PARKER INSIGNIA collection includes a wide range of other finishes. Ball Pens and Pencils available from $16 to $100.*
*Suggested retail price. For the store nearest you, call 1-800-BEST PEN. ©1994 Parker Pen USA Limited

Assuming the valet remembers where he left the car, the car will remember where you left the seat.

*The Infiniti Q45.**

© 1994 Infiniti Division of Nissan Motor Corporation U.S.A. *Q45a model shown.

The experience of unrivaled comfort and convenience that comes with sitting in the driver's seat of the Infiniti Q45 is one well worth aspiring to. It's also one you might be reluctant to share. Especially if you're, say, six-foot-three and your spouse (or that parking valet) tops out at five-foot-four.

But thanks to the engineers at Infiniti, you'll never have to sacrifice much-anticipated driving time trying to find your perfect seat position again.

Our Driver's Seat Memory System allows you, and your significant other, to set individual positions – incorporating all ten seat movement directions, including head restraint height, plus steering wheel and outside mirror placement. A push of a button automatically returns you to your pre-set position.

To make things even easier, the seat slides back and the steering wheel tilts up automatically as you get in and out of the car.

You can discover all the other ways we've totally redefined the concept of the luxury car by calling us at 1-800-341-4560. Of course, a Guest Drive at your Infiniti showroom will put you in an even better position to understand what we mean.

A position you can return to again and again.

It's everything that's possible.™

INFINITI®

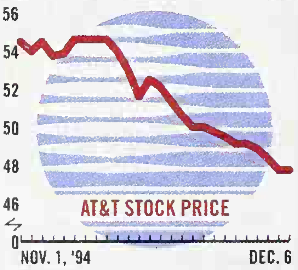
In Business This Week

EDITED BY KEITH H. HAMMONDS

GET FIDELITY A CALCULATOR

OOPS—AGAIN. ON DEC. 5, mutual-fund giant Fidelity Investments revealed that a yearend $2.3 billion capital-gains distribution promised to investors in its $36 billion Magellan fund won't happen after all. The reason: "A manual human mathematical error," according to Fidelity. The episode is an embarrassment, coming less than six months after the company reported incorrect daily results for all its funds. More telling, though, was the markets' reaction: European stocks dropped 1% on worries that the gaffe would spark a stampede out of mutual funds. Not to worry: The canceled distribution won't cost shareholders any money. The stampede never happened.

CLOSING BELL



▲ DOLLARS

DATA: BLOOMBERG FINANCIAL MARKETS

CHART BY ALBERTO MENA/BW

WIRELESS WORRIES

AT&T has been an analysts' favorite for months, and long-distance revenue is topping expectations. So how come Ma Bell's stock is off almost 20% from mid-June? In three letters: PCS. AT&T may bid hundreds of millions for up to 59 new wireless-service licenses, and it could be years before the operations turn a profit. Winners in the FCC's auction, which began Dec. 5, won't be known until January. But already, most bidders' stocks have slumped. "We're just about at the point of greatest uncertainty," says Merrill Lynch analyst Linda Runyon.

CNA RAISES THE AX OVER CONTINENTAL

CONTINENTAL INSURANCE IS about to get a lesson in efficiency. CNA Financial, an insurer controlled by Laurence Tisch's Loews Corp., agreed on Dec. 6 to buy ailing Continental for $1.1 billion. The deal, which creates the seventh-largest U.S. insurance group, makes sense—if CNA can get big cost savings. Analysts expect layoffs at Continental, as CNA merges systems, sales offices, and management. Can it work? "It's still up in the air," says Prudential Securities analyst Carol Manning. "It has the potential to be a good deal."

LET'S SING 'OIL TO THE QUEEN'

SOME PEOPLE HAVE ALL THE luck. Beneath Windsor Castle, Queen Elizabeth II's suburban London home, there may be a huge deposit of oil—as much as 100 million barrels. Or so says Canuk Exploration, an oil-drilling consultancy that holds exploration licenses for the castle grounds. Canuk wants to put a rig on the Queen's golf course. But it will take at least five years for the company to obtain permits, let alone raise funds for the very speculative venture. And a local planning authority hearing in January is likely to bring out strident opposition.

BIG WOES FOR NUCOR IN TRINIDAD

NUCOR'S $75 MILLION IRON carbide plant in Trinidad, its attempt to reduce reliance on skyrocketing scrap steel, is stumbling out of the block. The plant, which cooks raw iron in a bath of methane, has successfully produced small batches of iron carbide. But a number of its big machines are undersized, and one has been badly damaged. "It's one step forward, two steps back," says Nucor's Jay Bowcutt, manager of the company's Plymouth (Utah) plant. The setback comes as record scrap steel prices have punished minimill profits. Nucor shares, which reached 70 in August, fell to 53 in early December as reports of the Trinidad breakdowns filtered north. Company officials maintain that the problems with the Trinidad plant are the normal hiccups for a brand-new industrial process.

HEADLINER

LANDS' ENDGAME

The end came abruptly for Lands' End Chief Executive William End. After four years at the helm of the $1 billion clothing cataloger, End resigned on Dec. 5 over disagreements with the company's board about "management style."

Sources close to the company say Lands' End directors grew restive when the costs of End's aggressive expansion overseas—with separate catalogs for Britain and Japan—exploded while core U.S. sales stayed flat. Wall Street already was worried: Lands' End stock, declining since September, now trades around 14½, a 52-week low. That likely drew the attention of company founder and Chairman Gary Comer, who owns 51% of its shares.

For his part, End, a financial whiz with a Harvard MBA, had grown tire of being second-guessed by a board that included Comer and ex-CEO Richar Anderson, sources say. End's departure follows b four months that of merchandise chief David Dyer, who left to become COO at Home Shopping Network. Anderson says his exit an End's weren't related.

By Susan Chandle

CRANBERRIES ROT, SO DOES THE STOCK

NORTHLAND CRANBERRIES HAS learned an expensive lesson about its fragile fruit. T Wisconsin company saw stock drop nearly 20%, to 1 after it disclosed on Nov. that a rotten crop would b down earnings. The troub stems from weather—an ea ly frost, then a heat wave which made the crop vulne able to spoilage. Instead processing its berries rig away, Northland tried store them for the high-ma gin fresh berry market. I Thanksgiving, tons of spoil berries had to be dumped.

ET CETERA . . .

- ■ A Maltese Falcon sold Christie's for $398,500, record for a movie prop.
- ■ Borden invited putati buyer Paul Kazarian to tal He invited Borden. No dea
- ■ Westinghouse prevailed federal court over utiliti charging it with fraud.
- ■ Centrust chief David Pau sentence: a $65 million fi and 11 years in jail.

Critically acclaimed. Now available on video.

"Did you ever wonder what car sent the Germans scrambling to produce V8-powered sedans such as the Mercedes-Benz 400E and BMW 740i? Look no further than the Infiniti Q45."

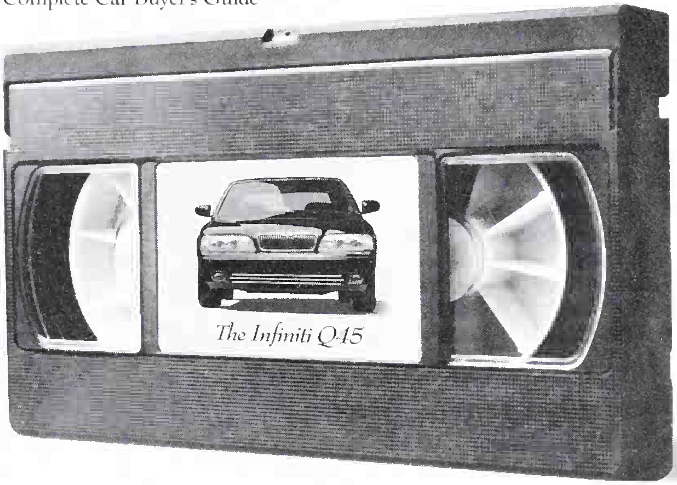
Road & Track, 1993
Complete Car Buyer's Guide

"The 278-horsepower, 32-valve 4.5-liter V8 always feels like a living thing underfoot. It purrs like a cat among mice if you stroke it, and yowls when you toe it hard."

Car and Driver
July 1993

u know you're in one he world's best cars rtly after you turn the in the Infiniti Q45t."

Dick Williamson
Rocky Mountain News
September 22, 1993



"This luxury sedan does the best job of working the luxury and sport sides of the street."

Road & Track
June 1992

Built to tolerances of .001 inch. State-of-the-art construction and design. Full spectrum sound.

And we're just talking about our video. Which, by no mere coincidence, is the ideal way to become acquainted with a luxury sedan that has received enthusiastic "thumbs up" from critics and drivers alike: The Infiniti Q45.

To receive a copy of our video, or to arrange for a Guest Drive, simply call our toll-free number.

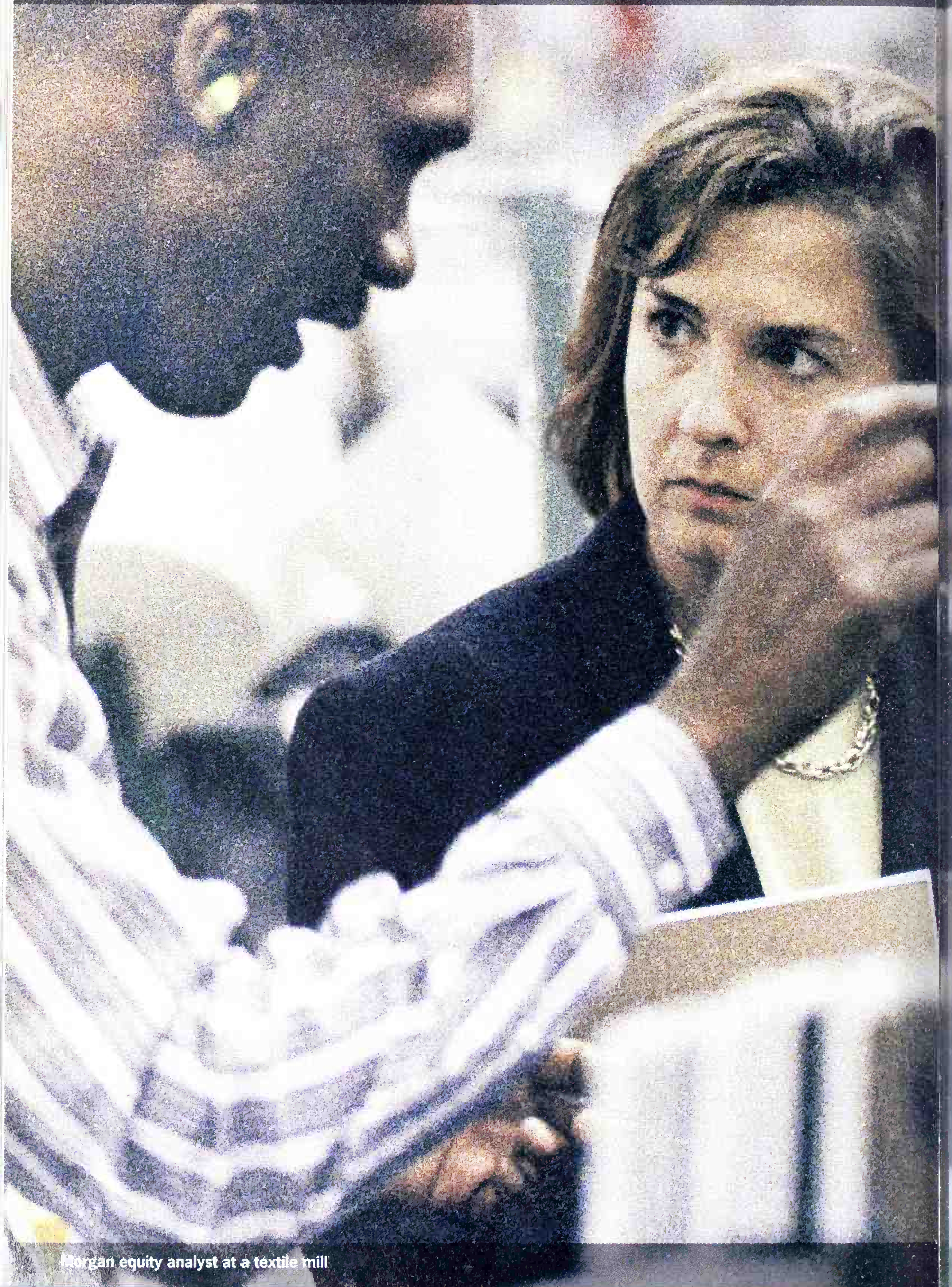
Who knows? It could be the one time you and the critics find yourselves in complete agreement.

1-800-419-7521

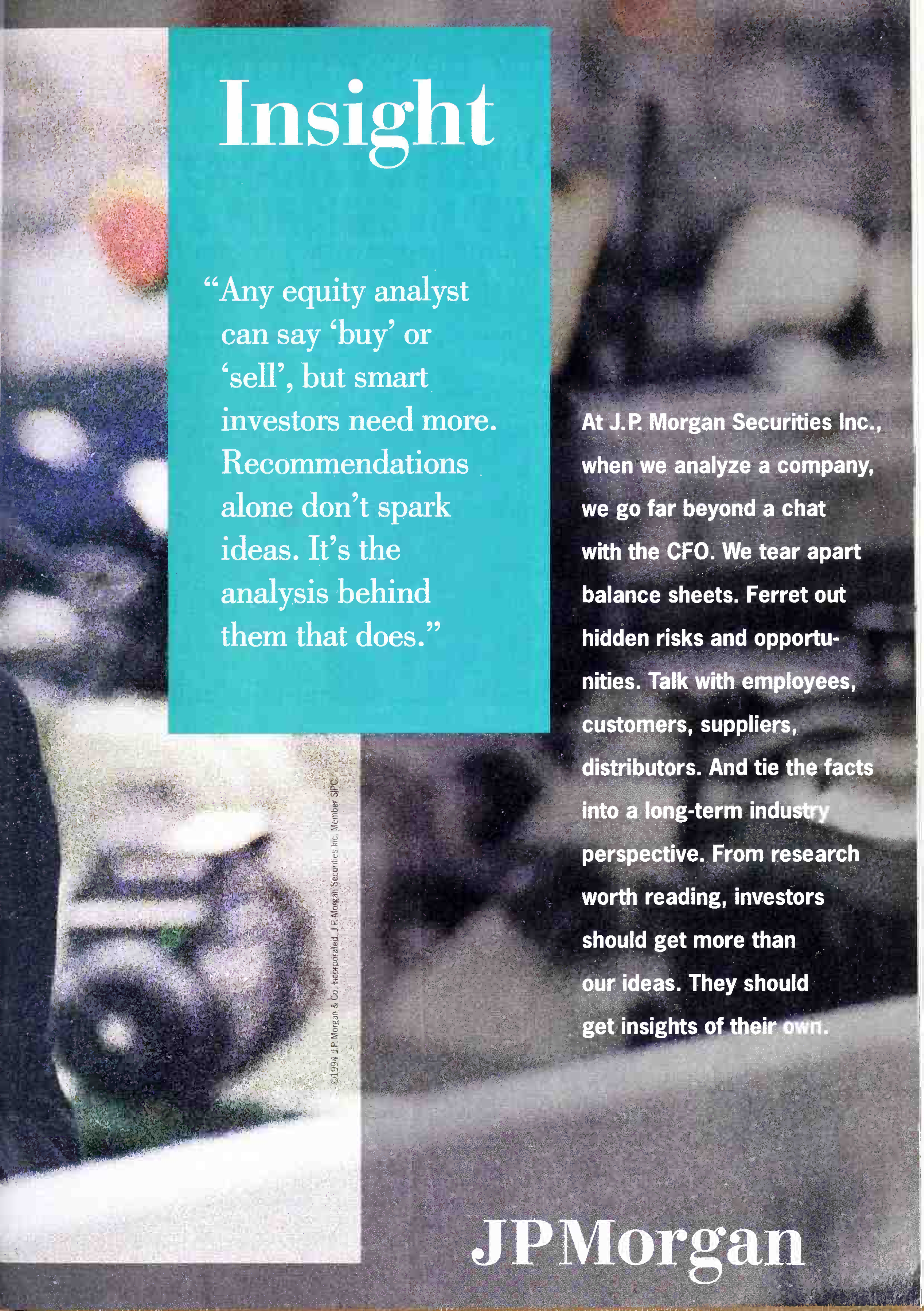
It's everything that's possible.

INFINITI

994 Infiniti Division of Nissan Motor Corporation U.S.A.



Morgan equity analyst at a textile mill



Insight

"Any equity analyst can say 'buy' or 'sell', but smart investors need more. Recommendations alone don't spark ideas. It's the analysis behind them that does."

At J.P. Morgan Securities Inc., when we analyze a company, we go far beyond a chat with the CFO. We tear apart balance sheets. Ferret out hidden risks and opportunities. Talk with employees, customers, suppliers, distributors. And tie the facts into a long-term industry perspective. From research worth reading, investors should get more than our ideas. They should get insights of their own.

JPMorgan

©1994 J.P. Morgan & Co. Incorporated. J.P. Morgan Securities Inc. Member SIPC.

Presenting The First Efficiency *Expert* That Fits In A Billfold.

If you're looking for the best way to cut costs and streamline paperwork, look no further than MasterCard® Purchasing Card. We offer you the most comprehensive electronic data capture and reporting capabilities in the business. Our Smart Data™ system details everything from sales tax paid to general accounting information. And with enhanced point of sale authorization you'll have the control you need. Before you know it, you'll have arrived at the improbable: a genuinely efficient process for small purchasing. All in a little piece of plastic.

Average Efficiency Expert

2"
MasterCard
Purchasing Card

Improved Efficiency Expert

MasterCard. It's more than a credit card. It's smart money.™

For more information, call 1-800-219-1013.

© 1994 MasterCard International Incorporated

HY THE FED COULD START ULLING ITS PUNCHES IN '95

he winds of change blowing across Washington aren't just transforming Congress and causing a stir at the White House. They're whistling through the inner sanc- s of the Federal Reserve, too.

ome January, the central bank's key policymaking group, 12-member Federal Open Market Committee, may have s hawkish cast as voting power rotates to include four dif- nt regional bank presidents. And there could be plenty to e on: Chairman Alan Greenspan signaled Congress on . 7 that more rate hikes may be needed to inflation, which is working its way through production pipeline. So in 1995, when the l will almost surely have to decide ther to tighten again—and risk choking the ansion—the new FOMC might move more iously.

T VOTES. The incoming team will be put to arly test, as both political parties are like- vie for voters' affections with stimulative cuts. If that happens, the Fed would face a cate dilemma: Should it tighten monetary cy to counter the pump-priming politicians? e Fed knows the last thing this economy ds is a stimulative tax cut," says economist iel Bachman of economic consultants WEFA up in Bala Cynwyd, Pa.

ut before worrying about more rate hikes, enspan will have to figure how to forge a consensus with- the voting support of three of the Fed's toughest inflation ks—regional bank presidents Jerry L. Jordan of Cleve- l, J. Alfred Broaddus Jr. of Richmond, and Robert T. Par- f San Francisco. Also losing a vote is Atlanta's Robert P. restal, considered a moderate by Fed watchers. Their re- ements include one certified hard-liner, St. Louis' Thom- . Melzer, and Kansas City's Thomas M. Hoenig, a centrist. he monetary views of the other two newcomers are a tery: Chicago's Michael H. Moskow is a former business executive and trade official in the Bush Administration; Boston's Cathy E. Minehan is a Fed careerist. Although the Boston bank traditionally represents the most dovish monetary views on the FOMC, Fed watchers predict Minehan will stick with the pack.

Some Fed officials insist that policy rarely changes course because of a rotation on the FOMC, since all 12 regional bank presidents participate in interest-rate deliberations whether they vote or not. Yet, ex-Fed governor Wayne D. Angell believes that the troika of inflation hawks was instrumental in pushing the Fed to boost short-term rates six times this year even though inflation remains muted. "Personalities made a difference," he says. "These three were tilting all year against the Keynesians on the research staff," whose forecasts influence the FOMC.

MINEHAN: *Boston dove?*

RICK FRIEDMAN/BLACK STAR

What's more, two less hawkish governors named by President Clinton last summer—Vice-Chairman Alan S. Blinder and Janet L. Yellen—are expected to gain clout as they grow comfortable in their jobs. Blinder is already asserting himself: He has ordered reluctant staff economists to supplement the Fed's in-house econometric computer model with models from DRI, WEFA, and Laurence Meyer & Associates to give him a better reading of the economy. The current system has been quietly faulted by some Fed governors for bad forecasts. Blinder says the model distorts the effect of Fed moves on markets and the economy.

To be sure, some changes bode well for the Fed. The GOP takeover of Congress means the Fed's nemesis, Representative Henry B. Gonzalez (D-Tex.), will turn control of the House Banking Committee over to Jim Leach (R-Iowa), a Greenspan admirer. If the Fed boss receives the same support from his new FOMC, then—to paraphrase Bill Clinton—he will have made change his friend.

By Dean Foust

CAPITAL WRAPUP

OSMETIC CONTROVERSY

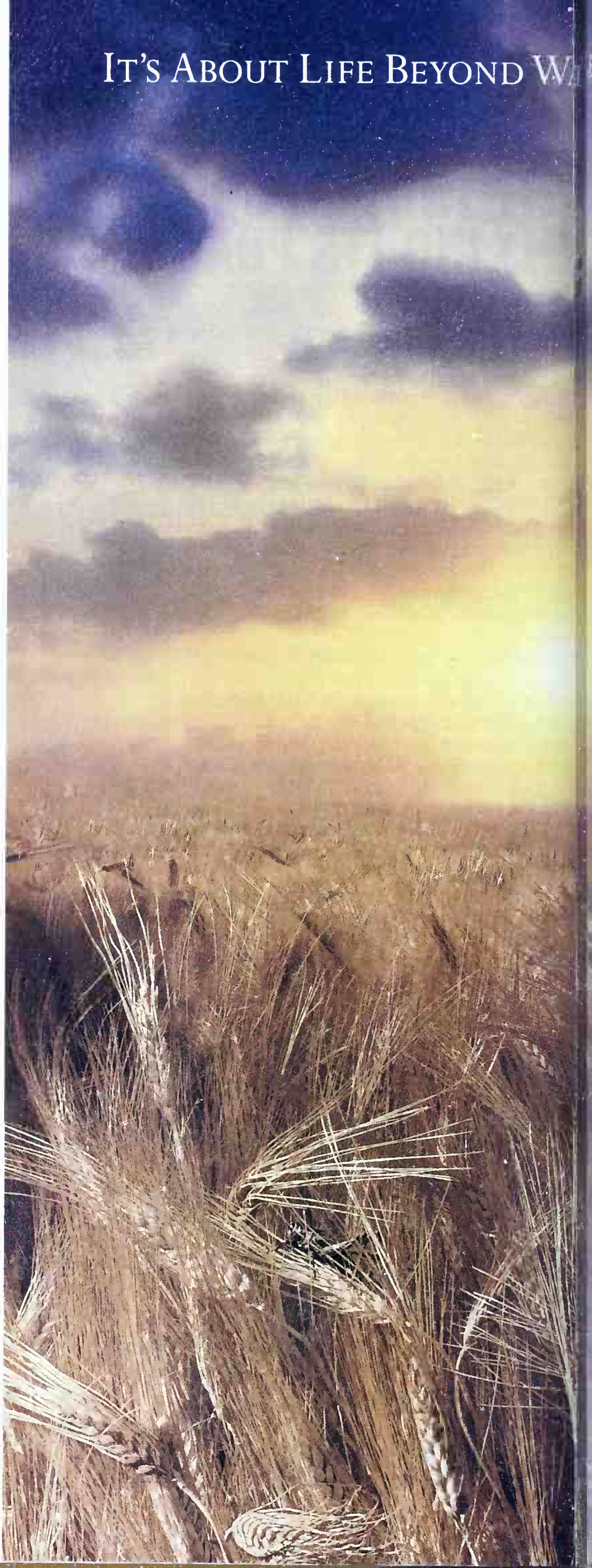
Food & Drug Administration officials e furrowing their brows over a new smetic craze—skin creams contain- g alpha-hydroxy acids. The creams, ich promise to peel away the wrin- es of age, fall into that gray area be- een lightly regulated cosmetics and avily reviewed drugs. The FDA plans set up a consumer hot line to help termine if the creams produce rash- or other ailments in users and if the tfits involved make unproven medi- l claims. New regs could follow.

BANKING ON REFORM

►With interstate banking approved, banks are gearing up for their next congressional battle: reform of the Glass-Steagall Act, which bars them from many securities activities. The American Bankers Assn. has set up a trade group to focus on banks' securities business. The ABA wants Glass-Steagall, which has been kept alive by the securities and insurance industries, repealed. The issue is on the agenda of new House Banking Committee Chairman Jim Leach (R-Iowa).

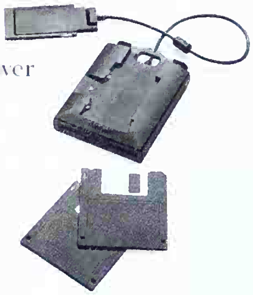
TRADE TURNCOAT

►Say it ain't so, Max. Lobbyists were stunned when Senate trade subcommittee Chairman Max S. Baucus (D-Mont.)—a vocal backer of GATT—switched at the last minute and voted against the new world trade pact. Baucus cited his duty to represent Montanans, but pols saw another motive: Baucus is vulnerable to a GOP challenge in 1996. Since the vote wasn't close, Clintonites cut him slack. Says one top official: "We understood—but it looked so crassly political."



IT'S ABOUT LIFE BEYOND W

STARTING AT JUST $1199,* COMPAQ AERO presents a type of freedom you can't afford to live without. Imagine a 170MB hard drive and 486 processor – the power you get from a desktop – all packed into a sleek, 3.5-lb. package. You'll never be tempted to leave it behind. (The possibilities are quite staggering.) To enter this new world, visit your Compaq retailer or locate the nearest Compaq reseller by calling 1-800-345-1518. Or call Compaq DirectPlus at 1-800-888-8450. You'll find the price of freedom has never been so, well, reasonable.



Some models now include an external floppy drive. (Giving you the freedom to carry it – or not.)

An optional convenience base, $99, lets you plug in peripherals. (When it's time to go – unplug the Aero instead of everything else.)

COMPAQ

BOUT A NEW WAY OF DOING THINGS. IT'S ABOUT $1,200.
COMPAQ
CONTURA
AERO 4/25
GASSHPPR.PCX
File Edit View Text Pick Options Help
SUBORDER CAELIFERA
Acrididae
fig 1734
fig 1735
fig 1736
intel inside

paq Computer Corporation. All Rights Reserved. Compaq is a registered trademark. Contura Aero is a trademark and Compaq DirectPlus is a service
mpaq Computer Corporation. *Prices shown are Compaq DirectPlus catalog prices. Reseller and Retailer pricing may vary. The Intel Inside logo is
trademark of the Intel Corporation.

CHINA

WHY SWEET DEALS ARE GOING SOUR IN CHINA

Companies that didn't do their homework are losing many millions to deadbeats

The recent news from China has stunned foreign investors who saw it as the mother of all emerging markets. Last month, Lehman Brothers Inc. sued two Chinese companies, seeking to recover $97.5 million stemming from losses in foreign exchange dealings. At the same time, state-owned China International Trade & Investment Corp. (CITIC) is resisting efforts by London metals brokers to collect on $40 million in debts run up by its Shanghai subsidiary. And 31 foreign institutions have petitioned Vice-Premier Zhu Rongji for help collecting $600 million on leases to state-owned companies.

After a giddy rash of dealmaking, many foreigners are suddenly realizing that despite China's increasingly modern capitalist face, its financial and legal systems remain primitive. Moreover, many of China's corporate managers are accustomed to the old socialist system, where they could simply ignore their debts. That means cases likeLehman's may turn out to be just the beginning of a shakeout. If China's liquidity crunch deepens in 1995 as Beijing tries to cool down the overheated economy, many more foreigners may find themselves burdened by Chinese deadbeats.

"SHEER STUPIDITY." Financiers who haven't been burned in China say the others haven't learned to follow cautious enough rules when setting up deals (table). For starters, financiers say that means seeing that all loans have guarantees from the Bank of China. They also take steps to ensure that their money goes to projects that are approved by the central government. And they insist that their loans go to projects that make sound business sense. "A lot of the problems were due to sheer stupidity," asserts Robert Dewing, managing director of Asian project finance for Citicorp International Bank Ltd. "There has been a lot of China euphoria that overcame all common sense."

Probably the most painful lesson from the spate of sour deals is that Beijing doesn't necessarily stand behind the commitments of all state-owned enterprises or provincial governments. Many foreign banks found this out in the wake of a severe credit crunch in 1989, which led to loan defaults by shaky hotel projects backed by local institutions. Most of those loans have been recovered. But dozens of institutions, most of them J anese banks, are still trying to coll on sour leasing deals dating to the m 1980s.

To China's state enterprises, so 45% of which lose money, stiffing a getting stiffed is a way of life. In 19 triangular debts—money that state c panies owe each other—hit some $ billion. Despite massive efforts by Be ing to bail out state-owned compani the problem remains. Fearful that wave of bankruptcies and layoffs by a ing industrial behemoths would spa social unrest, the government this ye has backed off plans for sweeping r forms of its banking system and sta enterprises.

Instead, banks opened the spigot credit, and that will ultimately increa the financial hazards. Problem loans

.e companies are believed to account nearly one-third of the $300 billion in ets of the state's four main banks. rse, Chinese banks are ensuring mselves huge losses by still lending bout half the interest rate they are ing to attract long-term deposits, around 24%. "God knows what their ncial statements really look like," s Geoff Lewis, Hong Kong-based nomist for Smith New Court Far t Ltd.

H UP FRONT. As the liquidity crunch sens, suppliers of services are get- stung. Mounting arrears in the ship- g industry have gotten so serious t a group of cargo-carriers, includ- Sea-Land, Maersk, and even state- ned China Ocean Shipping Co. (Co-), are lobbying Beijing to issue tough delines requiring state companies to cash up front before the carriers e cargo. In October, Cosco revealed t it alone is owed $465 million. But suading state enterprises to pay ir bills isn't easy. "After 40 years un- the old system, all of a sudden the ernment says it's clean-house time," s one shipping industry official in w York. "There's going to be a nch."

)o's And Don'ts for China Investors

DO

re you have a solid strategy to repatriate

approval of all related government offices an relying on the connections of some top- cial

long-term development plans to make sure ject doesn't conflict with government ns

DON'T

oan that's not guaranteed by the headquar- ne of Beijing's main banks

oan if it doesn't relate directly to the core of the customer

speculative deals with companies that eceived explicit authorization from the government

DATA: BUSINESS WEEK

Compounding the problem is that ne agents are using the cash they col- from Chinese clients to speculate real estate or stocks, shipping exec- ves say, rather than paying off for- n shipping companies. As a result, npanies like Sea-Land are scrutinizing the finances of their Chinese agents. "We saw this issue coming two years ago and put the Chinese on a short leash," says Edward W. Aldridge, Sea-Land's Hong Kong-based vice-president for Central Asia.

The most painful lesson from the spate of broken deals is that Beijing doesn't necessarily stand behind the commitments of all its state-owned enterprises

[redacted]

Dealing with even the most solid Chinese partner can be dangerous if it involves lines of business outside the company's explicit mandate from Beijing. Numerous investment banks, including Morgan Stanley, Goldman Sachs, and Merrill Lynch, have been pushing everything from foreign exchange swaps to commodities futures on their Chinese customers. Even though only a handful of Chinese companies are designated to trade foreign exchange, many others do so anyway as a hedge against currency fluctuations.

Where traders like Lehman Brothers went wrong, say competitors in Hong Kong, is that they allowed their clients to cross the line from simple hedging to wild speculation. Take China International United Petroleum & Chemical Co. (Unipec), which allegedly owes Lehman $44 million. State-owned Unipec, a joint venture formed in 1993 by big trading companies Sinochem and Sinopec, is China's largest importer of petroleum products. In that capacity, neither Unipec nor its parents ever defaulted on oil debts, even during the sharp price swings during the Persian Gulf war.

But Unipec is not one of the Chinese companies authorized by the State Administration of Exchange Control to deal in foreign exchange. Through Lehman, Unipec placed big bets on currencies like Swedish kronas and Spanish pesetas. But Lehman halted the transactions when Unipec refused to pay after suffering huge losses last summer from the decline of the U.S. dollar.

Rival investment bankers put most of the blame on Lehman for giving the Chinese company such a large credit line when it clearly was speculating. Lehman declines comment while the suit is pending. But a source close to the firm argues that foreign investment banks can't always be expected to determine whether a customer is speculating or violating China's peculiar internal guidelines. "These are big companies and long-term customers," he says. "They're consenting adults."

Leasing companies have been particularly vulnerable because the collateral—usually heavy equipment or production lines—is difficult to seize once installed. And even if it can be repossessed, China lacks a good secondary market for equipment.

SOLID RISK. Nevertheless, lenders say they have few problems in areas like aircraft leasing. Chinese carriers have up to 100 aircraft on order, and expect to lease 80% of them. GE Capital alone has some $1 billion worth of aircraft on lease in China. Airlines are considered a solid risk because their planes usually fly full and tickets are paid for in cash. Also, since many of the leased aircraft are flown overseas, they are easy to repossess. But even this area will require greater caution. The Bank of China has indicated it may stop guaranteeing aircraft leases. That means lenders will have to assess risk based on the airlines' balance sheets, which are always dubious in China.

Despite all the well-publicized problem cases, business is still strong for many China veterans. For instance, Hongkong & Shanghai Bank, Citibank, and Standard Chartered say they have few bad debts and are making new loans. Lenders are still willing to finance leases of Boeing Co. aircraft or General Electric Co. jet engines to China's fast-growing carriers. The credit ratings of companies like CITIC remain solid. And foreign fund managers continue to roam the country negotiating new corporate investments.

But cases like Lehman's underscore the weaknesses of China's financial system. For foreigners, it is dangerous to think that China Inc. will stand behind the bad debts and broken promises of all of its red capitalists. To solve many of these problems, Beijing needs to establish a sound legal framework and a modern banking system, but that will take years. Until then, the best advice for investors is to take a closer look at China's would-be highfliers.

By Pete Engardio in Hong Kong

COMMENTARY

By Douglas Harbrecht

GATT: TALES FROM THE DARK SIDE

As head of planning for Shell International Petroleum Co. in London, Peter Kassler scans the horizon to help his company's executives invest billions. He can see huge positive effects from the 2,200-page world-trade pact recently approved by Congress: rising global living standards and strong growth, all thanks to tumbling trade barriers.

However, Kassler and other Shell executives also can sketch a far more ominous—and equally plausible—outcome. Under a Shell scenario labeled “Barricades,” the General Agreement on Tariffs & Trade produces social and economic chaos. Global trade liberalization triggers unrelenting job cuts and downward pressure on wages in industrialized nations. From Kansas to Kuala Lumpur, entrenched interests team up with religious, nationalist, and other blocs to close borders. “Globalization,” says Kassler, “may lead to strife among people who don't get the rewards they think they deserve.”

THORN FENCES. Free-traders feeling smug over GATT's passage had better not lose sight of Kassler's dark scenario. From Norway's rejection of European Union membership over fishing and oil rights to billionaire Ross Perot's populist challenge to the North American Free Trade Agreement, potent opposition is brewing against the politicians who would further weaken a nation's power to set its own economic course. Rather than end the struggle, the passage of GATT has merely intensified it.

Much has been written about America's “anxious class.” But the phenomenon isn't simply a quirk of U. S. politics. In Britain, inflation is low and economic growth will be close to 4% this year. Yet Prime Minister John Major's government is running 30 percentage points behind the Labor Party in the polls. The main reason: Wages are stagnating, almost 90% of all new jobs in Britain are part-time, and companies continue to lay off workers by the thousands. These conditions prevail because of Major's deliberate policy to make Britain more competitive in the global economy. Hence, the hostility to Major among many middle-class voters.

In France, Sir James Goldsmith—a Perot-like mogul turned member of the European Parliament—warns voters that hard-nosed corporations will demand wage cuts at home or rush to the Third World to exploit cheap labor. Throughout Western Europe, governments have tried to keep out steel, textiles, and agricultural products from Poland, Hungary, and other nations in the East. At the same time, these governments are raising the anxiety levels of workers by whittling away at the costly social-welfare programs that hurt Europe's ability to compete.

In Asia, mercantilism is gaining strength as an economic model. Invisible trade barriers proliferate in Japan and China, even as tariffs fall. With globalization, “every large country is now going to lose growth in traditional products to a pool of cheap, skilled labor someplace else in the world,” says economist David Roche, head of Independent Strategy, a London research firm. The protectionist backlash that could follow would, he says, “create all kinds of dark geopolitical threats—an isolationist China, an unstable Russia.”

HARD LESSON. In many ways, the U. S. is way ahead of the rest of the world in meeting the challenges of accelerating world competition. As the world's largest free market, the U. S. has long embraced a flexible working environment that lets it adapt more easily to global trends. But in accommodating change that creates millions of new jobs, American society also has to cope with the negative consequences—job losses, corporate downsizing, and massive insecurity for families worrying how they'll pay the mortgage and college tuition.

And if individuals are feeling insecure, consider their leaders. U. S. trade negotiators who tried to get tough with Japan learned the hard way that in the global economy, the financial markets—not governments—set policy. A vote of no confidence in the form of roiled currency markets forced the Clinton Administration to back down from a trade war. So, too, the markets helped pressure an ambivalent U. S. Congress to approve both NAFTA and GATT.

That sense of lost control will spark more backlash as electorates around the world recognize that globalization has diminished the role of governments in creating prosperity. Political parties haven't yet figured out how to respond. Unless governments can combine the great promise of world trade with nonprotectionist social buffers against its brutish aspects, there could be hell to pay.

Harbrecht covers global trade out of Washington.

HE SHADOW WARRIOR VHO COULD SOON BE BOSS IN JAPAN

Vhen Japan's reform government fell to an unlikely Liberal Democratic Party-Socialist alliance last June 29, many people thought Ichiro Ozawa, the reformers' stermind, was finished. But Ozawa kept plugging away at long-term strategy for restructuring Japanese politics. just a few months, he has orchestrated a merger of nine opition groups into a potentially formidable organization ied the New Frontier Party.

OZAWA: *Reform shogun*

YAMAGUCHI/SYGMA

Many analysts give the NFP a good shot at taking power in ctions that could come as soon as February. e government of Prime Minister Tomiichi ırayama is faltering badly, with his own oan Socialist Party in danger of breaking up. e recent sweeping reorganization of the elecal system will work to the NFP's advantage, will the mood of the voters. "This year's byctions have shown an anti-Establishmentar bent, with women influencing the results the first time," says prominent political anst Minoru Morita. "And the Socialists have t almost every time. Both of these trends le well for the New Frontier Party."

NEYMAN. U. S. diplomats and other foreign are impressed with Ozawa. They consider n a straight shooter, who delivers. For innce, he brokered a market-opening telecomnications deal with the U. S. in the late 1980s. nile a New Frontier government would not ng radical change, it might well begin moving Japan toward re deregulation and a bigger Japanese role in U. N. peaceeping and other international initiatives. "More people in new party than in the current government want a solun to trade friction with the U. S. and a greater contribution U. N. activities," says Yuichi Ichikawa, secretary-general he Komei Party and a close Ozawa ally.

But most of the 220 legislators who have joined the NFP are wn less by Ozawa's reformist ideas than by his ability to raise money and win national elections. He did so in 1990, as secretary-general of the LDP, and again in 1993, as "shadow shogun" of the reformers. "Ozawa is the only figure in Japan who can pull together the money, organization, and staff to establish a new party," says Takao Toshikawa, editor of political newsletter *Tokyo Insideline.*

Ozawa, 52, learned the political game at the feet of the late Kakuei Tanaka, who was forced out as Prime Minister for taking bribes in 1974 but is still respected as a master politician. The legend is that when Ozawa was first elected to the Diet in 1969, he reminded Tanaka of a son who had died. Tanaka took Ozawa under his wing and turned him into a consummate dealmaker. Ozawa has resisted becoming Prime Minister, preferring to operate in the shadows. He prefers to do his fund-raising and arm-twisting in the shadows, knowing such activities turn off the media and the voters.

HEAD-TO-HEAD. In a recent conversation, Ozawa indicated that he was more interested in building a lasting organization than taking power quickly—only to be forced out again. "It will take at least a year for us to build a strong national structure," he says.

To prepare the way for his new party, he has worked hard for the recently passed electoral reforms, which converted multiseat constituencies to single-seat ones. The idea is to encourage issues-oriented campaigning and head-to-head competition among parties. In the old system, members of the same party often ran against each other, with special interest money the deciding factor.

Regardless of the political ups and downs of the next few months, Ozawa is likely to play a major role for years to come. That probably means a three-steps-forward, two-steps-back, pace of change, but one can't expect more in Japan.

By Robert Neff in Tokyo

GLOBAL WRAPUP

OLD START IN MEXICO

Mexico's new President has moved wiftly to deliver on one of his major ampaign promises. Just four days afer taking office, Ernesto Zedillo once de León presented legislation nat will dramatically reform Mexico's awed, corrupt justice system. Zedillo lready had impressed even his critics y naming a member of an opposition arty to head the important Attorney eneral's office, a Cabinet-level post esponsible for investigating two key olitical assassinations this year. Now, he proposes a complete revamping of the Supreme Court as a first step toward creating an independent judiciary. All the current 26 justices would be forced to retire, and the new court would only have 11 members—all of them practicing lawyers, judges, or academics. Politicians and government officials would not be eligible.

RUSSIAN OIL SHUFFLE

▶ New oil-export rules have thrown foreign companies into a tizzy. The changes lift export restrictions on Russian producers—a move that could boost Russian oil revenues, which will be about $8.5 billion this year. But they could wreck foreign oil companies' plans by restricting their access to the limited export pipeline system.

The authorities are trying to help hard-pressed domestic producers, many of whom are now forced to sell most of their production on the home market, where they only get a fraction of world prices. In the new scheme, they would gain a greater export share—but possibly at the foreign companies' expense. That could make many Western projects uneconomical.

AUTO LEASING

A HIGH-STAKES SPIN OF THE WHEEL

Lots of leases are expiring, and auto makers will take a hit if used-car prices tank soon

In late 1992, Ford Motor Co. was very close to winning one of the auto industry's top prizes. To make sure its Taurus edged out Honda Motor Co.'s Accord as the best-selling car in America, Ford offered for nearly two months cut-rate, two-year leases on the cars. Some 55,000 customers stampeded dealerships to sign up. Now, with those leases expiring, the company faces an even tougher challenge: unloading all those used Tauruses at a decent price. "A glut of them are going to be going through auctions in the next four to six weeks," says James F. Russomano, general sales manager at Fette Ford Inc. in Clifton, N.J. "Everybody is wondering what is going to happen."

So far, it looks like Ford's gamble paid off. The used-car market is sizzling, and prices are the highest they've been in nearly a decade. A Taurus wagon that stickered for $20,000 two years ago now brings roughly $10,500 to $11,000—about what Ford's executives guessed when they set the terms of the lease. As a result, Ford may be able to pocket roughly $800 a vehicle—profits gained by selling the used car plus reserves the company had set aside in case it was wrong about what a two-year-old Taurus would fetch in late 1994. That kind of arithmetic means Ford and some other companies that have pushed leasing hard "are making money hand over fist right now," says Randall McCathren, whose company, Bank Lease Consultants Inc., tracks industry trends.

Yet some analysts and auto executives worry that the leasing business could make a dramatic U-turn and become a money-loser in two or three years. That's an immediate concern, because the aggressive lease deals being written today could undermine profits several years down the road. By 1997, most analysts agree, the ever cyclical auto market will likely head south again—maybe sooner, if the Federal Reserve keeps hiking interest rates. When the next downturn comes, the auto makers face an unprecedented situation: A record 2.7 million cars and light trucks will be coming off lease, up from 490,000 in 1993, according to CNW Marketing/Research in Bandon, Ore.

SOBERING THOUGHT. That glut could be the auto makers' worst nightmare. With supply surging just as demand wanes, used-car prices could skid. If they fall below what carmakers had anticipated, the companies could rack up huge losses. Some auto makers and independent lease companies "are going to get burned," predicts CNW Vice-President Art Spinella. Moreover, these good-quality used cars may undermine new-car sales, thereby magnifying the downturn.

Why such handwringing over used cars? They're the key to making—or losing—money in leasing. Companies charge lease customers only for the portion of the vehicle's worth that they use. To determine that, they estimate the car's wholesale value at the end of the lease—the "residual value." For a typical Taurus wagon leased two years ag
Ford figured a residual value of abo
$10,500. If the car were now worth or
$9,500, Ford would be out $1,000, m
nus the few hundred dollars set asi
in reserves. That may seem like sm
potatoes. Yet if the auto makers a
leasing companies overestimate resi
ual values by 5% to 7% on the millions
cars and trucks expected to come
lease in 1997, "you're suddenly looki
at $3 billion that's going to have to g
covered," says Spinella.

A sobering thought, considering th
residual values are at all-time highs a
may be poised to fall. The average 19
model car or truck will retain 57% of i
sticker price two years down the roa
figures *Automotive Lease Guide* (AL
which the industry uses to help set r
sidual values. That matches the pea
reached in 1986—and is 11 percenta
points higher than the most recent lo
in 1992. "I don't view our numbers
conservative at the moment," says *A*
publisher Doug Aiken, who has bee
warning executives not to "get too f
out on a limb with residual values

PRE-OWN
ENC
LEA

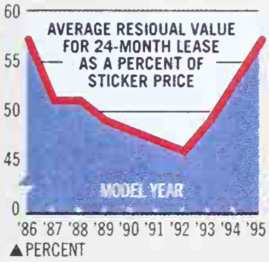
LAST DETAIL: *A formerly leased Mercedes is prepped for the used-car lot*

PHOTOGRAPH BY DAVID BUTOW/BLACK STAR; CHART BY ERIC HOFFMANN/BW

espite such warnings, many carmak- and independent lease companies inely establish residuals several per- age points higher than *ALG*. GE Cap- Auto Financial Services—one of y independents that together ac- t for 60% of auto leasing—sets some e most aggressive residual values ertain models. GE figures that a 1995 da Civic will be worth 75% of the cal $13,500 sticker in two years vs. s estimate of 61%. "We're comfort- with our process," says Frank A. lin, vice-president at Auto Financial vices. By contrast, eral Motors Corp. Chrysler Corp. have l relatively conserva- accounting methods t should help limit r exposure.

ESCAPE. One of the t aggressive compa- s has already been ned. Desperate to ch lease payments as as $599 a month for rival Lexus' LS 400, san Motor Co.'s Infi- luxury brand set an unrealistically three-year residual on its Q45 mod- the early '90s. Last year, when the s began coming off lease, Infiniti had ell them at losses ranging from 00 to $7,000 apiece, say analysts. rall, Infiniti's snafus cost $200 mil- , says Spinella. Robert J. Thomas, sident of Nissan Motor Corp. USA, ldn't confirm the losses but con- es, "we had probably under-reserved tle bit." Infiniti tried to dial back ing last spring. But sales plummet- 0%, and it reluctantly began offering petitive leases again. Only this time, s Thomas, the reserves are higher.

RESIDUAL VALUES: HEADED FOR A FALL?



DATA: *AUTOMOTIVE LEASE GUIDE*

Because of leasing, the auto manufacturers now have a big stake in the used-car market. So they're readying gambits to try to keep prices from sagging when the off-lease vehicles hit the wholesale auctions, where dealers buy millions of used cars every year. The most novel approach could be to export them. World Omni Financial Corp., a subsidiary of distributor Southeast Toyota Inc., has 40,000 lease cars due back in 1996. It's testing sales in the Philippines, where it just sold two Corollas to a dealer for $1,100 more than the cars bring in the U. S. World Omni expects eventually to export up to 20,000 vehicles a year.

The manufacturers that have made the biggest push into leasing—Ford, luxury-carmakers such as Mercedes-Benz, and most of the Japanese carmakers—are trying to protect themselves by revving up programs to lease used cars. Mercedes spends an average $1,500 to refurbish its cars, slaps on an extended warranty, and offers subsidized 1% interest rates. A three-year-old 300E sedan can be had for three years for as little as $450 a month, vs. $650 or more for a new one, says Garth L. Blumenthal, general manager of Fletcher Jones Motorcars Inc. in Newport Beach, Calif. After a two-year trial, about one-fourth of the used cars that roll off the dealership's lot are leased. Mercedes will offer even sweeter deals to employees and to dealers who want the cars as service-department loaners.

To make used cars more palatable to consumers wary of lemons, carmakers often include an extended warranty on off-lease cars they sell. That, plus reconditioning, has helped prop up values. Lexus gets a 4% to 6% premium above prevailing prices for refurbished, certified used cars auctioned exclusively to its dealers. Right now, Lexus is setting residuals at 60%, but that high figure is supported by resale value, says Lexus Div. General Manager George E. Borst.

ENDLESS GAMBITS. The easiest way to sell used lease cars is to persuade the folks who are already driving them to buy them. American Honda Motor Co. and Mitsubishi Motors Corp. contact lease customers as much as a year before their contract expires. If the car's residual looks like it will be too high, carmakers can cut their losses compared with selling at auction, since retail used-car prices are typically $1,000 higher than wholesale. If the customer needs a nudge, carmakers can offer $500 off and still save $500 themselves.

The gambits for moving the secondhand metal seem endless. Auctions via satellite and interactive TV are selling cars to dealers who otherwise wouldn't participate. General Motors Acceptance Corp. and others pay the interest on some used cars on dealers' lots, a move that can save $400 on a $20,000 car and encourages dealers to stock up at auctions. Still, with some 45 million vehicles changing hands each year, the used-car market is probably too vast for individual companies to influence. "It has a very powerful, uncontrollable dynamic," says Nissan's Thomas. That's why when the next sales slump drives down prices, some of the most aggressive leasing companies may get sideswiped.

By David Woodruff in Detroit, with Larry Armstrong in Los Angeles

CARMAKERS' BLE ON LEASING

When they set the terms of a lease, auto makers estimate how much they think the car will be worth at the end of the leasing period. If the car is worth less than their guess, the company can lose money. Here's how:

RISKS...

CE for the 1993 Infiniti 0,000

L VALUE Infiniti estimated would be worth 65% of price two years later:)

ACTUAL WHOLESALE VALUE)

he lease customer does the car, the finance com- es $1,500

DATA: *AUTOMOTIVE LEASE GUIDE*

...AND WHO IS TAKING THEM

MANUFACTURER	VEHICLES LEASED IN '94*	LEASES AS PERCENT OF SALES*	EXPOSURE
FORD	580,000	30%	Will have to unload flood of two-year-old cars
GM	570,000	18	Conservative accounting should keep lid on losses
HONDA/ACURA	230,000	29	Has let GE Capital make riskiest leases
TOYOTA/LEXUS	225,000	29	Has detailed, flexible plan to sell off-lease used cars
NISSAN/INFINITI	135,000	25	Hoping to reverse losses of up to $7,000 on Infinitis
CHRYSLER	125,000	15	Conservative approach lowers Chrysler's exposure
BMW	60,000	70	Offering extended warranties on used BMWs
MERCEDES	55,000	80	Will refurbish, re-lease used cars to prop up values

*Estimates, including independent leasing companies

DATA: CNW MARKETING/RESEARCH, BUSINESS WEEK

Who are the world's leading companies turning to when it comes to managing all their information?

"Oracle is behind some of our most remarkable achievements for the Fortune 500."

Randall Rank
Partner
Price Waterhouse, LLP

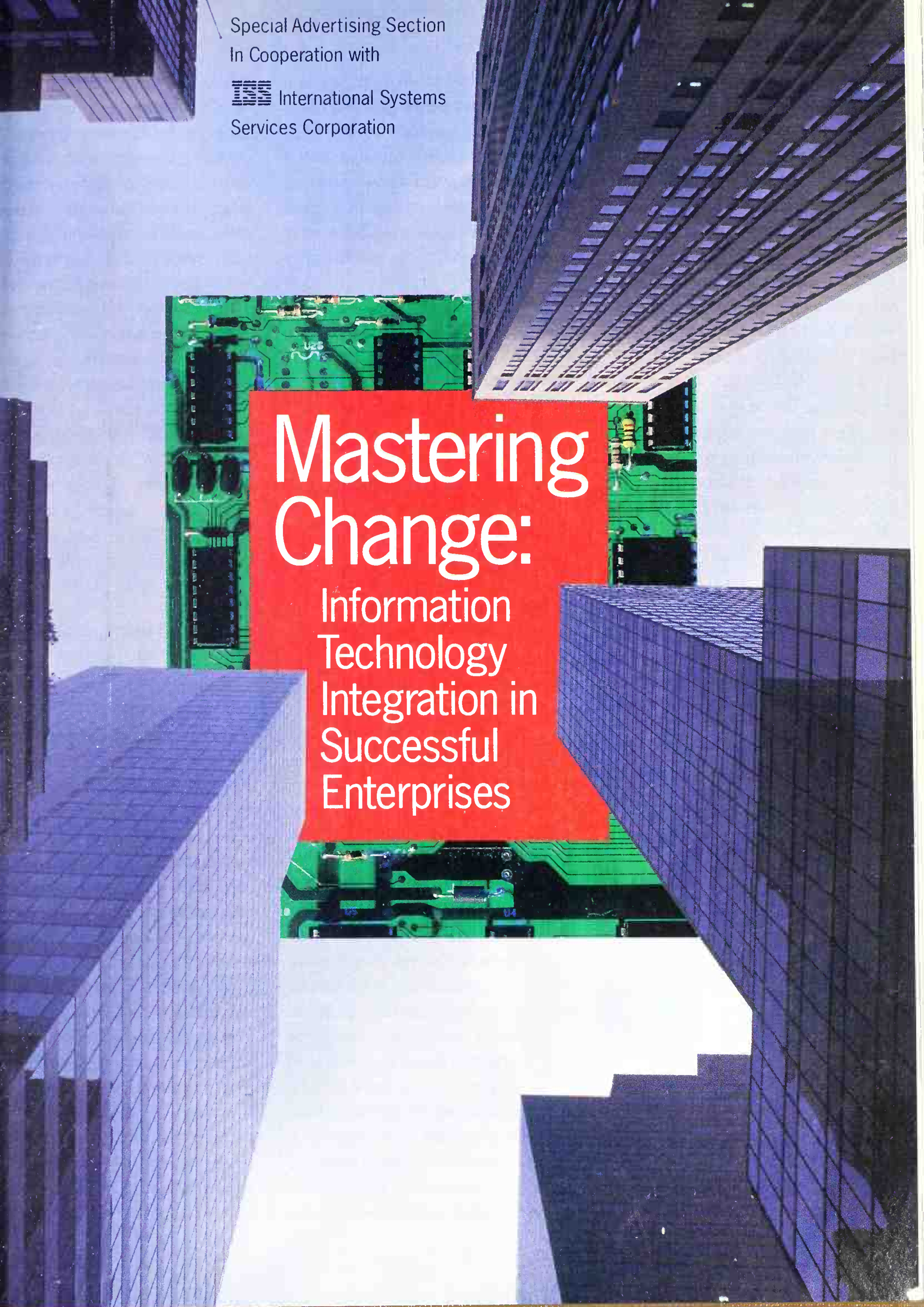
Price Waterhouse, a leader in business process improvement and information systems is continually evaluating new technologies with which to build solutions for their clients. Price Waterhouse looks for IT solutions that fit their client's business objectives while keeping the risks associated with changing technology low. And when they need world class database software and client/server applications, Price Waterhouse turns to Oracle. Who else could enable their clients to re-engineer their business with distributed information systems flexible enough to withstand the demands of data in numerical, graphical, audio or video forms — *exactly how did they do it?*

Price Waterhouse asked Oracle.

Find out how Oracle can help you manage all your information, call 1-800-633-1061 Ext. 8382.

Enabling the Information Age. ORACLE

Special Advertising Section
In Cooperation with
ISS International Systems
Services Corporation

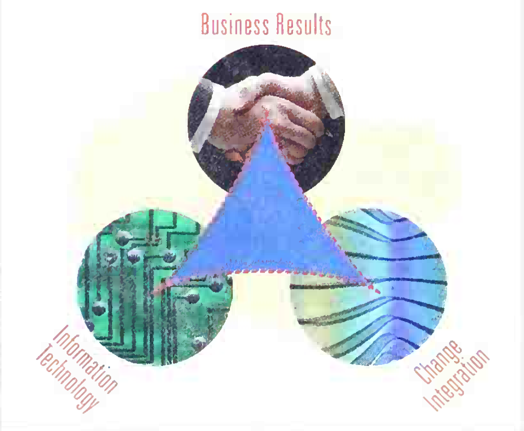


Mastering Change:

Information Technology Integration in Successful Enterprises

Beyond Reengineering

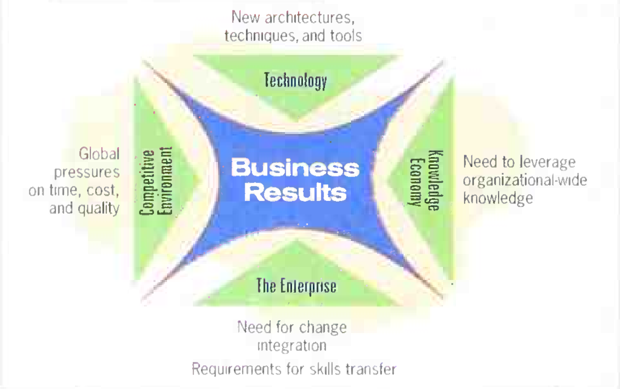
The only constant in business today is change. Businesses that master it will be leaders in the new global economy. In fact, those enterprises that institutionalize continuous change have the best chance of success, and those that don't will clearly be at a competitive disadvantage, if not worse. Many organizations have attacked this problem along a single dimension (for example, by realigning their organizations or reengineering their work processes). Others have attempted to retool their information technology infrastructures. The truly successful among them, however, have gone beyond reengineering and have *integrated change throughout their organizations*. They have concluded that a holistic approach—focused on business processes, information technology, and change integration—can produce the most significant business results. These companies have, in fact, become masters of change.



Holistic View of Change

Reengineering Business

For years, information systems professionals have urged line management to improve business practices before reinforcing them with heavy investments in technology. Now business leaders are taking this advice seriously, based upon the convergence of a variety of business and technology forces driving change. Reengineering—the radical redesign of work processes—represents the new frontier of business, and the rush to find the gold of increased profits is on. Success, while far from guaranteed, is within reach for those willing and able to stretch their corporate minds and unleash the creativity of the work force. The best practices of reengineering are emerging, as a review of the many experiences reported to date makes clear.



Forces Driving Change

New architectures, techniques, and tools
Technology
Global pressures on time, cost, and quality
Competitive Environment
Business Results
Knowledge Economy
Need to leverage organizational-wide knowledge
The Enterprise
Need for change integration
Requirements for skills transfer

SOURCE: ISS CORPORATION

Why Do So Many Reengineering Efforts Fail?

Failure rates are reported to be between 50% and 70% for business process reengineering (BPR), numbers that increasingly make companies nervous about embarking on large-scale redesign efforts. Recent surveys by business consultants disclose an unsurprising hostility to reengineering among workers who either fear coming change or are struggling to adapt to change that has already taken place. The market rewards the venturesome, however, with stock values rising as companies announce massive restructuring and layoffs.

Everyone's list of probable culpri
the search for the underlying causes of
ure includes insufficient commitment f
senior management, communication p
lems, unclear or unrealistic objectives,
jointed implementation efforts, and in
sistent follow-through. Lost in this kin
post-project opinion analysis
clear view of reengineering failu
the context of other business
ures. The risks associated with
ically redesigning work are co
rable in many ways to the risks
sociated with starting a new
ness. In this context, the rate
failure may not be all that sur
ing. Interestingly, it is one of
successes of reengineering that
rate of failure is measured
known as well as it is.

Successful Reengineering Defined and Examined

Business process reengineering ent
a complete rethinking and transforma
of key business processes, with an en
end analysis of activities and their va
added from the customer's perspective.
commonly recognized that most busin
processes were not designed for tod
environment, especially in light of the ra
pace of change in technology and its
matic impact on business processes. In
dition, many businesses have tended to l
customer focus over time, while introduc
organizational complexity. Those organ
tions unable to change successfully risk
ping into the downward spiral that beg
with processing errors, which in turn lea
quality problems, low productivity,
creased costs, and staffing problems.
the bottom of the spiral are revenue
clines, unsuccessful business strategi
and ultimately business failure.

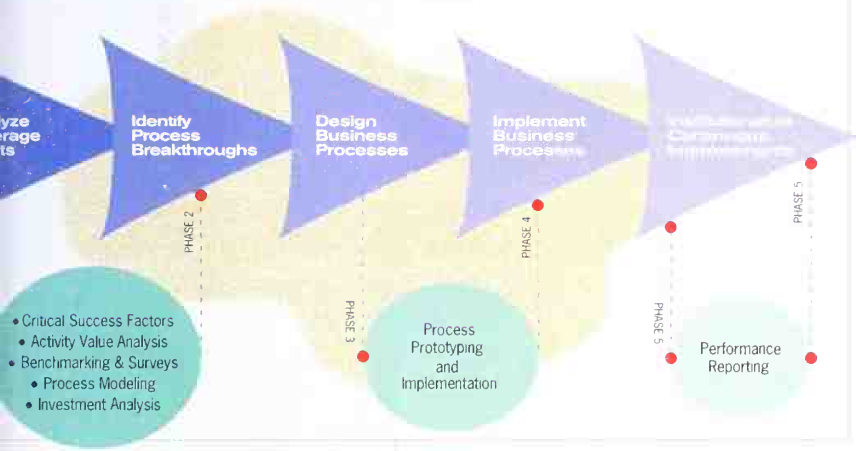
The emphasis in business proce

gineering is on transformation that
nes across traditional boundaries,
ing down barriers between stovepipe
ons, and creatively linking employees
suppliers and customers to enhance
ll performance. Typical reengineering
tives are to reduce the time spent in
ties other than customer service, and
luce costs of operations, increase rev-
s, improve quality, and enhance the
gement of risk. The scope of reengi-
ng is typically quite broad, encom-
ng organization and staffing, policies
procedures, facilities, and supporting
nation technologies.

While the paths companies have taken
hieve breakthrough reengineering re-
vary significantly, successful BPR pro-
often begin with a renewed focus on
nal stakeholders, including customers,
iers, and investors. Reengineering out-
s typically tend to be enabled via many
e same types of change initiatives. For
ple, responsibility and authority tend
distributed throughout the organiza-
lodged with those employees closest
e work, who are also given, for the first
access to clear measures of perfor-
e. Compensation systems and organi-
nal structures are changed, often radi-
to match the redesigned business
processes and to reward teamwork and initiative rather than hierarchy and the rote performance of tasks. Workflows are streamlined, often via on-line electronic commerce with suppliers and customers, who become partners rather than arms-length associates in achieving mutually beneficial business results. The physical structure of large, multi-site companies is frequently rationalized, through consolidations of previously dispersed activities or through "virtual" offices. In many business processes, there is also increased leverage of institutional knowledge, a critical but little understood corporate resource.

Many of these reengineering outcomes are themselves enabled by an additional outcome: *highly leveraged information technology*. From establishing key service and feedback links with customers, to capturing and making available to employees the hard data of business performance, to rethinking and retooling the physical location and layout of the corporate buildings, technology is critically important.

Methodology For Reengineering Business


yze
erage
ts
Identify Process Breakthroughs
Design Business Processes
Implement Business Processes
PHASE 2
PHASE 3
PHASE 4
PHASE 5
PHASE 5
• Critical Success Factors
• Activity Value Analysis
• Benchmarking & Surveys
• Process Modeling
• Investment Analysis
Process Prototyping and Implementation
Performance Reporting

Critical Success Factors for BPR

As the body of experience with BPR strategies, techniques, and tools grows, the factors critical for success are becoming clearer. Based upon ISS's experience over

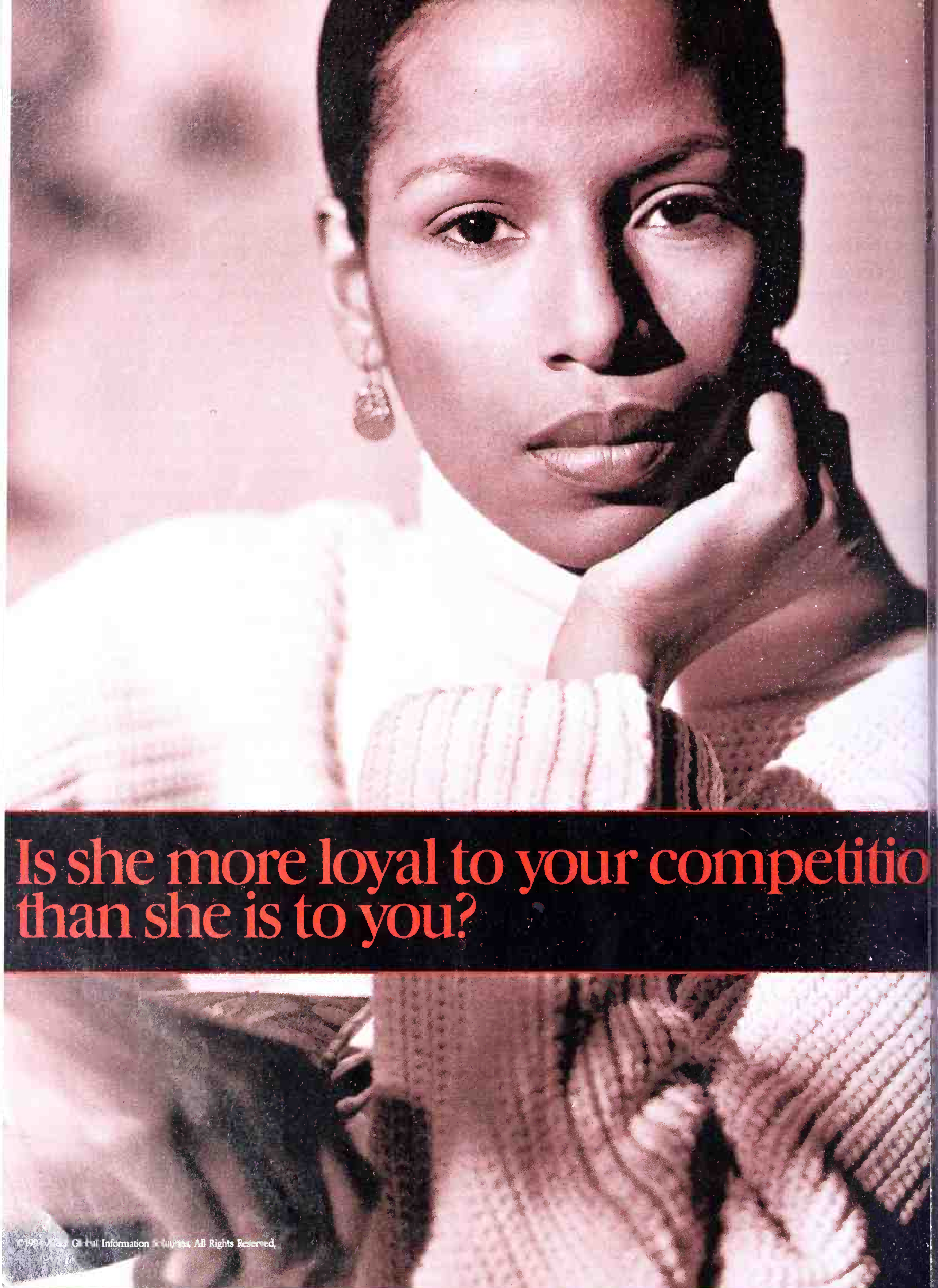
At Pacific Bell the Journey is the Destination...from Telephones to the Information Superhighway

PACIFIC BELL®

The huge new global telecom market is exploding, while at home alternative suppliers and a constant drumbeat for better service by customers are convincing telephone companies that it is worth giving up monopoly protection in return for the freedom to compete. PacBell is investing $16 billion to win the race to pave the information superhighway with fiber optic cable to California's millions of household consumers. At the same time, to prepare its organization for the shifting regulatory environment, the telecommunications giant has launched a major business reengineering initiative.

Focused on eight core processes, 250 employees, working in teams, were asked to deliver winning customer service by achieving breakthroughs in restructuring processes, information systems, and organization while dramatically reducing costs. PacBell's executive policy group selected a substantial number of major initiatives for implementation, intended to deliver a return equal to three times their investment over four years. This will affect the majority of the firm's 51,000 jobs.

The enormity of this implementation is felt by R.C. (Dick) Bostdorff, Vice President, Process Reengineering. "Our biggest challenge is to reach out to all of our people and to have them own these changes." The critical factors to come to grips with include managing the sheer complexity of these interrelated changes, ensuring that information systems delivery is dramatically shortened—a tough job in a largely legacy-based environment, and building a communications infrastructure to enlist and connect employees across Pacific Bell as supporters and experimenters rather than as resisters of change. E.S. (Steve) Swanson, Customer Care Systems Vice President and Chief Technology Officer, explains the high-wire balancing act as "reapplying systems assets into the old business and determining when and how they come together with new systems for a rapidly evolving new business with a set of rules and boundaries that have yet to be defined."


Is she more loyal to your competitio
than she is to you?

©199[illegible] [illegible] Global Information Solutions. All Rights Reserved.

Relationship marketing. Frequent customer programs. Companies spending millions building customer loyalty.

A lot of which they could be saving. If only they knew more about the people they're marketing to.

For instance, if an airline knew that 15% of its best customers racked up twice as many miles on another carrier, think how it could change the way they market to them.

If a soft drink company knew which customers in specific neighborhoods of every city wanted which product, think how it could impact distribution and promotions.

There's no doubt about it. Customer information can be the most powerful tool a company has.

And of all the information companies out there, we're the one that best unites the strengths of both computing and communications in our solutions.

Our Get IT, Move IT, Use IT™ Customer Focused Solutions are already at work. Helping one of the world's largest retailers understand customer buying habits by store. So they can stock what people want most, while reducing out-of-stock occurrences and markdowns.

Helping banks minimize the time and expense of loan approvals. Reducing processing time to as little as 15 minutes, while cutting out up to 25% of the cost. Helping phone companies cross-sell services and identify new opportunities.

There's a Customer Focused Solution tailored to your industry. And your company.

Call 1 800 579-5722. We'll tell you more.

AT&T Customer
Focused Solutions.
Turning information
into understanding.

GET move USE IT™

Now that NCR and AT&T are one, computing and communications have come together to help you get, move, and use information.

AT&T
Global Information
Solutions

the years, there are seven keys to reengineering success:

1 *Align BPR with Business Strategy:* BPR initiatives can feed into strategy decisions, but are not a substitute for them. If one agrees that reengineering objectives are—or should be—derived directly from business strategy, it stands to reason that the role of BPR should be one of speeding up the realization of business results—potentially both good and bad—emanating from the strategies which top management has selected.

2 *Secure Executive Leadership and Commitment:* The direct link to defined business strategies is one of the keys to securing the commitment of senior management. Experienced BPR professionals caution, however, that commitment must be continuously renewed as the hardships of radical change become real. Success demands more than commitment, difficult as it may be to secure and sustain. Executives need to lead through active, continuous interest and participation in the BPR initiative.

3 *Identify and Understand Paradigm Shifts:* Paradigm shifts involve radical departures from the tried and true. Many established organizations have real difficulty even recognizing these discontinuous changes. Because understanding and adapting to major paradigm shifts means making fundamental changes to the related work processes, BPR initiatives need to help surface these shifts, and to introduce breakthrough concepts which help prepare the way for continued success.

4 *Focus on Business Results, Not Activities:* It is not what you do that counts, but what you achieve in the context of the whole business. The BPR process repeatedly uncovers activities where performance is outstanding but irrelevant to the overall business objectives and strategies. Such activities may be abandoned in the streamlined work process.

5 *Leverage Information Technology as an Enabler:* Although significant transformation opportunities are often made possible by today's information technology, IT itself does not drive change. The information technology staff is quite frequently the instigator for a change initiative, but leadership and ownership must come from business management if technology is truly to be leveraged to its fullest extent.

6 *Integrate Change Throughout the Organization:* There is no such thing as too much emphasis on managing change. Resistance efforts can be skillful and ingenious, especially if staff are not invited to participate broadly. Critical elements of change integration include communication plans, resistance and champion handling, change laboratory, feedback loops and reward systems, and training at all stages.

7 *Institutionalize Continuous Improvements:* There is a tendency in large organizations for work to revert to its previous forms at some point during or after implementation. An ongoing process improvement or quality program guards against reversion by spreading responsibility for performance monitoring and continuous enhancement throughout the staff. The ongoing program also provides for a future link back into BPR, when and if breakthrough change again becomes desirable.

More often than not, business leaders underestimate the difficulty of managing the introduction of change and the expectations of key stakeholders and participants. Some of the more common BPR implementation pitfalls include lack of executive management leadership and participation, overlooking revenue enhancement opportunities, insufficient focus on critical success factors, lack of a true understanding of the current cost base, failure to consider all the alternatives, lack of a process orientation, thinking too small, and underestimation of change integration issues. Most companies which have successfully reengineered one or more of their key business processes have found that selecting an integrated methodology and learning from successful practitioners can help avoid the most common pitfalls. In addition, IS's own experience suggests that successful business process reengineering often requires a parallel reengineering effort with respect to the organization's information technology processes.

Keys To Reengineering Business Success

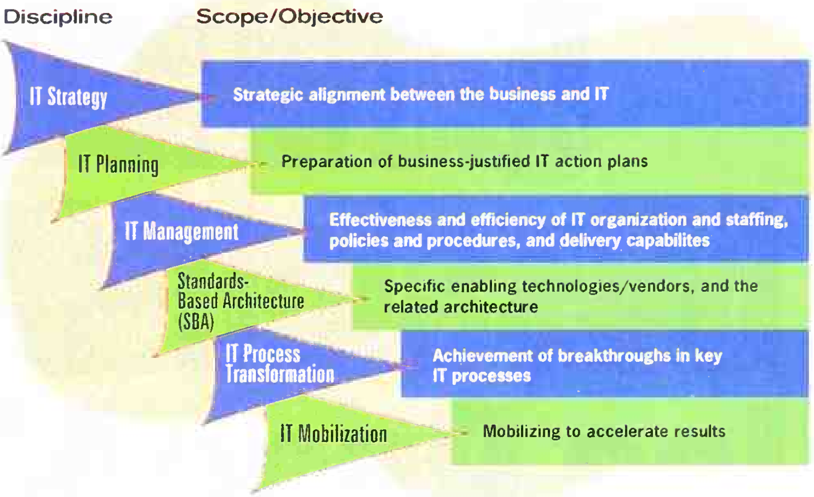
① Align BPR with Business Strategy
② Secure Executive Leadership and Commitment
③ Identify and Understand Paradigm Shifts
④ Focus on Business Results, Not Activities
⑤ Leverage Information Technology as an Enabler
⑥ Integrate Change Throughout the Organization
⑦ Institutionalize Continuous Improvements

SOURCE: IIS CORPORATION

ngineering Information
nology

is many business processes need to
engineered, the information technolo-
ocesses that help enable the change
equire reengineering. The alignment
with the enterprise's strategic and tac-
equirements is often a moving target,
by rapidly changing business needs
global marketplace. A technology in-
ucture to enable and facilitate new or
ng business processes, along with
business systems that can be rapidly
yed to deliver new products and ser-
is essential to success. In helping to
ment such infrastructures and sys-
ISS uses the term information tech-
y reengineering (ITR) to refer to the
mental transformation required in IT
gies, organizations, architectures, and
gement processes. The overall goals
are to reduce time and cost, improve
y, enhance "customer" satisfaction,
ncrease the value added by IT. Some
disciplines typically evaluated under
R umbrella include IT strategy and
planning, IT management, standards-based architecture, IT process transformation, and mobilization of the IT organization in order to achieve accelerated results.

Information Technology Reengineering Framework


Discipline
Scope/Objective
IT Strategy
Strategic alignment between the business and IT
IT Planning
Preparation of business-justified IT action plans
IT Management
Effectiveness and efficiency of IT organization and staffing, policies and procedures, and delivery capabilites
Standards-Based Architecture (SBA)
Specific enabling technologies/vendors, and the related architecture
IT Process Transformation
Achievement of breakthroughs in key IT processes
IT Mobilization
Mobilizing to accelerate results

SOURCE: ISS CORPORATION

The Technology View

Today's management faces a complex and bewildering array of technology choices—distributed, networked, client/server computing, graphical interfaces, multimedia, object orientation, relational databases, "middleware" tools, new generations of microprocessor chips on multiple and disparate platforms to name but a few. Further complicating the situation is the need for these technology components to both co-exist with and access critical corporate data on long-installed legacy systems. In

e Manhattan:
ing Hard Dollar Paybacks
ITR

CHASE

Well into its fourth year of earnings growth following a
ssful business transformation, Chase can
ack at what worked and why. Beginning in
with the appointment of Thomas Labrecque
airman and CEO, Chase refocused, redefin-
e kind of company it should be, the busi-
s it should be in, and the support needed to
outstanding customer service. The shift
product to a customer orientation brought
ology very much to the forefront of the
ormation.

Reengineering the information technology
tructure has contributed significantly to Chase's current financial health. Consolidating 115 data centers into five, a process that will be completed by the end of the year, has generated $50 million of annual savings. This involved more than just a series of physical moves. Once the units were consolidated, they needed to migrate to a common architecture, common standards, and shared methods and tools.

Having centralized the data centers, Chase distributed information technology developers to the business units all over the world, and is working hard to get information into the hands of the end-users. Extensive initiatives using client/server technology for such efforts as customer service and customer payments processing have been completed. The latest key systems initiative is an $85 million investment to build and equip a new trading facility which will enhance the electronic exchange of information among Chase traders. The new system will give traders desktop access to integrated information on the value and risk associated with investments.

"Our goal is information self-sufficiency, getting information to the right people, in the right place, at the right time," says Craig Goldman, Chief Information Officer for Chase. "We make the process look easy to our users, but behind the scenes we rely on the most sophisticated technological solutions—rapid, iterative design, prototyping, and object-oriented development to maximize reuse. To free up resources for these new techniques, we had to go through the painful process of ITR. Our challenge was to reduce the technology resources associated with maintaining legacy systems to allow us to build the seamless, global information infrastructure essential to the financial services business, while holding our spending at reasonable levels."

In Database Technology, Mission-Critical Has Been Mission Impossible.

Until Now. Introducing CA-OpenIngres.

CA-OpenIngres. Advanced Technology. Mission-Critical Experience.

ile other companies promise database technology you can st for mission-critical client/server applications, only one company delivers.

- **Total Replication**
- **ransparent Gateways**
- **Client/Server**
- **Open Architecture**
- **Fully Scalable**
- **ject Relational DBMS**
- **Dynamic Triggers**
- **24/7 Support**

Computer Associates. With the introduction of CA-OpenIngres®, we've combined the industry-leading technology of OpenIngres with our own unmatched experience in mission-critical heterogeneous computing.

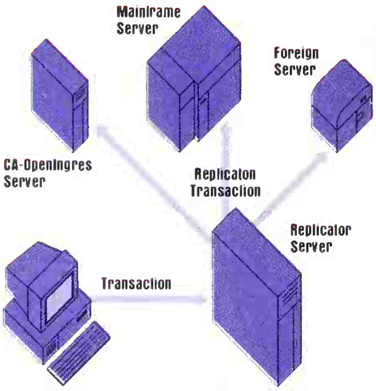
It's a combination that turns the dream of global, enterprise-wide information management into reality.

eat CA-OpenIngres accomplishes by combining robustness of classic production systems h the economy and flexibility of open tems.

The result is a single, logical view of parate data whether it be relational, -relational, local or distributed.

Computer Associates offers 24 hour/7 day a week service and support

And with our leading-edge Object Management Extensions, you're not just limited to text and numbers. OpenIngres allows you to develop your own business data types like times, dates, audio, video and other multimedia.



Foreign servers take part in replication, for integration of CA-OpenIngres systems with existing production systems

What's more, now that OpenIngres is CA-OpenIngres, product support will never be in doubt. Because Computer Associates is the only database company that includes technical assistance 24 hours a day, seven days a week standard, at no extra charge.

For More Information On The Advantages Of CA-OpenIngres, Call 1-800-225-5224, Dept. 12601.

CA-OpenIngres. In database technology, mission-critical is now mission accomplished.

COMPUTER ASSOCIATES®
Software superior by design.

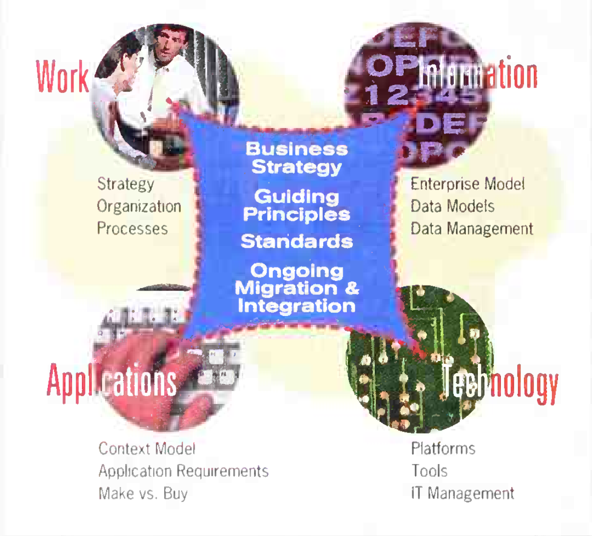
UNIX **VMS** **NETWARE** **OS/2** **WINDOWS NT**

© Computer Associates International, Inc., Islandia, NY 11788-7000. All products referenced herein are trademarks of their respective companies.

ISS's experience, enterprises need a proactive means to deal with this complexity. What's required is an approach based on interchangeable parts, with specified standard interfaces that allow organizations to take advantage of new technology solutions within their current environments. This approach must include a framework for integrating legacy systems with newly available technologies, as well as a migration plan to move from the installed base to a more open, flexible technology infrastructure.

One highly successful approach to enabling technology migration involves the development of an enterprise-wide Standards-Based Architecture (SBA), a comprehensive framework that defines, models, plans, and helps migrate the enterprise to the target technology infrastructure. A key characteristic of the SBA approach is to link business strategy with an integrated view of the *work processes* performed within the enterprise, the *information* used to perform the work, the *applications* that employ the data, and the *technology platforms* on which they reside. By incorporating these four distinct yet related views of an integrated architecture–(work, information, applications, technology)–B
provides a proven mechanism for trar
ing the functional needs of the enter
into technology-enabled solutions tha
stand the test of time.

Standards-Based Architecture



SOURCE: ISS CORPORATION

The New Techniques

Providing an enterprise b
bone through a standards-base
chitecture and retooling the tec
ogy, however, are only part of
solution. The processes by whic
formation technology solutions
defined, designed, constructed,
implemented need to be ree
neered as well. For most orga
tions, the majority of IT time and
lars is still being expended main
ing legacy systems, not in deplo
new systems to meet changing b
ness needs. And when new syst
do get developed, they typically follo
step-by-step "waterfall" process (if they
low a methodology at all) that takes
long, has costs that are too high, has st
of questionable value, and remains inflex
to rapidly-changing user requireme
What's needed is an entirely new proce
one that simultaneously considers the b
ness problem, the end-users' requireme
the system's design, interfaces with
enterprise's architecture, and the syste
construction and implementation within
business.

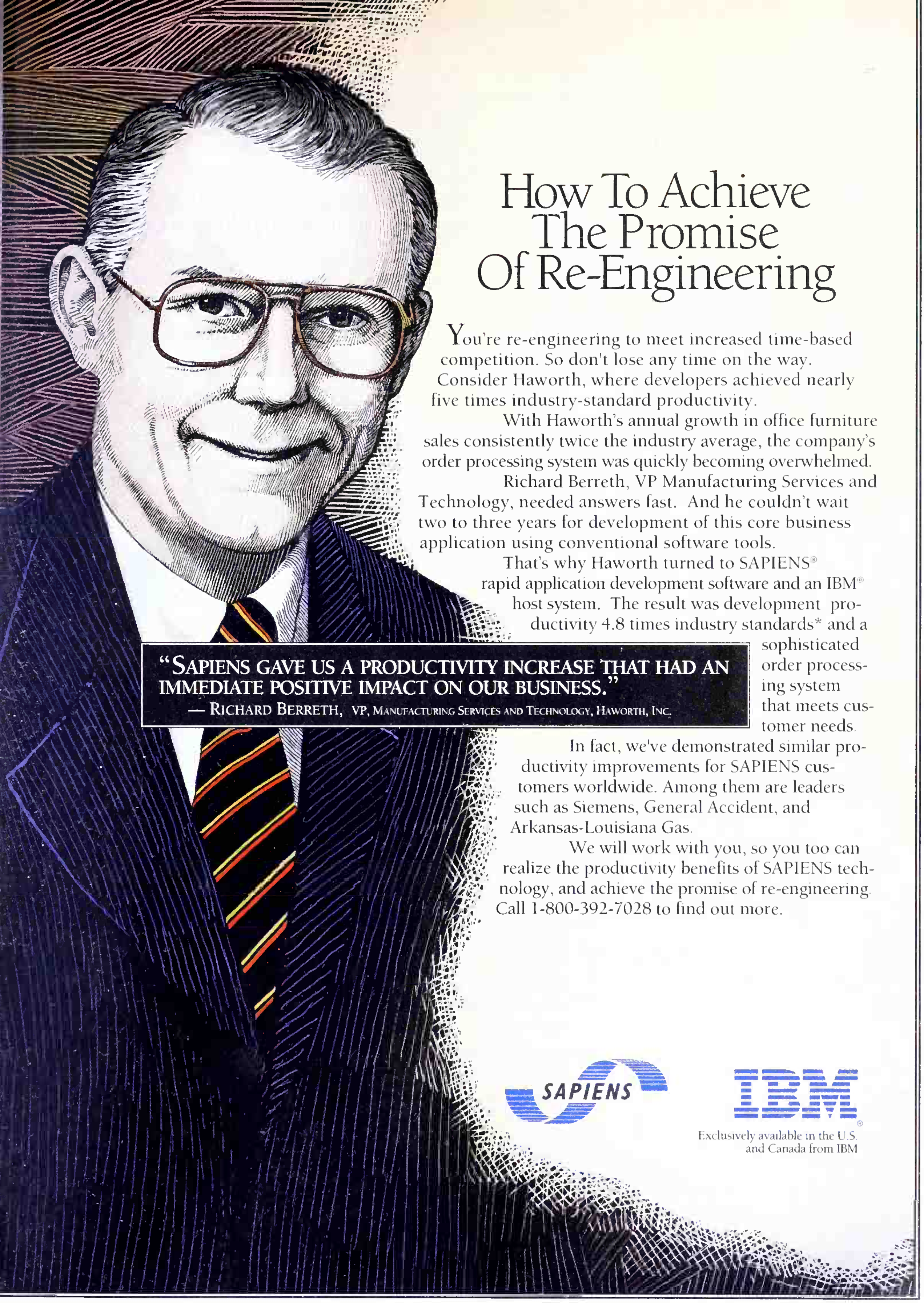
Fortunately, recent best practices h
evolved to do just that. Through an
proach known as *concurrent engineer*
the software application developm
process can be radically redesigned
provide business solutions that are b
faster and more flexible to respond
changing business needs. One way to e
neer applications concurrently is thro
object-oriented analysis, design, and p
gramming, where software developm
productivity and quality are improv

The US Air Force: The Need for a Standards-Based Architecture

The US Air Force's Air Education and Training Command (AETC) manages the largest education and training program in the world. The Command includes more than 60,000 professionals and trains more than 250,000 of the nation's Air Force pilots and support personnel each year. In coming years, the Air Force has to maintain and even enhance mission effectiveness while getting by with fewer dollars and people. Information technology is a key enabler to do more with less. Considering their 100+ mainframes, 48,000 PCs, 150+ networks spread across 13 US bases, and more than 130 command-unique applications, the AETC leadership realized the need to migrate to standard systems, to better integrate information with applications, and to link more tightly business processes and technology infrastructure to command-strategic direction.

But how could they do this on a fast-pathed basis throughout the Command? The solution was to look at an enterprise-wide Standards-Based Architecture (SBA) that would link their work processes, data elements, software applications, and technology platforms together to better support the AETC mission. The SBA planning process is used throughout the Department of Defense to help migrate organizations from current legacy systems to future open systems environments.

"As we look at our strategic information planning requirements for the remainder of the decade and into the next century, we'll need a solid foundation on which to make investment decisions," according to General Henry Viccellio, Jr., the AETC Commander. "A standards-based, enterprise-wide architecture provides a framework to help us make those decisions and identify high payback opportunities to support our mission at reduced cost and with enhanced effectiveness."



How To Achieve The Promise Of Re-Engineering

You're re-engineering to meet increased time-based competition. So don't lose any time on the way. Consider Haworth, where developers achieved nearly five times industry-standard productivity.

With Haworth's annual growth in office furniture sales consistently twice the industry average, the company's order processing system was quickly becoming overwhelmed.

Richard Berreth, VP Manufacturing Services and Technology, needed answers fast. And he couldn't wait two to three years for development of this core business application using conventional software tools.

That's why Haworth turned to SAPIENS® rapid application development software and an IBM® host system. The result was development productivity 4.8 times industry standards* and a sophisticated order processing system that meets customer needs.

> **"SAPIENS GAVE US A PRODUCTIVITY INCREASE THAT HAD AN IMMEDIATE POSITIVE IMPACT ON OUR BUSINESS."**
> — RICHARD BERRETH, VP, MANUFACTURING SERVICES AND TECHNOLOGY, HAWORTH, INC.

In fact, we've demonstrated similar productivity improvements for SAPIENS customers worldwide. Among them are leaders such as Siemens, General Accident, and Arkansas-Louisiana Gas.

We will work with you, so you too can realize the productivity benefits of SAPIENS technology, and achieve the promise of re-engineering. Call 1-800-392-7028 to find out more.

SAPIENS

IBM®

Exclusively available in the U.S. and Canada from IBM

*For further information on how the study was conducted contact Software Productivity Research Inc Burlington, Massachusetts

SAPIENS is a registered trademark of Sapiens International Corporation N V IBM is a registered trademark of International Business Machines Corporation ©1994 Copyright Sapiens International Corporation N V All Rights Reserved

Elizabeth Arden: Business Led, IT Enabled, Change Integration

ELIZABETH ARDEN

Elizabeth Arden, the international manufacturer and marketer of prestige cosmetics and fine fragrances, was early to recognize the need to streamline its business processes in order to effectively compete in the global economy. To do so entailed the reengineering of the company's market-based business model and necessitated the total transformation of the existing systems and technology architecture.

Operating under the motto "think global, act local," Elizabeth Arden empowered multiple business-led task forces to define common processes and business systems requirements, while an executive management team was charged with the responsibility of developing a global vision for the reengineered business. Concurrently, an information technology task force set out to define the new technology architecture and infrastructure requirements. Each functional team was led by a senior executive of the business, staffed with representatives from each of the company's major geographic markets, and supported by the information technology task force with project management and administrative services. The result was a unified business process and technology change integration plan which allowed the company to move into immediate and successful implementation.

"As we examined our business processes and systems, we knew that we were going to have to completely overhaul our historical way of doing business on a global basis and that our current technology approaches simply would not suffice," says Elizabeth Arden Chief Financial Officer, Paul F. West. "To address our many cultural and marketplace issues, the IT-assisted task force approach was absolutely essential to the success of the endeavor. We did not have the time to reengineer our processes and then seek enabling IT solutions. We had to do them together, do them well, and do them rapidly. We did."

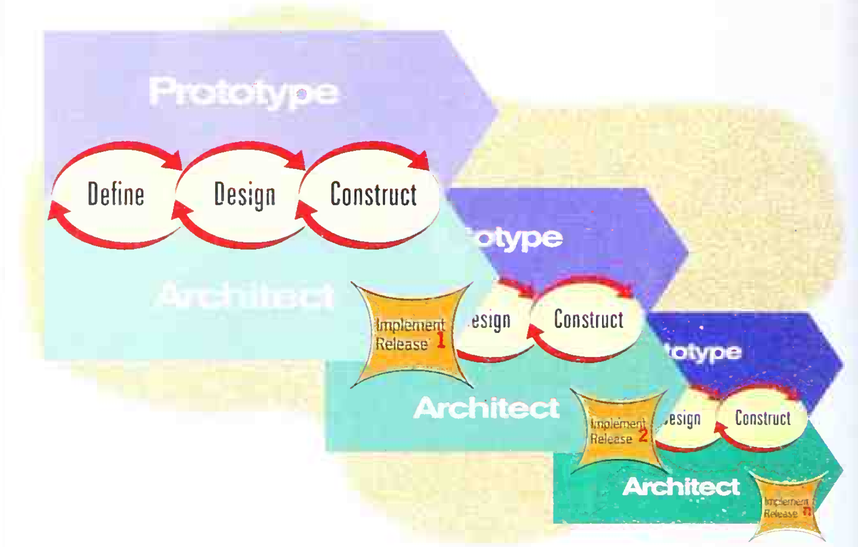
through independent but linked building blocks (objects). Whole systems can be created by reusing these objects. It is the principle of *software reuse* that is at the heart of object orientation, which helps propel software development from a craft to an engineered discipline.

There are other techniques that can also be used as part of a concurrently engineered development approach. They include joint application design (JAD), rapid application prototyping (RAP), and rapid application development (RAD). The JAD process typically involves users early on in the design process, working with a neutral facilitator to identify through consensus the project scope and system requirements. RAP goes beyond this requirements phase and into iterative prototyping so that users can, through the development of a graphical user interface and illustrative functionality, obtain a feel for a proposed new system very early in the process. RAD is the technique that encompasses both JAD and RAP, and that brings the system from vision to design to development and right through to a production implementation.

The emphasis here is on *rapid*. W the new approaches and techniques are gling at is to do it faster with a small, e powered, cross-functional team of busine users and IT professionals and, if possib with a high degree of software reuse. other way to look at it is that JAD/RAP/R represents a reengineered systems de opment approach, one better aligned w the faster cycles and discontinuous chan of the business itself. Of course, not eve development project is suited for the ne approaches. The trick is knowing when use which approach and what the right co bination of techniques are, given the ent prise's ability and experience with new a proaches and tools. An organization ma need to strike a balance between tradition linear structured development and today iterative development practices.

In order to successfully complete th reengineering of the enterprise's busines and technology processes, one additional- and critical—dimension needs to be inclu ed. That's the need for change integratio both within the business and within the organization.

Concurrently Engineered Application Development



nge Integration: Were Easy, Everybody ld Be Doing It

the last decade, many *BusinessWeek*
) companies have undergone some
of major change, be it downsizing,
sizing, restructuring, or reengineering.
separates the successes from the fail-
? *Change integration*—energizing
holders throughout the enterprise to
ment a number of concurrent changes
n integrated basis over time. Despite
desire by many for "silver bullet" solu-
, in reality the reengineering process is
y, long-term undertaking that requires
work but when implemented proper-
as major payoffs. In an age of manage-
sloganeering, several simple, key in-
ents contribute to success: leadership,
le, processes, knowledge manage-
, structure, facilities, and technology.

Leadership

Are you ready for change? All change begins with a *mandate* for change. External competitive market forces, changes in industry and product structure, poor management results, or business-specific events can all serve as trigger events for implementing reengineering change. Old sailors know that it is a fool's undertaking to journey across an ocean without deep commitment and a determined course of action. Unfortunately, many business organizations don't always follow conventional wisdom. Most successful change integration begins with a business-driven sense of urgency—the recognition and identification of a compelling *reason* and the successful mobilization of change variables on a concurrent basis. A realistic assessment of the organization's *readiness for change* is a critical component for business and information technology transformation. Many times, the soundest decision may be one of delaying action until conditions are right for the organization to embark upon a significant program of change.

In ISS's experience, all successful change—whether it is in business or information technology reengineering—has one common feature: it begins with effective leadership commitment to and personal involvement in the change process itself. Leadership creates the organizational energy for the difficult process of change. Successful change integration programs share seven common leadership traits:

1 *Reality-based problem definition*—effective change leaders communicate a clear, powerful, and readily-apparent case for the proposed change. Unfortunately, many reengineering projects have foundered because the leaders did not properly define the root business process and the problems at hand.

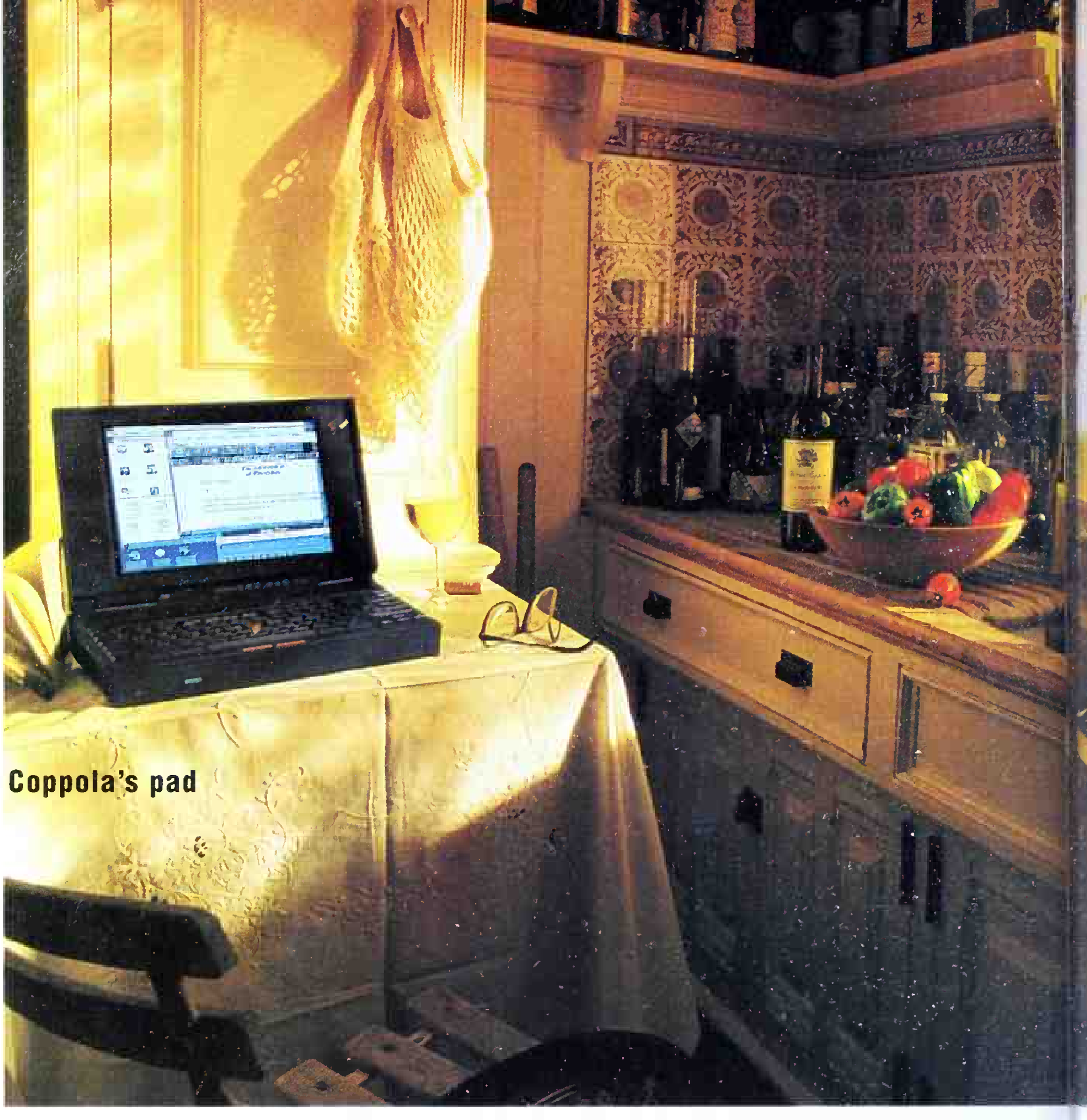
2 *Articulation of a simple, concrete yet compelling vision*—that employees and

organ's Approach: Reengineering formation Technology

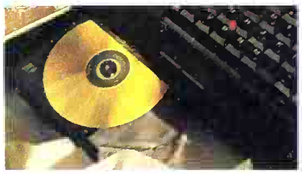
Morgan *With over 15,000*
employees at the
f 1993 and an operating budget of over
billion, J.P. Morgan Co. Incorporated is one
world's leading financial services firms.
an has made a commitment to process
gement as a means to make its global op-
ns as efficient as possible.
The initial reengineering focus has been on
ted support processes such as IT, in order
prove the capacity to enable and support
scale, firm-wide performance improvement.
approach allows employees throughout the
be exposed to the process and the impact
ngineering, while at the same time creating
ortions of the infrastructure. At the highest
"J.P. Morgan's technology organization per-
five critical processes which are enablers
rtually every aspect of J.P. Morgan's businesses," says Jack MacFarlane, who is responsible for IT process management. "By focusing on IT processes first, we are making it possible for process improvements in other areas to be implemented quickly." One of the first technology processes targeted for improvement is support for employee desktop technology—the telephones, computers, and networks that allow each employee to retrieve, share, and work with information.

At Morgan, IT process management is being done in an environment in which the organization's process performance generally surpasses that of most of its competitors. In a more typical reengineering scenario, the motivation and energy for staff to change come from severely impaired processes, facing imminent breakdown. Morgan's challenge is quite another thing—to move beyond current success into new standards of excellence. Process management is the organization's response to the unique pace of business change and development within the firm, and the accompanying need for breakthroughs in the level of flexibility and innovation required to support the businesses in the future.

One innovative step Morgan has taken is linking its firm-wide enterprise architecture with process management. The ability to support a broad and far-reaching vision in a consistent fashion over time, with staged implementation in a widely dispersed operational arena, requires a clear architecture. "When we use our models of the enterprise and current businesses along with the techniques of process management, reuse can be maximized," says Jeff Chittenden, who is responsible for enterprise architecture. "The enterprise architecture helps us leverage best practices within the bank, quickly designing in the flexibility and innovation needed to match the fast pace of business change."



Francis Ford **Coppola's pad**



There is a difference™

IBM's statement of limited warranty is available on request (call 1 800 772-2227). [2]Available only in countries where ThinkPad is sold and serviced by IBM. Registration required. Other restrictions apply. [3]Available in US only. [4]IBM mak representations or warranties regarding non-IBM products. EasyServ and There is a difference are trademarks and IBM and ThinkPad are registered trademarks of International Business Machines Corporation. ©1994 IBM Corp.

cis *Ford Coppola's* ranch, on a sweeping hillside in California's wine country, is a that nurtures the wide-ranging interests of a creative mind. Not unlike the new ThinkPad® 755CD in residence here. Although Mr. Coppola may retreat to the ning room or the research library or the bungalow to work, like many of us, he his best thinking at the kitchen table. And now all the power of a true multimedia nine, with full-motion video with digital stereo sound, is available to him even there.

Mr. Coppola's IBM ThinkPad 755CD comes with:

Integrated 5.25″ **CD-ROM**

10.4″ black matrix TFT color screen (measured diagonally)

486DX4 100/33MHz processor

Removable hard drive

Fax/modem, answering machine, speakerphone

Software **motion video** acceleration

Built-in stereo speakers

3-year hardware warranty[1] with International Warranty Service[2]

EasyServ™ courier repair service[3]

Preloaded software and **CD titles**[4]

For information by fax, **call**
1 800 IBM-4FAX
(key-in ID# 1622)

IBM®

stakeholders can understand and effectively implement. Hazy, vague, overly-complex or highly-conceptual programs which are rolled out merely to justify headcount reductions in the name of a "reengineering" effort will not create an environment which is conducive to change.

3 *Agreement on common objectives, scope, measurement, and rewards*—successful projects obtain stakeholder "buy in" and limit scope to realistically attainable goals. The identification and reporting of key performance indicators and a clear system of rewards for individuals who move most effectively to implement the vision are central features of this activity. Also, team leadership that develops a sober understanding of the potential role and scope of technology enablers early on in the change process will be more assured of successful implementation efforts than those that fail to recognize potential opportunities in the technology arena.

4 *A commitment and concern for employees* ensures that the proposed change process is explained in open, explicit terms to all affected parties—both functional business and IT personnel. Failed projects, more often than not, treat this hallmark leadership quality as a management banality, relegating it to mere words captured in a moribund Mission Statement or the Letter to Shareholders. How outcomes will affect individuals must be shared openly from the start.

5 *Hands-on involvement* in the reengineering of both business processes and information technology—the days of delegating an understanding of information technology to the "techies" are over. Effective change leaders "deal with it" on a regular basis and regard the integration of business processes with technology as a central activity of managing the enterprise. They actively participate on project teams, even though they may not have the technical background that others on the team possess.

6 *Continuous, open communication* with all stakeholders regarding the change process itself ensures that the vision, goals, objectives, and organizational commitment are communicated effectively. A detailed communication plan is typically developed at the very beginning of the project, and it continues beyond the project end. Communication occurs most effectively on a person-to-person basis in small group settings, augmented with more traditional methods such as written and video-based communication. A key focus should be on breaking down the walls between the "business" and IT sides of the house.

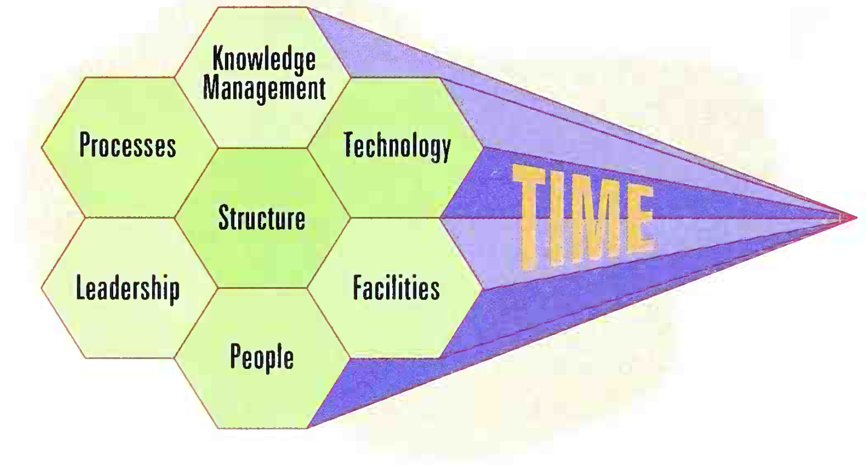
7 *Business ownership for outcomes*—"best practice" change integration initiatives exhibit ownership accountabilities for all of the change management elements. In order to help ensure success, the business l
ers need to own and drive change, whe
it involves reengineering of the busines
of IT processes.

People

Employee empowerment or invo
ment is probably one of the least un
stood dimensions of change managem
Like the term *reengineering*, *empowerm*
has become a troublesome buzzword t
refers to how organizational powe
shared in the con
of change. True e
powerment goes
yond organizatio
rhetoric and invol
the transfer
power, control, a
accountability fr
traditional execut
management to i
vidual team me
bers. More oft
than not, this trans
is poorly handl
Effective empow
ment approach
in the context
change integration efforts share the foll
ing common characteristics:

- *Personnel and stakeholder interes
are defined and made explicit*—all te
members understand the project outcom
in personal as well as organizational ter
- *Cross-functional teams of busin
and IT personnel work together* to deve
the solutions for changing business and
IT processes. Many business reengineer
projects fail precisely because IT people a
not included as members of the chan
team. Indeed, they are often used as sca
goats for the "problem with systems."
- *Practical, results-oriented peo
form the team nucleus* to ensure project
sults. Often times, business and informat

Change Integration



SOURCE: ISS CORPORATION

ɔgy reengineering projects are dom-
by individuals whose vision is not
d with a seasoned concern for the
al realities of business process
and technology implementation. So
pie in the sky" solutions are doomed

raining is liberally budgeted for and
ed to employees—more than any
rea, training can be the first casualty
ange management campaign. "Best
ce" organizations implementing
tend to err on the high side in bud-
expenses related to training, and in-
at people attend training sessions
cheduled. New processes, manage-
echniques, and technologies simply
n adequate training is not provided.

sses

business process reengineering ini-
revolve around a fundamental un-
nding of how current and future
ses work. Many times, however,
rojects overlook the relationship between business processes and the underlying systems and technology that support them. At a minimum, IT has to be reengineered at the same time that business processes are redesigned, in order to enable effective change, especially in information-intensive industries. The linkage between business processes and IT processes is ensured by establishing:

- *An integrated view of processes, applications, and information*—many business process reengineering initiatives overlook the highly linked nature of non-automated and automated business processes, applications, and information. Successful projects include this activity as part of the change integration program.
- *A solid understanding of the technology infrastructure that supports existing processes*—traditional business process reengineering does not always look at the details of automated processes which use disparate data bases and computing platforms. Because the near-term solutions for redesigned processes often have to be implemented on or integrated with existing legacy systems, implementation complexity and risks are often compounded.

Knowledge Management

A great deal has been written about organizational learning and its relationship to competitive advantage. Successful change integration projects include the active management of institutional knowledge as part of the overall change process:

- A *"learning organization" perspective dominates the change event*—change integration efforts recognize that both past organizational successes *and* failures can serve as "lessons" upon which to build. A self-critical and non-condemnatory outlook on past performance is key.
- *Cross-team learning* occurs—the most powerful form of all organizational learning occurs when team members involved with a change process exchange and share their perspectives regarding a given reengineering problem. This cross-functional perspective includes the integration of

ar Tribune:
erick Newspaper
s Its Future

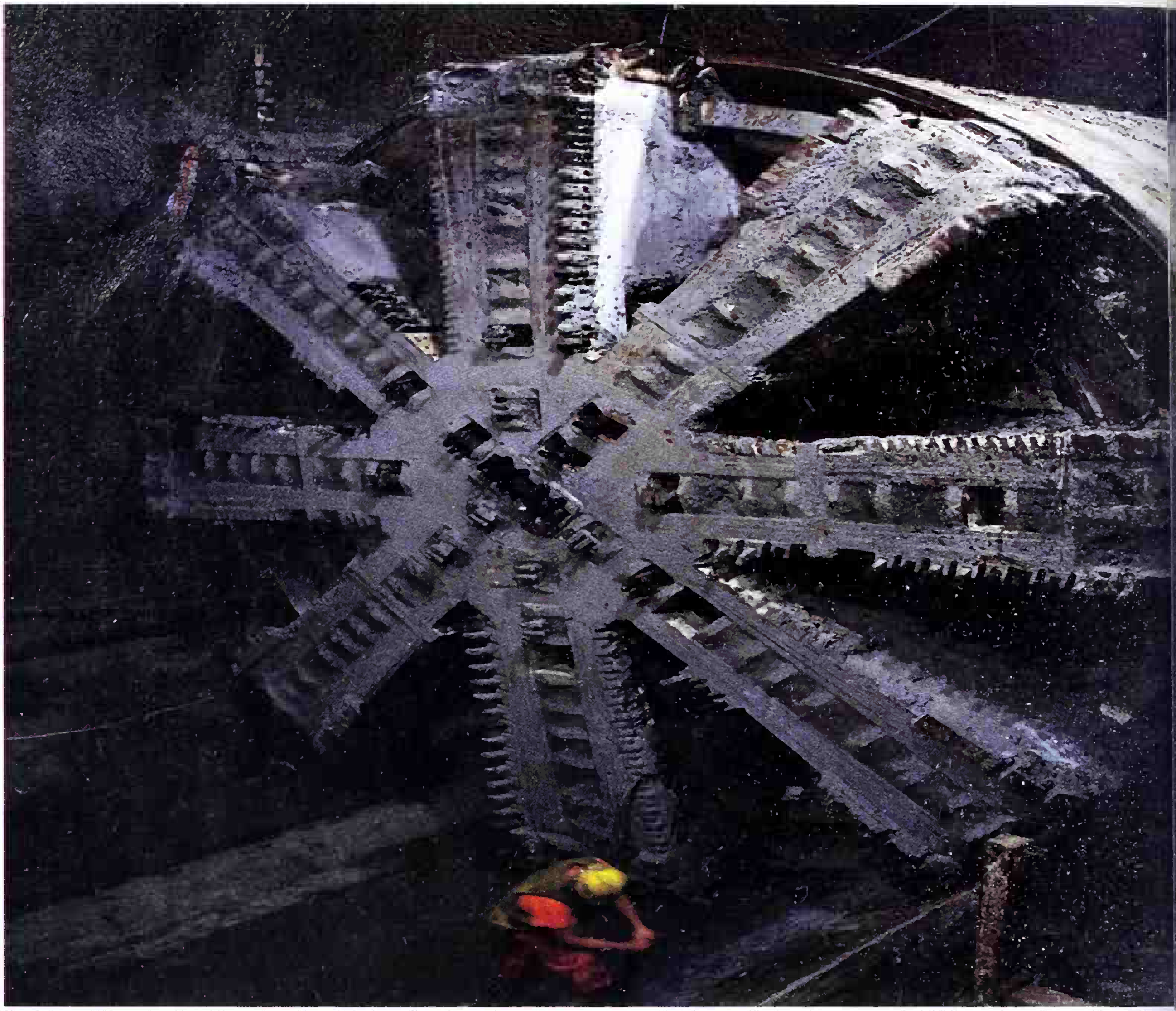
rTribune

The Star Tribune, headquartered in
polis, Minnesota, is the nation's 15th
daily newspaper, having been founded in
The newsroom staff has a long-standing
of editorial excellence and award-winning
sm, including a 1990 Pulitzer prize for in-
ive reporting. Unlike some major news-
whose recent growth rates have flattened,
Tribune has been successful, profitable,
wing well-above industry standard levels.
espite this fact, a couple of years ago the
per decided to radically reorganize along
er market segments. Why do it? "Because
a new strategy to stay successful in the
says Publisher Joel Kramer, the key
t behind the change. "We believed that a new structure would make us better at executing the new strategy, which is centered on a simple premise: that the Star Tribune can be a growth business, not a mature or stagnant one." In an aging newspaper industry uncertain about its future on the information highway, the Star Tribune is reinventing itself.

By redefining its franchise as more than a mere one-product newspaper, but a full provider of information with multiple products and services delivered to multiple customer sets, the Star Tribune is betting that it will be able to drive into the future at full speed. Key elements of the new strategy include decentralizing all traditional newspaper functions, such as news, advertising, manufacturing and distribution, into semi-autonomous business units responsible to their customer segments and the communities they serve. The reorganization was implemented at lightning speed, in less than a year.

The overall change integration strategy is being implemented on several fronts simultaneously. As an example, the newspaper's top five executives, referred to as "partners," base their roles on principles of shared leadership, effective business linkages, and cross-team accountabilities. All changes are driven by a culture and style based on four cornerstone values: employee involvement, continuous improvement, customer focus, and diversity.

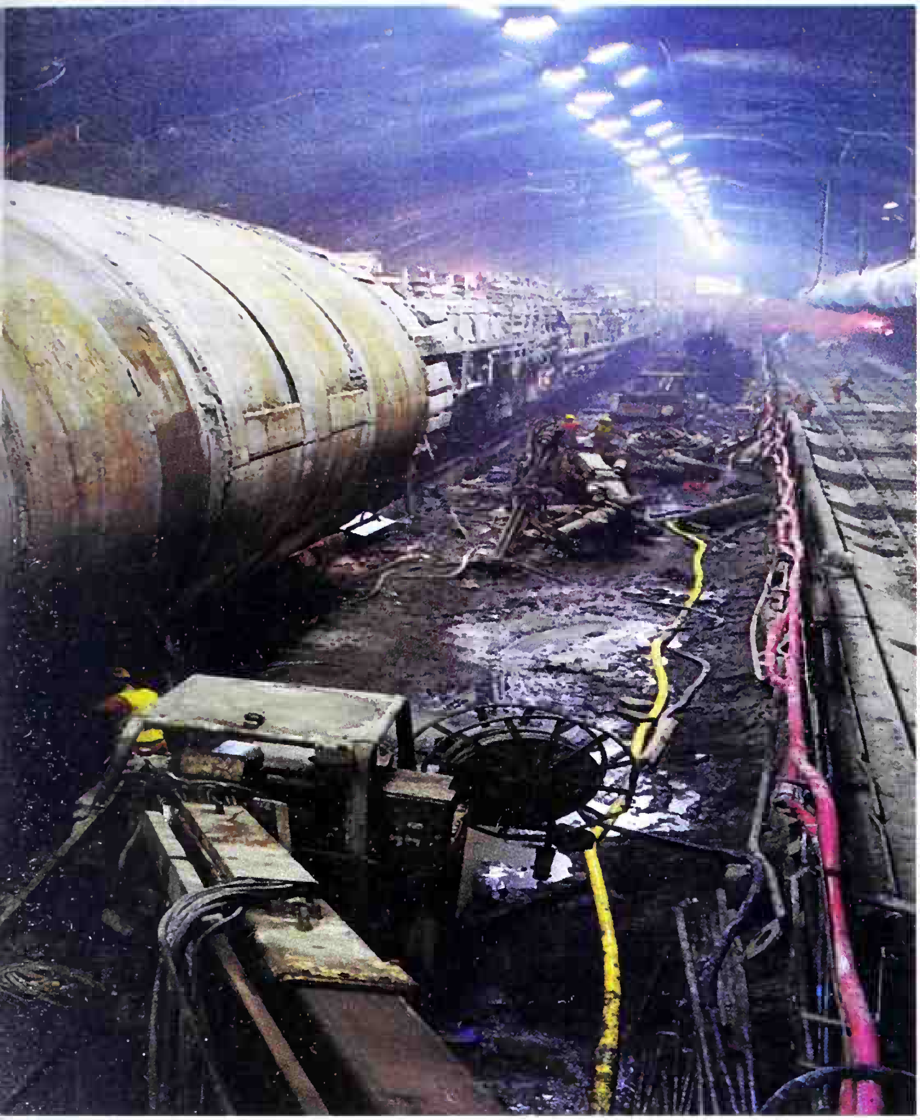
How do you effectively implement cultural change? "By working at it every day and by educating ourselves, employees, and managers at all levels on a continuous basis," says Chris Mahai, partner and leader of the Strategic Integration Unit responsible for strategic leadership and integration of common company processes. "Though we have already come much farther than some of us imagined possible, we have a long way to go. Our employees are now the catalysts moving us forward. That is a very powerful propeller."



The Chunnel Cutterhead—Able to chew through 15 feet of granite an hour, this tungsten-studded, laser-guided earth eater turned a 1,000-year dream into reality and con

Introducing Novell GroupWare.
If not for the British and French,
it would've been the year's
greatest networking achievement.

©1994 Novell, Inc. Novell GroupWare, GroupWise and InForms are trademarks of Novell, Inc. SoftSolutions is a registered trademark of SoftSolutions Technology Corporation, a wholly owned subsidiary of Novell, I



Europe to the isle of Great Britain. Not bad, but can it get eight people in the same room at the same time for a meeting?

For the longest time, we've all heard that it's better to work smarter, not harder—
elcome maxim for anyone who's ever put in a three-digit-hour workweek. Now,
the first time, someone is about to tell you how. Announcing Novell® GroupWare™—
oupWise™4.1, InForms™and SoftSolutions®—revolutionary software designed to help
ms access, sort, manage, share and route information using almost any platform, net-
k or database. Effectively eliminating the problems of business that get in the way of
ng business. Granted, we're not the first to promise you greater productivity through
ater access to information. We are, however, the first to make that access available to
npanies regardless of their requirements. Their size. Even their multiple operating
tems. In short, what we've developed is a modular, customizable family of network
plications that are easily installed and configured, support mobile computing, offer
proved functionality and, best of all, take advantage of data, hardware and networks you
eady have in place. No small feat, even in light of that recently opened route between
ver and Calais. Call **1-800-291-9375** for your nearest certified reseller or to learn
re about Novell GroupWare, the perfect way to put people together with information.

GroupWise 4.1—Comprehensive integrated e-mail, calendaring, scheduling and task management. GroupWise 4.1 enables you to share information across almost any platform, gateway or network.

InForms—More than an electronic forms program. Now you can create and design forms and views, access multiple databases in real time and, via e-mail, digitally sign forms requiring immediate approval.

SoftSolutions—The leader in document management solutions. You can secure information and access data (text, graphic or video) anywhere on the network, regardless of its application or platform.

GroupWise

InForms

SoftSolutions

NOVELL

GroupWare

Two Strategies for Client/Server Applications Development

Both in One Software...the SAS® System

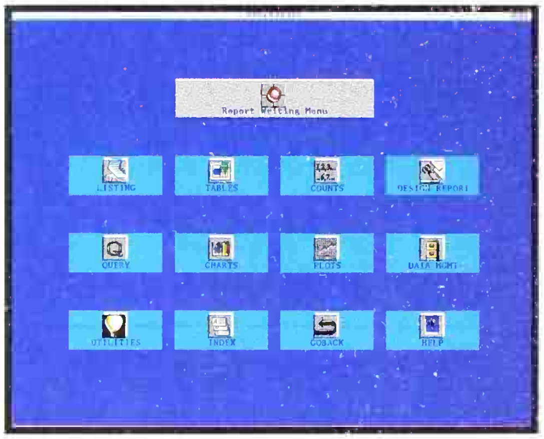
Only the world's leading information delivery system gives you two proven strategies for satisfying today's client/server applications development needs:

Empower Your User Community

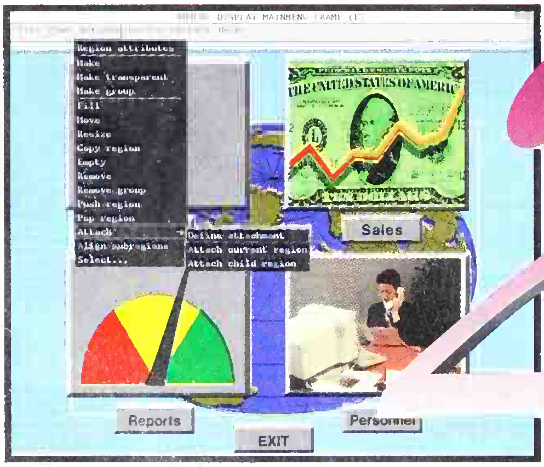
1

The SAS System offers a secure and manageable environment for making enterprise data available on demand. And for turning that data into useful business information for strategic decision making.

Through an intuitive, dynamic, and data-driven interface, even novice business users can handle the most sophisticated requests by themselves: ad hoc queries, reports, business graphs, forecasts, analyses, and more. By making the SAS System your standard for end user access and reporting, you'll empower users to satisfy their own information requests.


Report Writing Menu
LISTING
TABLES
COUNTS
DESIGN REPORT
QUERY
CHARTS
PLOTS
DATA MGMT
UTILITIES
INDEX
GOBACK
HELP

Empower Your Applications Developers


DISPLAY MAINMENU FRAME (E)
Region attributes
Make
Make transparent
Make group
Fill
Move
Resize
Copy region
Empty
Remove
Remove group
Push region
Pop region
Attach
Align subregions
Select...
Define attachment
Attach current region
Attach child region
Sales
Reports
EXIT
Personnel

2

With more self-reliant end users, developers are free to concentrate on implementing client/server applications critical to your business. Here, too, the SAS System satisfies your most demanding requirements by supporting an *iterative* approach to rapid applications development. Put strategic business systems in production quickly... even as you continue to develop and enhance them.

Object-oriented tools simplify and speed development. And support for multiple client/server models (including distributing application logic to the processor best equipped for the task) provides a flexibility unrivaled by "client only" development tools. What's more, the SAS System's portable architecture means applications look and run the same no matter where you deploy them, desktop to data center, preserving your applications investment over the long haul.

Take a Minute Now to Take Years Off Your Development Cycles

With the SAS System, you'll improve business processes rather than just automating them. Users become more independent, developers more productive, and applications more valuable...today and tomorrow. For a closer look at the SAS System—and to find out how to receive these applications development tools for a free evaluation—just give us a call at **919-677-8200**.

SAS

SAS Institute Inc.
Sales and Marketing Division
Phone 919-677-8200 ☐ Fax 919-677-8123

SAS is a registered trademark of SAS Institute Inc. Copyright © 1994 by SAS Institute Inc.

ss and information technology views
:oherent whole. This prevents change
ation teams from making bad deci-
—selecting new “vaporware” that
t yet work or implementing business
sses that aren't based upon the reali-
the daily workplace.

A knowledge base is created and
—many organizations that develop
ngful change establish a knowledge
gement infrastructure to enable indi-
s to better leverage internal and ex-
information in the future. However, a
r of other organizations are just be-
g to “get it” when it comes to the in-
ve opportunities to put knowledge—a
valuable but invisible asset—to work.

cture

ne of the greatest promises of effec-
hange management is that of *cutting*
s organizational boundaries. Organi-
al structures and departmental func-
processes are the most traditional
of such boundaries. However, other
zational boundaries exist as well: de-
ns of customer sets and markets, re-
ships to external organizations, inter-
al cultural differences, physical loca-
and facilities, and systems and tech-
. Successful reengineering initiatives
on all these boundary structures and
ment appropriate changes, some of
include flattened organizations built
d processes, a redefinition of cus-
s and market segments, an internet-
d view of commerce, adoption of a
view of business that transcends na-
boundaries, consolidation and distrib-
where appropriate, of physical loca-
and facilities based on a logical view of
uted processes versus mere geogra-
and a complete reexamination of the
ms and core technologies that serve
ganizational structure.

KPMG Peat Marwick: A Dramatic Story of Transformation

Internationally, KPMG Peat Marwick has more partners, client service professionals, and total professionals than any other competitor. The firm leads in auditing more than 17% (or 183 companies) of the world's top 1,000 commercial and industrial companies, and maintains the number one or two position in 16 of what are considered to be the 22 most important world markets.

In order to continue to provide the highest possible level of knowledge-based professional services—and to help its clients meet their goals—KPMG became the first professional services organization to reorganize to match its clients' competitive environment and to deliver integrated services specialized by market and service area. This restructuring involved a dramatic firm-wide realignment from a geographic/product line orientation to market-focused teams organized by industry.

The entire process has been client driven. As described by Frank O. Marrs, the firm's Partner in Charge of Assurance Services, “a variety of listening posts within and across the firm's new Line of Business structure have been established to help monitor what clients want and expect from their professional service providers.” Sources of information include data obtained through the firm's Client Service Measurement Process (CSMP), Quality Performance Reviews, the ongoing client relationship process, daily client contact, analysis of complaints, the proposal process, focus group studies, alumni relations, and regulatory monitoring activities.

Based upon this valuable client input, the firm has also embarked on a number of reengineering initiatives for core processes (such as the audit process and the tax compliance process), with the goal of adding more value and increasing productivity. In addition, a centralized new service development process has been established (with more than 20 innovative new services already having been launched) and the firm's information technology organization has implemented a series of nation-wide infrastructure and process improvements in support of the new vision.

At this point, the firm's US staff members are settling into their new roles in a team-based, market-driven structure. KPMG's Chairman (Jon C. Madonna) and Deputy Chairman (James G. Brocksmith, Jr.) have supported this dramatic transformation from day one, with a clear vision and active leadership by example. Now, they say, “the realignment is behind us, and we must rely on our 16,000 colleagues in the field to contribute their energy, commitment, and focus in delivering unsurpassed client service.”

Facilities

While it is often said that “location, location, location” is one of the most important considerations in real estate, this saying appears to be equally true from a change integration perspective. ISS's own experience with “best practice” reengineering success stories shows that analyses of the location and roles of facilities are often key ingredients to successful reengineering. Facilities rationalization is an often overlooked part of change integration. Significant benefits can accrue to organizations when they ask questions relative to the optimal location of customers, suppliers, processes, people, and technology.

Technology

Information technology often plays a crucial role in successful change integration programs. In some cases, the newly-reengineered processes cannot even be implemented without significant changes to IT and how it is delivered. Those organizations which are able to introduce changes in information technology on a prudently-managed, cost-effective basis tend to have several things in common:

- *The IT organization is fully aligned with the business*, with certain processes being moved closer to the users while consolidating other key and/or redundant processes, applications, information, and technology in a small but centralized group.

intel inside
energy
EPA POLLUTION PREVENTER

ALONE, AMID THIS INCREDIBLE BEAUTY AND

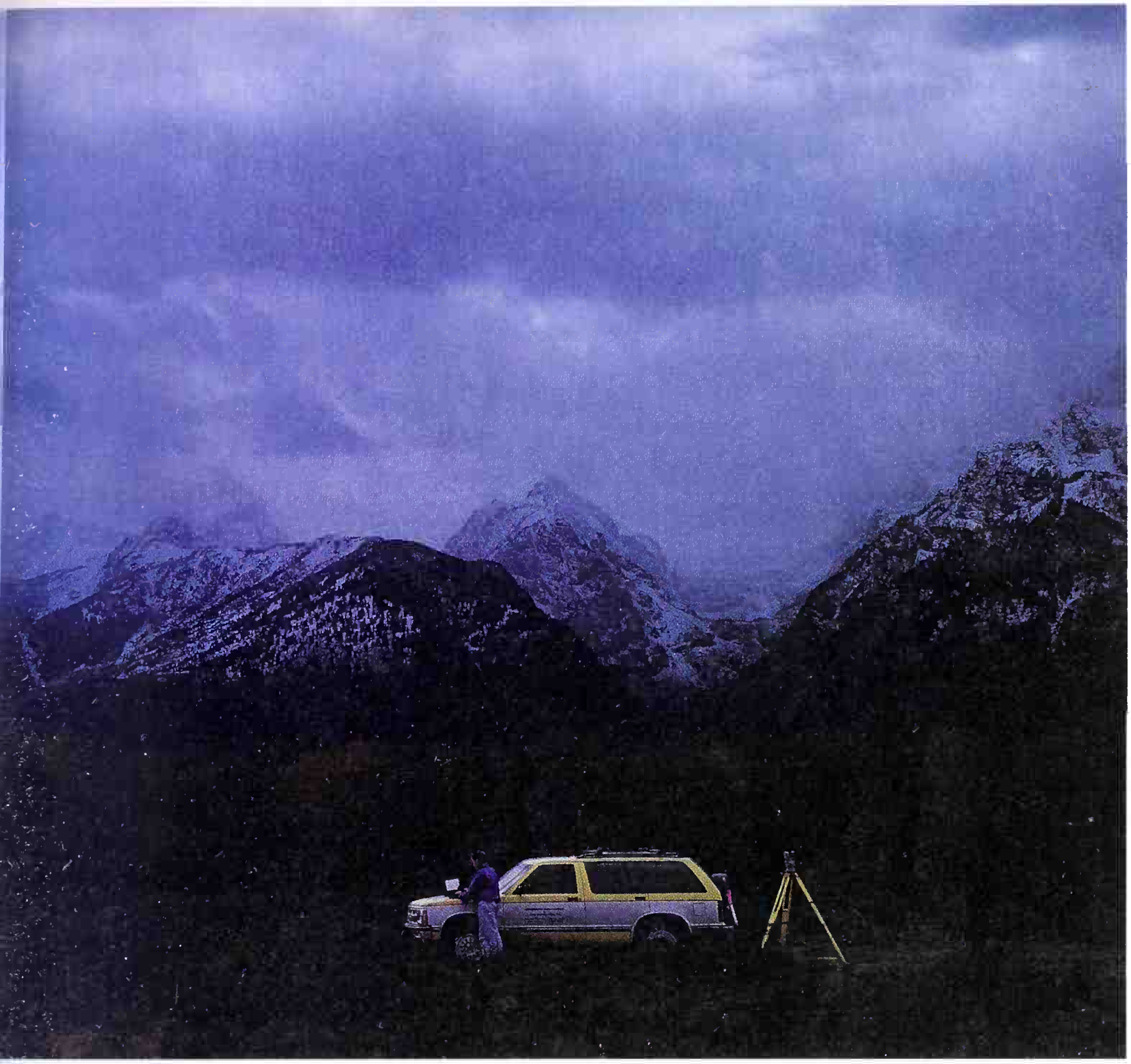
(IT'S LOU, WITH TH

No matter how far away your job takes you, you can always stay in touch with an NEC Versa.™

NEC's line of notebooks offer the highest level of modularity imaginable, including wireless, satellite-based messaging, with our VersaPage™ PCMCIA option.

Or snap in additional RAM, hard disk storage, even an extra battery for those times when you are really far away from it all. Of cou when you happen to be at t office, just slide your Versa int Versa Docking Stati so you can take adv tage of a full range desktop capabilities.

VERSA S
VERSA V
VERSA M



If you're looking for a copier, a printer or a scanner, we've got a fax you should see.

Actually, you may not believe your eyes. Here's one very smart, full-featured machine that faxes, copies, prints and scans. It even lets you fax from your PC.

FAX · PRINT
COPY · SCAN

Plain-paper fax with 6-second-per-page transmission and 35-page memory. Ink-jet printer with 3-page-per-minute speed. Scanner with 300 dpi resolution. PC connectivity. Copier that enlarges, reduces and collates up to 99 copies.

This is the Xerox 3000 Series multifunction fax. And it's critical to your business. With features like a huge memory that lets you receive a 35-page fax while you're sending another. And take advantage of speedy transmission and delayed send that give you a lower phone bill.

You can even scan in a document, convert the text with our amazing software and edit to your heart's content. Then fax it right off your screen. And print it out and make a dozen or so collated copies. All of this and more without slowing down the machine.

Looks like the complete solution to all your small business needs has arrived. Especially when you add in Xerox quality and support. So call 1-800-ASK XEROX, ext. WT375 and talk to the people who know. Because you can't make a multifunction fax this useful without first knowing a thing or two about copying and printing.

The One Place Where Things Get Done.

THE DOCUMENT COMPANY

XEROX

Xerox®, The Document Company® and the stylized X are trademarks of XEROX CORPORATION.

's Strategy: d Reengineering, Leveraging ology to Empower Employees

Mobil Corporation has cut 17,000 jobs (22%) e past five years and trimmed more than nillion from its costs since 1992. Chair- d CEO Lucio A. Noto, a thirty-year veteran il, predicts the difficult process of stream- ill continue throughout the oil industry. His usiness objectives are increased profits xisting assets, financial flexibility, and through development of new projects, es- overseas, in Mobil's core businesses: ex- on and production, marketing and refining, emicals and plastics. A key to achieving objectives is empowering employees and away from a classic command-and-con- ucture to a culture of teamwork, participa- nd appropriate distribution of authority and sibility. A major target is to generate $1 billion more operating profit than last year. Reaching this target will take more than cutting heads. Mobil is actively looking for creative solutions through business process reengineering.

Mobil's approach to reengineering is itself creative. The Marketing and Refining Division (M & R), which accounts for 60% of the company's revenue, has taken the lead by defining five reengineering stages which map a path through organizational change and the technology change required to support the redesign of work. Both the difficulty of the change and the business benefits to be realized increase dramatically between stages I and V. "Our strategy is to assess which stage is most appropriate for the business unit, target cultural change early, and reap the maximum benefits from the minimum investments by leveraging existing technology before moving on to more radical breakthroughs," says Bruce D. Hiatt, M & R's Managing Consultant for Business Process Reengineering. "Exposing the business unit to initiatives such as total quality management before taking quantum leaps with reengineering helps us make a graceful transition to a culture of proactive thinking about customer needs."

A prime target in redesign is information hand-offs from disconnected business processes. Mobil is "thinking outside the box" to find ways to respond immediately to customer needs by changing roles and responsibilities, removing departmental walls, and implementing integrated off-the-shelf software packages to help enable the redesigned business processes.

While the multinational corporation presents a huge reengineering challenge, it is also a hotbed of ideas. "As we work with reengineering teams all over the world," says Hiatt, "we realize how much we have to gain by capturing and sharing lessons learned by each of these projects. We are getting better at identifying best business practices and replicating them. Our goal is leverage, of ideas, of current investments in technology, and of the skills and knowledge of our talented work force."

appropriate, the overall enterprise IT ecture is developed on a centralized and "governed" by the principle stake- s throughout the business.

Business applications are dispersed, ver there is critical mass, into the ess organizations. That way, business ss owners have more control over own systems development priorities rking jointly with IT professionals who stand their business processes in their tralized business units.

Infrastructure is built according to ards, not products—new system so- s are defined in terms of a Standards- Architecture, which can accommo- he inevitable future changes in tech- with minimum disruption.

A simple yet effective technology tion management plan is developed ntroduces new technology along with redesigned processes and effectively ates older technology with the newly ned technology architecture.

Conclusion: Mastering the Forces of Change

Pressure to change builds up in every arena of business today. The global village hype of the 1980s has turned into the 1990s reality of continuous business dealings across international borders, where the rules and protocols of operations are neither clear nor consistent. No enterprise is exempt from pressure to adapt to a changing workforce, the changing demand for and supply of skills and knowledge, and the increasing variety of workable methods to deliver or acquire goods and services. As strong as any of the other pressures is the push from technology, which both entices business to new markets with its ever-increasing capability and threatens business with failure related to rapid cycles of obsolescence. Pressure for more speed, less cost, and higher quality within individual business environments is stronger than ever before. While the pace and the specific message of change will vary in the coming years, change itself is a given. The forces driving business to change are chaotic in origin; to master them, business needs to synthesize the disparate pressures into a cohesive force for business results. Success is much more likely to come to those enterprises that learn the art of integrating continuous change throughout their organizations. They will be, in fact, the change masters as we approach the millennium.

Written by Burnes P. Hollyman and Robert L. Howie, Jr., vice presidents of International Systems Services Corporation (ISS), a Stamford, Connecticut-based business process and information technology reengineering firm focused on delivering business results through change integration. Inquiries may be directed to 800-DIAL ISS or rhowie@800.dialiss.com

DESIGN: MICHAEL ARON AND COMPANY
CHART ILLUSTRATION: ELIZABETH CASTAGNA

STRATEGIES FOR THE NEW MAIL ORDER

How three old hands are coping with the catalog business' competitive frenzy

Ah, Christmas. Chestnuts roasting on an open fire. Jack Frost nipping at your nose. And hundreds of catalogs jamming your mailbox.... Yes, the annual Christmas catalog onslaught has arrived. If things seem worse than ever, that's because they are. With postal rates going up 14% on Jan. 1, many in the $57.4 billion catalog industry have increased mailings 10% to 20% this season. Yet with consumers already overwhelmed by the mailbox clutter, many observers say the rapidly proliferating industry is ripe for consolidation. Here are the strategies of three companies working hard to stand out from the crowd.

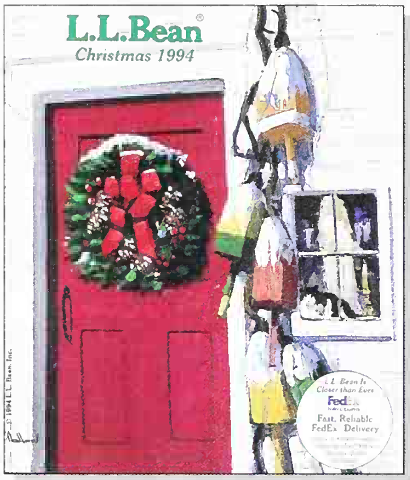
L. L. BEAN

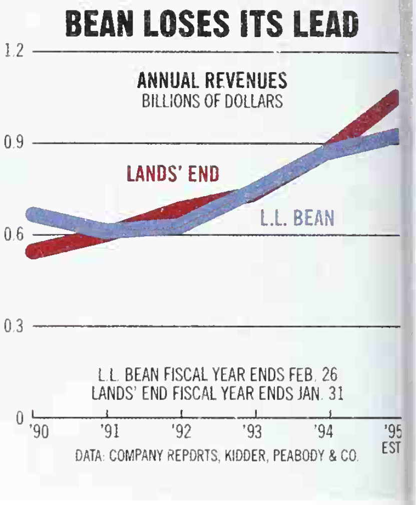
Can the old woodsman keep the predators at bay?

Last winter, Leon A. Gorman skied a 29-mile trail through the Colorado Rockies, appraising his gear at every stop. The 59-year-old president of cataloger L. L. Bean Inc. kept notes on everything from snow jams in his bindings to the fit of his wind pants. He filled five typewritten pages—given to Bean's product managers on his return.

Getting active is serious business at Bean these days. The Freeport (Me.) company is sending workers out hiking and is hiring experts in fly-fishing, biking, and skiing to man its phones. Determined not to lose Bean's edge as the "authentic" outdoor catalog, Gorman is strengthening its sporting links.

The reason? The hunter's outfitter has become the hunted. Rivals such as Lands' End, Eddie Bauer, and J. Crew—along with retail giants such as J. C. Penney—have targeted the popular outdoors niche Bean long personified. They're picking off younger customers, selling Bean-like "duck boots" and backpacks and aggressively expanding into retail stores.





DATA: COMPANY REPORTS, KIDDER, PEABODY & CO.

Gorman began his move to reinforce Bean's image by paring dress clothes from the catalogs and dropping a women's specialty catalog. At the same time, he's cutting costs and seeking growth from new markets. His goal: to keep revenues expanding at 8% to 10% a year. After sluggish growth in the early 1990s, the changes show: revenues at the privately held company should be up 14%, to $992 million. Still, Lands' End will surpass Bean this year, with revenues expected to top $1 billion—although higher costs have sharply depressed earnings at Lands' End, whose CEO, William T. End, resigned abruptly on Dec. 5.

To fend off fast-moving rivals, Gorman is improving operations. He's beefing up customer databases and inventory so Bean has the right product mix for fast delivery. And he's experimenting with separate product and business managers. That should free merchandisers from administrative tasks so they can spend more time with customers and manufacturers. A new production system is also improving catalog output—letting Bean distribute children's inserts twice a year instead of in one costly annual book.

Further afield, Gorman is building ties with British shipping companies to offer the same fast service as in the U. S. After a 1995 rollout in Britain, Bean will move into Europe. And it's testing technologies such as interactive media and C-ROM that may one day replace catalog

Still, much remains untested—and cr ics say Bean too often responds to othe leads. "In service in recent years, Be has been playing catch-up with Lan End," says Arnold L. Fishman, preside of consultants Marketing Logistics I in Highland, Ill. Gorman remains unfaz "We've no intention of being the hotte or trendiest," he says. "The sounde strategy is to be more like L. L. Bea Now, the old woodsman must become fleet as its prey.

By Gary McWilliams in Freeport, M

SEARS

No more "Big Book," but lots of little books

When Sears, Roebuck & Co. shut i 100-year-old general catalog in 1993, marked the end of an era. For gene tions, Sears' venerable "Big Book" do inated the industry. But despite 19 revenues topping $3 billion, high ove head doomed its efforts to sell all thin to all people through the mail.

Now Sears is reentering the busine through the back door. Over 18 montl

You'll Swear The New InTech System From Lincoln Has A Mind Of Its Own.

Actually, It Has Three.

INTRODUCING THE LINCOLN INTECH SYSTEM.

The new InTech System is precisely what its name implies: intelligent technology. A system that constantly checks and re-checks powertrain and suspension functions to help deliver miles of worry-free driving. You'll find this technology on both the Lincoln Mark VIII and Lincoln Continental.*

1. POWERTRAIN A 32-valve InTech V-8 engine and a computer-controlled 4-speed automatic transmission work in tandem to provide quiet, responsive power. For additional peace of mind, the impressive V-8 has been designed to run for 100,000 miles before its first scheduled tune-up.†

2. SUSPENSION Another example of advanced intelligence is the computer-managed, 4-wheel independent air-suspension system for a more stable ride and better handling. The load-leveling feature automatically compensates for changes in passenger seating and trunk loads.

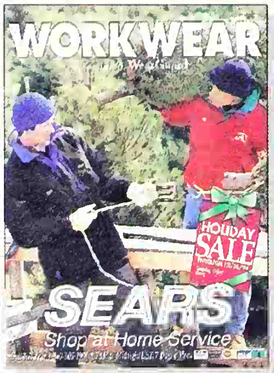
3. CHASSIS A four-wheel Anti-lock Brake System and speed-sensitive steering round out the smart thinking. ABS helps you maintain steering control during hard braking. Speed-sensitive steering increases or decreases responsiveness depending on how fast you're going.

Look closely and you'll see that the new InTech System has plenty of street smarts.

*1995 Continental available January 1995
†Available on Mark VIII models produced after 10/17/94

LINCOLN
What A Luxury Car Should Be

it has set up joint ventures to produce smaller books with a half dozen companies. Sears provides its powerful name—and access to its even more powerful database of 24 million credit-card customers. Its partners do the rest: selecting merchandise, mailing catalogs, and filling orders. Sears has rolled out 14 catalogs and is testing 7 more in niches such as leather jackets, auto accessories, and large women's clothes.



CREEPING BACK INTO CATALOGS

1993 Sears closes its general catalog after losing more than $450 million in three years

1994 With six partners, rolls out 14 specialized catalogs, tests 7 more

1995 Sears and partners aim to mail 150 million catalogs

In choosing partners, Sears has turned to a top player in each category. For example, Hanover Direct Inc. in Weehawken, N.J., which publishes 14 of its own catalogs, now produces four titles for Sears. They include a version of Hanover Direct's Domestications catalog, the leading home-fashions book.

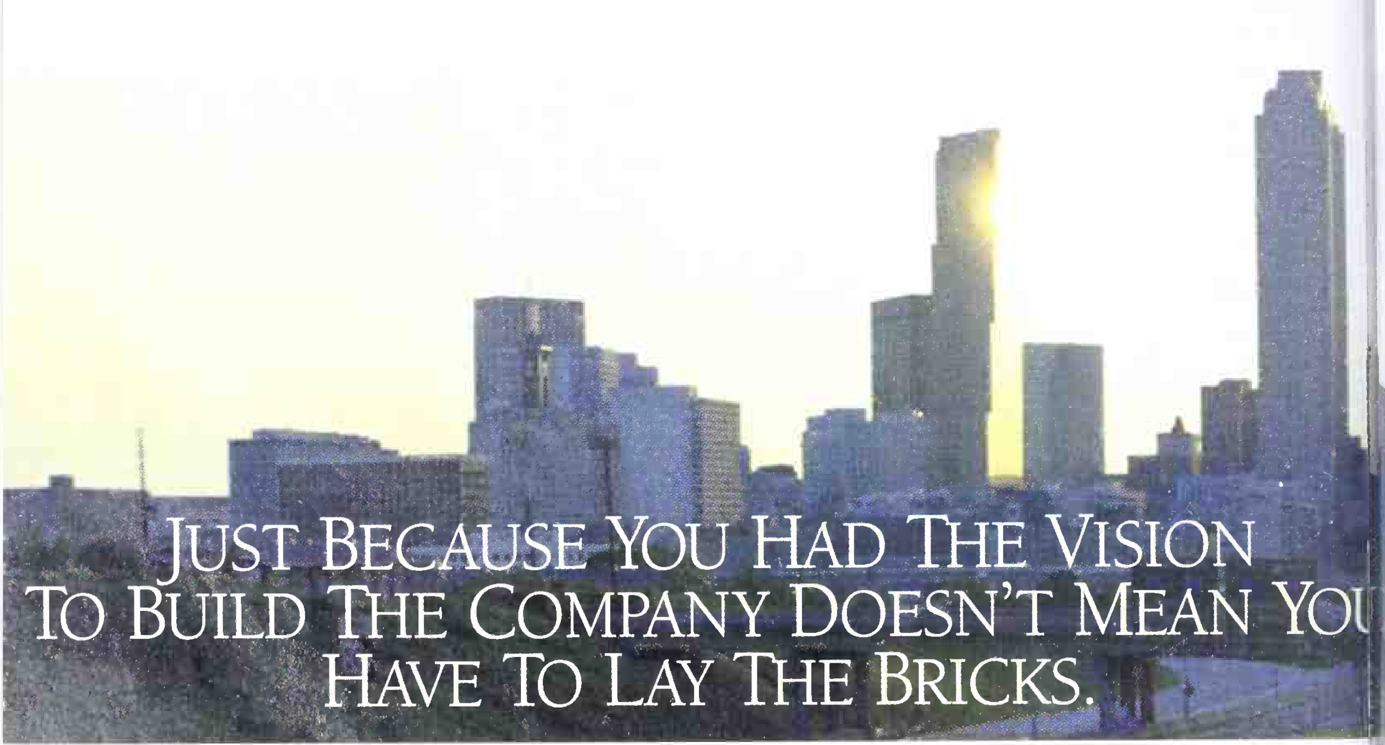
The strategy allows Sears to exploit its strengths in database management, key to survival in the catalog market. Although Sears' name goes on the cover, the catalogs produced by the partners were at first virtually identical to those mailed to their own customers. But now, the partners are tailoring the merchandise based on the buying patterns of Sears customers. Together, the two cull Sears' extensive database, screening for purchases that might identify potential customers. The names of women who had bought size 14 dresses might go to the partner now doing Sears' large-size women's apparel catalog, for example.

For Sears, the ventures offer a low-cost, low-risk chance to profit from the fast-growing catalog business. Despite the company's well-publicized troubles, many customers remain loyal. "We have a relationship with 24 million custom who like to shop at home, and [this gi us] the targeting vehicle without the frastructure," says Vachel Penneba vice-president for direct response Sears Merchandise Group.

For Sears' partners, the benefits equally clear. Hanover Direct CEO Jack Rosenfeld says one big draw is that c tomers can pay with their Sears cre card, giving credit-tight buyers an ex option. But the real advantage for H over is the extensive data Sears has co piled on customers from its retail stor catalog operations, and credit-c records. Hanover's four joint catalo have done well, racking up sales of $4 million so far this year.

Pennebaker won't disclose reven or details of its licensing arrangemen but Sears shares in the profits of e catalog—and this time, Pennebak claims Sears is making money in mail der. It's all a far cry from the Big Boo heyday—but Sears' catalog operatio now employ just 20 people, down fr 19,000. With its partners, Sears plans mail 150 million catalogs next year a 250 million annually by 2000. Not bad a company that isn't in catalogs anymo

By Susan Chandler in Chic


JUST BECAUSE YOU HAD THE VISION
TO BUILD THE COMPANY DOESN'T MEAN YOU
HAVE TO LAY THE BRICKS.

And just because you need network solutions doesn't mean you have to build the network. Advantis offers a full spectrum of Network Outsourcing solutions, structured to save you time, money and resources. Selecting the right outsourcing partner is critical, and since networking is our only business, Advantis has the experience to be that partner for you. We already provide a wide range of network solutions, including Internet access, Network Services like leased line, dial and wireless connectivity, high bandwidth data and voice applications, and E-mail and EDI messaging services t than 13,000 companies and 1.5 million users. And as part of the IBM Global N Advantis can link your company to customers and business partners in 700 lo covering more than 90 countries. The expertise of 3,000 skilled networking sionals can develop the right voice and data network solution for your comp can design, implement and operate your network, allowing you the free

LLIAN VERNON

·ating a host of spin-offs n its core catalog

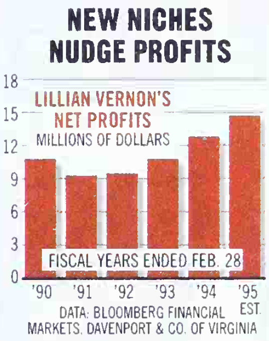
eed a new set of steak knives? How ıt some gourmet mixing bowls? You d head for a housewares store. But loger Lillian Vernon Corp. thinks y would rather buy such things at e—and starting in February, when ıon launches its new "Lilly's Kitchen" log, they'll have the chance.

ot that the New Rochelle (N. Y.) cat- er is taking a flyer. Vernon created book only after it discovered that e than 700,000 customers had bought hen doodads from its core catalog.

hat's quite a change for the once lgy company. In a crowded, often ıy field, Vernon had grown steadily, if ɔectacularly, with few modern touch- t concentrated on low-priced, homey ıs such as picture holders and place :s. Today, 73-year-old company ıder Lillian Vernon is CEO of a $200 ion company that posts 150 million ılogs annually. Now the company— ch sold 53% of its stock to the public 987—is updating its strategy: By lying the records of previous purchas- ɔy its customers, Vernon has become adept at developing specialized niche catalogs spun from its core book.

Vernon's first niche book, "Lilly's Kids," was launched in 1990 after a database screen showed that many customers were buying presents for children and grandchildren. Today, Lilly's Kids does $30 million in sales of toys and school equipment—and anyone who buys a kid's product from Vernon's core catalog goes on the mailing list. In 1992, Vernon created a special Christmas catalog from the most popular holiday decorations in its main book. And a new "Welcome" catalog of household items is mailed to customers who change their addresses. Says David C. Hochberg, Vernon's 37-year-old son and a corporate vice-president: "This is a much more effective way to grow sales."

LILLY'S KIDS
CALL 1-800-285-5555



Vernon needed a better way. By the early '90s, it had outgrown a homegrown management team headed by longtime President Fred P. Hochberg, Vernon's other son. Under Hochberg, Vernon lagged rivals in providing services such as 800 numbers for customers. By 1993, Vernon hired an experienced team of managers headed by Stephen S. Marks, a former catalog executive with The Limited Inc.

Marks immediately boosted sales by setting up a toll-free number. And he focused on mining the database for catalog spin-offs. The changes are paying off. Analyst Kenneth M. Gassman Jr. of Davenport & Co. of Virginia Inc., a Richmond (Va.) brokerage, expects earnings to rise 15.6% this year, to $14.8 million, on a 15% sales gain, to $225 million.

More specialized books are on the way, including one featuring luggage. Vernon is also screening its database to weed out those who rarely buy. Rising costs "will force catalog companies to mail smarter and tighter," says David Hochberg. With its niche books, Vernon is already figuring out how to do that.

By Julie Tilsner in New York

CHART BY ALAN BASEDEN

te on your own business. And you don't have to pick up a brick. Just pick up
and ask for your executive brochure outlining how network outsourcing from
an contribute to your successful business strategy.
s a joint venture of IBM and Sears, Roebuck
all us today at 1-800-775-5808 or contact
n the Internet at INFO@ADVANTIS.COM

advantis™

The Official E-Mail Services Provider to the 1996 Centennial Olympic Games
Atlanta 1996

Advantis is a trademark of Advantis

386-based PCs
486-based PC

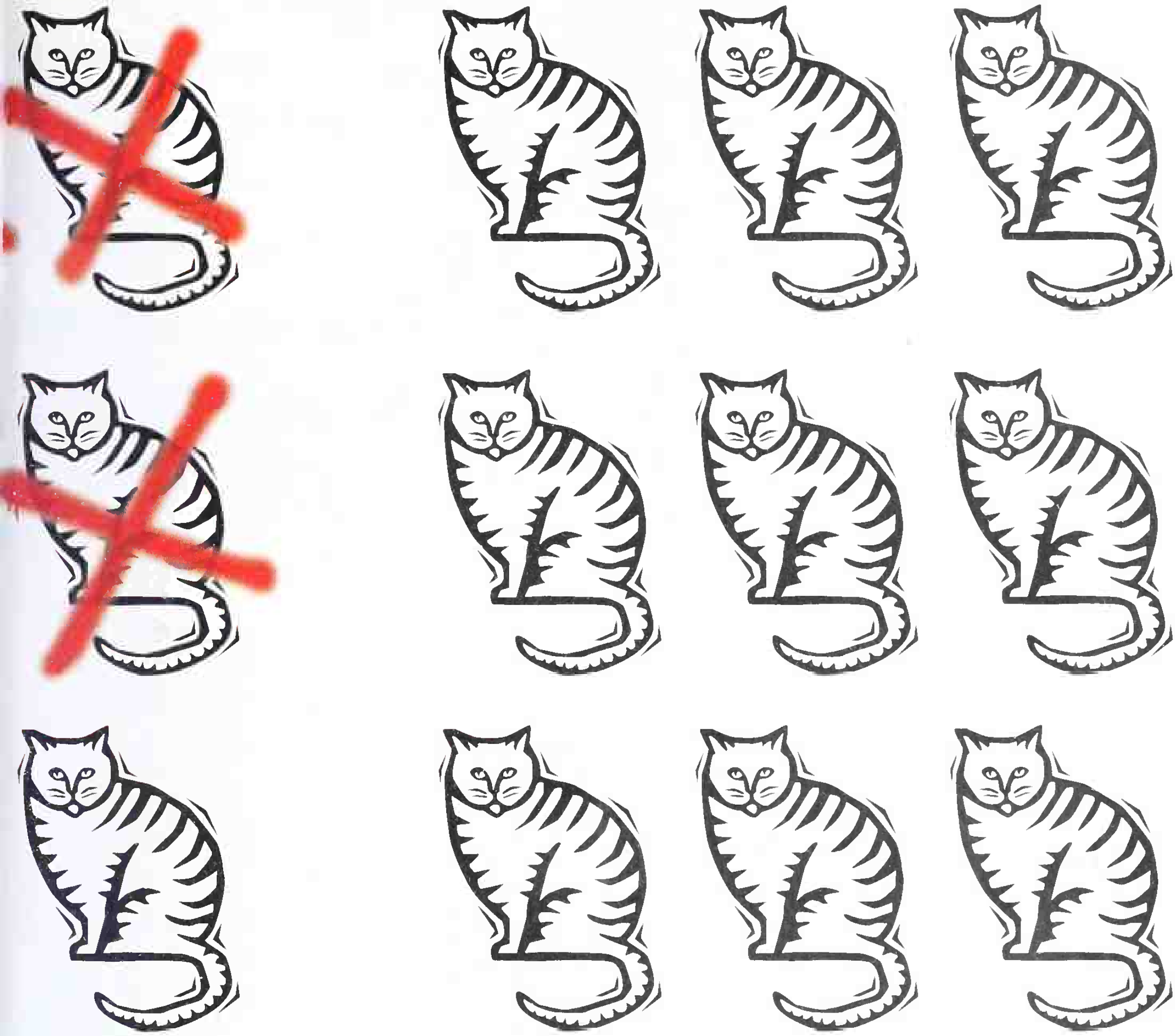
Let's say comput

intel inside
pentium
PROCESSOR

Some computers have nine lives left. Others don't. That's why if you're buying a PC today, you should only be considering Pentium™ processor-based PCs.

The reason is simple. A more power
PC lasts longer, since it will still have
plenty of horsepower when tomorrow's
applications come along. And most nev
Pentium processor-based systems also
include the latest PC technology — like

© 1994 Intel Corporation



Pentium™ processor-based PCs

have nine lives.

local bus for high-speed graphics and
and Play technology for easy expansion
e years to come.

That, plus the fact that these PCs are now
ffordable, makes this a great time to buy a
tium processor-based PC. Especially when
you'll be getting a system that performs so well. Today. And several lives from now. For more information call 1-800-626-6788, Ext. 213.

intel®

Cover Story

DOW JONES
3828.05
Charles Schwab

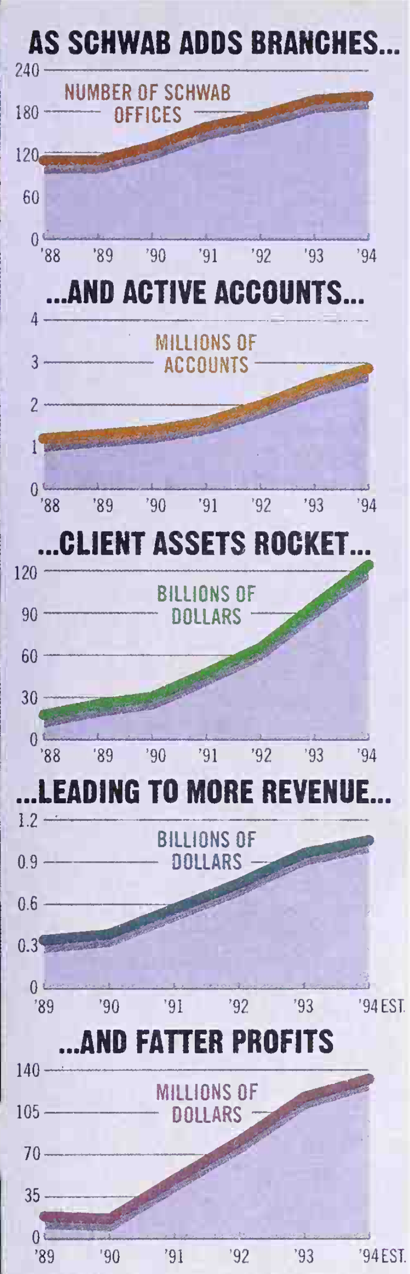
THE GENIAL FACE IS A MARKETING TOOL

THE SCHWAB RE

Billions are pouring into the discount brokerage, thanks to a radically new approach that's high-tech, low-cost, no-pressure

'Get the assets!" David S. Pottruck, former wrestl
avid weightlifter, and president of Charles Schw
Corp., is squinching his massive frame into an ar
chair, the shoulder pads on his suit coat riding
like a defensive lineman's as he verbally strips t
company's strategy down to one punchy phrase. "Get the a
sets!" he says again. "Everything else will follow."

Revenues. Profits. Stock gains. Growth. At Schwab, the b
San Francisco-based discount broker, they all stem from t



DATA: COMPANY REPORTS, SANFORD C. BERNSTEIN & CO., WILLIAM BLAIR & CO.

LUTION

e source: the accumulation of customer assets. As usual,
truck—who plays Arnold Schwarzenegger to his boss's
rison Ford—comes off more aggressive and excitable
n Charles R. "Chuck" Schwab himself, the company's
nder, chairman, and chief executive. Yet the theme re-
ns the same, no matter which executive is talking. "Keep
ets here," Schwab intones, "and attract more of them."
ut the Schwab story is much more than just raking in
ets. Schwab is a radically new kind of brokerage firm, and it's revolutionizing how financial products and services are delivered to the public. The firm "sells" nothing and proffers no advice. Instead, through shrewd marketing and innovative technology, Schwab lays out a sumptuous banquet of low-cost and imaginative investment programs, such as no-fee mutual funds, computerized stock trading, and specialized banking services. With liberal use of advertising—often featuring the genial Schwab himself—the firm publicizes its wares and leaves it up to customers to call or drop into one of 208 branches.

The Schwab method is diametrically opposed to that of the huge Wall Street brokerage firms, such as Merrill Lynch, Smith Barney, and PaineWebber, that are gathering assets the old-fashioned way. They rely on commissioned sales personnel who schmooze the customers and ply them with advice, research, and other services—but who sometimes push the securities of investment-banking clients or proprietary products with high front-end expenses and dubious long-term prospects.

More than ever, the big Wall Street firms are operating under a cloud of mistrust. Prudential Securities Inc. will likely spend nearly $1 billion to settle claims stemming from poorly performing partnerships it sold in the 1980s. In addition, the Securities & Exchange Commission recently launched a broad investigation of brokers' sales of limited partnerships and other proprietary products.

SPEEDING UP THE DATA STREAM. Schwab's no-pressure, low-cost, high-tech approach to investment brokerage appeals both to disgruntled clients of full-service firms and to baby boomers who are only now entering their financial prime. Take Rose Wunder, 32, a sales representative for Pitney Bowes Inc., and her 40-year-old husband, David. They make their own investment decisions and turn to Schwab to put them into action. The Wunders enter their orders on a telephone keypad, saving time and getting a 10% discount from Schwab's standard rates. Says Rose: "I don't need a broker. I don't want to talk to a real person. I don't have the time."

Schwab is also turning its technological prowess to serve active stock traders—those customers who make 48 or more transactions a year, some at the rate of 10 a day. In October, Schwab started rolling out Custom Broker, a program that makes use of a variety of financial newswires and other information services to get data to customers fast—by phone, fax, computer, or pager. "A guy might ask us to page him when Micron hits 40," says Schwab representative Thomas Meagher. Doesn't that border on the advice that the full-service firms offer? Not at all. Says Meagher: "Customers told us there's a big difference between getting them what they want and giving them advice."

No wonder investors are beating a path to Schwab. The pace at which customer assets have been pouring into Schwab—currently $27 billion a year—has been quickening. Just since 1991, assets have swelled 150% and should hit $123 billion by yearend. In 1994, a choppy year for stocks and a disastrous one for bonds, Schwab still opened 800,000 new accounts. That's a 16% gain over new accounts in 1993, when the markets were a lot more rewarding. About half the new accounts, says Schwab, were those of customers "who are new to the world of brokerage." Indeed, the average age of a Schwab customer is 47, 10 years younger than the industry average.

Schwab's revolutionary approach to delivering financial services has been endorsed by the stock market itself. Over the past four years, Schwab shares have risen nearly fivefold, more than twice the securities-industry average and far beyond that of the Standard & Poor's 500-stock index. Until the recent stock market slide, Schwab was an aberration—a securities company whose stock actually gained ground in 1994. Schwab is now down about 2.5%, including the dividend, but many Wall Street stocks have sunk more than 20%.

Schwab stock, of course, has soared on the strength of the

PHOTOGRAPH BY ANDY FREEBERG, CHARTS BY ALAN BASEDEN

company's heady growth rate. Since 1989, earnings have increased at a compound annual rate of 62%. In the third quarter of 1994, when most of the brokerage industry was on its back with earnings declines, Schwab profits rocketed 41%.

Cover Story

Since then, earnings estimates for the year have shot higher. Analyst Joseph F. LaManna of William Blair & Co. expects Schwab to net $131 million on $1.05 billion in revenue for 1994. That's only 11% above last year, but brokerage profits in general are expected to fall 30.5%.

All the good news, however, comes wrapped in a warning. Although its rapidly growing mutual-fund and money-market business helps stabilize earnings, Schwab still derives an estimated 75% of profits from stock-trading activity, which continues to sag. Schwab's commission revenue fell 7.5% in the third quarter.

"SCARED OUT OF THEIR MINDS." No one knows how long the markets will drag. And no one knows how skittish Schwab customers will be in the face of a serious downdraft or a prolonged bear market, particularly the neophyte investors who moved up to Schwab from bank CDs. "We feel first-time investors are going to be scared out of their minds when they see their stock start taking hits," says Nancy K. Zambell, an analyst at JW Charles/CSG, a Florida firm that is resolutely downbeat about the market's prospects. "They aren't going to want anything more to do with a brokerage house," whether full-service, deep-discount, or Schwab, she claims.

The full-service brokerages believe that even a bull market poses risks for Schwab. Higher-end investors who do well in the markets, they insist, will want a seasoned broker's advice on what to do with their money and will leave Schwab behind.

Joseph J. Grano, president of retail sales and marketing at full-line broker PaineWebber Inc., notes that the boomers are on the verge of a huge transfer of wealth through inheritance as their parents pass on. "As people become more affluent, they trade up," he says. "When you deal with the affluent, you can't do it through a telephone-response system. In a world that's growing more and more complicated, the advice and counsel of a broker will be more important, not less important." For that reason, John L. Steffens, executive vice-president for private clients at Merrill Lynch & Co., doesn't even consider Schwab a direct competitor. "We're in the advice and guidance business, and they're in the transaction business," he says.

The notion that his younger customers will "trade up" to full-service firms draws a mixture of mirth and disdain from the founder. "I see no compelling force that will cause America to shift back to [that] system," Schwab says. "People hate it." And even if investors decide they need some help, Schwab can make money on that, too. Its institutional business serves as the back office for 4,000 independent financial advisers.

Despite the customer-friendly atmosphere at Schwab, investors still have to watch out for themselves. For instance, while Merrill Lynch automatically sweeps brokerage-account cash into money-market funds, Schwab customers have to explicitly request that service. True, Schwab pays interest on those cash balances, but it's about a one-quarter to a one-half percentage point less than a money fund. Critics note that Schwab uses the cash from those low-yielding balances to make margin loans—the proceeds of which provided about 10% of Schwab's revenue last year. The critic's complaint: Schwab's profiting from customer ignorance.

Then there was the minor brouhaha earlier this year over frequent trading in the no-fee mutual fund program. Some OneSource investors complained they were misled into thinking they could make five free fund trades each year but discovered that if they made those trades, Schwab tagged them as traders and barred them from any free trades in the future. It turned out the fine print in Schwab's advertising was open to different interpretations. In response to complaints, Schwab changed the plan to allow 15 short-term trades a year, but no free trades on funds held less than 90 days. And it promised to warn investors ahead
time when they are subject to a transaction fee.

Perhaps more worrisome than the full-service firms are t
other discounters. With a 44% share of the discount-broke
age business, Schwab faces a strong competitive threat fr
Fidelity Brokerage Services, the No. 2 discounter. Fidelity I
vestments has deep pockets thanks to its privately held m
tual-fund empire, and the brokerage unit has been spendi
heavily to gain ground in stock trading, mutual-fund tradi
cash-management accounts, and providing transaction a
back-office services to financial advisers. Fidelity is also w
ahead in the 401(k) business, an area in which Schwab
now starting to expand.

SCHWAB'S INNOVATIONS

1982 Introduces 24-hour, 7-day-a-week order entry for stock trades.

1989 TeleBroker: automated telephone touchpad order entry, soon to be available in four languages.

1992 OneSource: now with 287 funds from 27 mutual-fund families, which customers can buy without paying loads or transaction fees. Saves time and trouble of dealing with multiple fund companies.

1992 No-annual-fee Individual Retirement Accounts for those with balances over $10,000.

1993 StreetSmart for Windows: software that allows customers to trade through Schwab via a personal computer.

1994 Custom Broker: phone, fax, pager alerts for active traders.

1994 No-fee dividend reinvestment plan for over 4,000 stocks.

DATA: BUSINESS WEEK

HIGH-TECH TURN

The shift from mainframes to desktops means Schwab can process 20,000 mutual-fund trades a day with the same size staff that two years ago handled just 2,000

LEPORE AT THE PHOENIX DATA CENTER: THE CONVERSION IS "A HUGE CATALYST"

REED RAHN

hen there's the threat from deep-discounters trolling for
e of Schwab's best customers—the frequent traders. Some
p-discounters are undercutting Schwab prices by 35% or
e. One of the most aggressive, National Discount, is charg-
a minimum of $25 for low-volume stock trades in over-the-
nter stocks, vs. Schwab's $39. Schwab thinks it can avoid
ice war with the bare-bones discounters by offering high-
n services that they don't.

o keep the money coming in, Schwab will continue to
nt on the increasing independence and sophistication of the
vidual investor. Business information is proliferating and
e easily accessible to the would-be investor. The print
electronic media are covering business and financial markets more thoroughly than ever. And on-line services, such as CompuServe and America Online, increasingly are making data about companies and markets available to average individuals, not just to brokers and big investors.

Since Schwab customers know what they want to trade, Schwab technology makes it easier for them to trade it. Schwab is far ahead of rivals in adopting new technology. That's partly because of the firm's proximity to Silicon Valley and its talent pool. Mainly, says Chuck Schwab, it's because the company started fresh in the 1970s with no traditions—like the broker network—to stymie innovation. "We weren't fettered by traditional Wall Street schemes," he says.

Today, 20% to 25% of Schwab's trades are made through its TeleBroker service, which puts the investor in touch with a Schwab computer via the keypad on the phone—and offers a 10% discount off Schwab's regular commission. Schwab is also reaching out to non-English-speaking traders: On Dec. 6 it launched Spanish TeleBroker; it will soon offer TeleBroker in Mandarin and Cantonese in the U.S. and in a telephone link with Hong Kong. For technotraders, it is updating its StreetSmart for Windows software, which already has sold 160,000 units since its introduction in October, 1993. Among the features in the new version: simplified options trading and tools to make navigating the Dow Jones News Retrieval on-line service faster and easier.

FUND MONEY THAT DOESN'T WANDER. All this high tech, however, is softened by a marketing image that takes advantage of Chuck Schwab's friendly, trusty face. In the 1970s, when Schwab began appearing in the ads, new business shot up 300% in cities where the ads ran. Schwab started appearing in network-TV spots in 1991, and since then the company has reached the top of the charts in consumer brand awareness, along with such financial-services titans as American Express Co. and Merrill Lynch.

Another soft-touch marketing tool is Schwab's extensive branch network. There really is no practical need for a discount brokerage to invest heavily in branches; customers can do business with a discount broker over the phone. Indeed, Schwab's discount competitors get by with far fewer branches than Schwab's 208. Even aggressive Fidelity has limited itself to 70.

But Schwab is convinced that customers want to see something tangible before they turn their investment dollars over to a firm. "They want to take the measure of people," says senior executive vice-president Tom D. Seip, who manages the branch system. The company says its new business increases two to three times in areas where it adds branches. The sluggish market has crimped expansion plans—only 10 branches were opened this year. But Seip says the company will open 100 more by the end of 1996.

Schwab thrives by pumping out new products and services to lure new assets. In March of 1992, it dropped its $22 annual fee on Individual Retirement Accounts with balances of

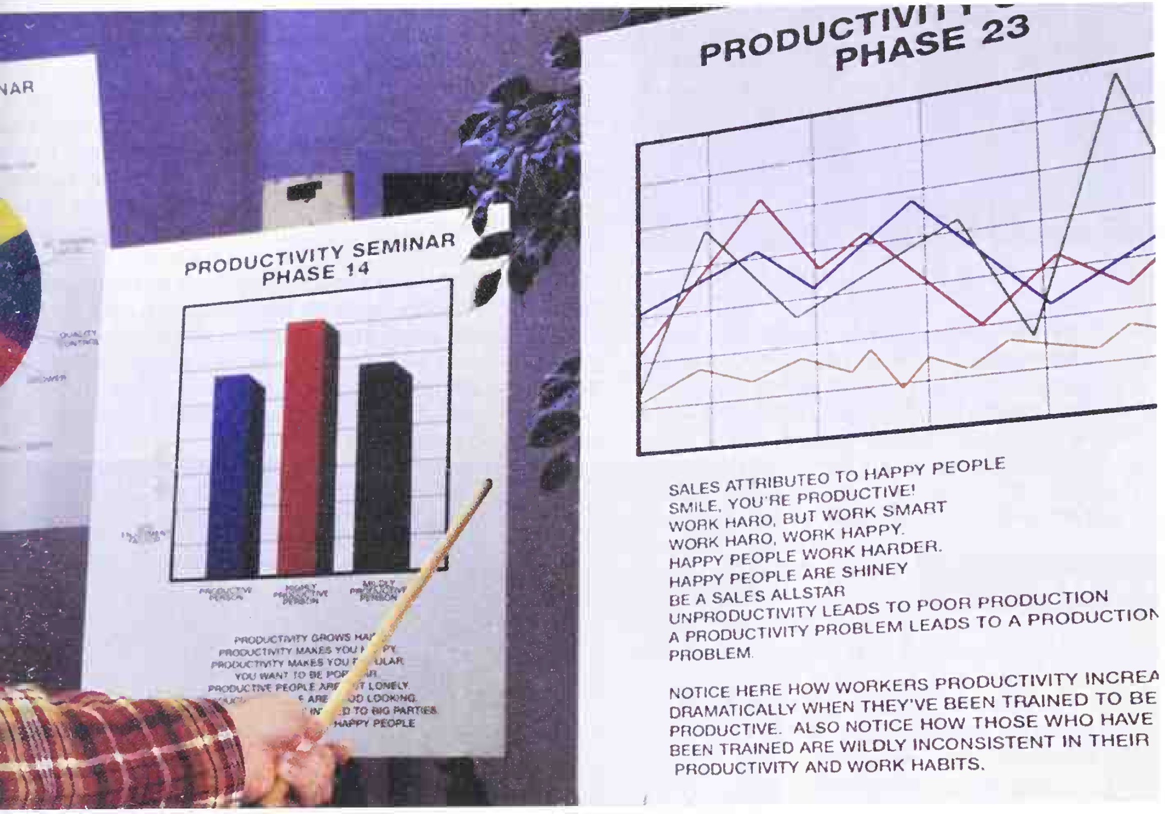
This, perhaps, is on
company'

PRODUCTIVITY SEMINAR
PHASE 32
FITS

We happen
powerful bu

Someone is always coming out with another scheme "guaranteed" to improve your business. But here's something that actually delivers — the 1995 Chevy Astro Cargo Van. It starts by offering the most powerful engine in its class: a standard V6 with an automatic transmission that lets Astro out-tow the competition by as much as 3500 lbs. With its extended body now a standard feature, Astro has over 170 cubic feet of cargo room. No compact cargo van can carry more. We also gave Astro standard air condition

to improve your
roductivity.



SALES ATTRIBUTED TO HAPPY PEOPLE
SMILE, YOU'RE PRODUCTIVE!
WORK HARD, BUT WORK SMART
WORK HARD, WORK HAPPY.
HAPPY PEOPLE WORK HARDER.
HAPPY PEOPLE ARE SHINEY
BE A SALES ALLSTAR
UNPRODUCTIVITY LEADS TO POOR PRODUCTION
A PRODUCTIVITY PROBLEM LEADS TO A PRODUCTION
PROBLEM.

NOTICE HERE HOW WORKERS PRODUCTIVITY INCREA
DRAMATICALLY WHEN THEY'VE BEEN TRAINED TO BE
PRODUCTIVE. ALSO NOTICE HOW THOSE WHO HAVE
BEEN TRAINED ARE WILDLY INCONSISTENT IN THEIR
PRODUCTIVITY AND WORK HABITS.

ake a pretty
ess tool of our own.

and an AM/FM stereo. It even has standard 4-wheel anti-lock brakes and a

ver's-side air bag — features that

p keep you safe as well

productive. For more

formation, call us at

800-FLEET-OPS (353-3867).

Chevy Astro
LIKE A ROCK

Chevrolet Emblem and Astro are registered trademarks and Chevy is a trademark of the GM Corp. ©1994 GM Corp. All Rights Reserved. Buckle up, America!

TANGIBILITY: *Schwab says new branches boost business*

$10,000 or more. Since then, IRA assets have doubled, to $33 billion. In August, the company announced it would reinvest dividends in any stock owned by its customers—for free. Some companies offer free dividend reinvestment, but it is a paperwork hassle, particularly for someone who owns many different stocks. Schwab collects all of a customer's dividend reinvestment plans on one statement. This program will result in slightly higher costs, but, says Schwab, "it will attract more customers, and in the long run, we will get paid for it."

Perhaps Schwab's cleverest innovation thus far, however, is Mutual Fund OneSource. Introduced in 1992, it offers a list of 287 funds from 27 fund families, with no load charges and no transaction fees. Schwab makes its money by assessing the fund families annual service fees that average about $2.60 for each $1,000 invested.

OneSource quickly became an asset-gathering machine. Schwab had been offering a long list of mutual funds since 1984 but charged customers an up-front transaction fee—which, customers complained, made Schwab the most expensive place to buy mutual funds. Since its 1992 start, the no-fee program has grown to $13 billion. Ironically, assets in 500 or so funds that still carry transaction fees have mushroomed, too—tripling from $6.1 billion in 1991 to $19 billion.

The beauty of Schwab's fund business is that when investors redeem their mutual-fund shares, nearly 99% of the money sticks with Schwab. Investors tend either to transfer their assets to another mutual fund offered by Schwab or into Schwab's own money-market funds. That means even more money for Schwab, because margins on the money funds are higher. Since OneSource was created, Schwab's money-fund assets have doubled, to $21 billion. One fund, Value Advantage, a high-rate offering that requires a minimum balance of $25,000, grew from $700 million to $3.2 billion in assets for the first 10 months of 1994.

"DANCING WITH THE DEVIL." Executives at funds that participate in OneSource, however, have mixed feelings. W. Gordon Snyder, executive vice-president for marketing at the $27 billion Twentieth Century Funds, says mutual funds have developed a "love-hate" relationship with Schwab. They like the marketing channel Schwab gives them to a huge and interested pool of potential customers. Indeed, OneSource has put some small funds on the map. Robert H. Steers, chairman of Cohen & Steers Capital Management, says his real estate investment trust fund grew from almost nothing three years ago to $380 million in assets today, largely thanks to OneSource. "It accounts for 75¢ of every dollar," he says. Listing with Schwab also helps funds keep marketing and servic expenses down.

But that help comes at a price—not just in dollars, but in c trol, too. Schwab maintains the lists of shareholders in ea fund, giving it control over direct mailings and other custor contact. And because Schwab investors are given such a r choice of funds to choose from, the funds can't count on ke ing those investors in the family. "With Schwab, it's as easy move from Janus to SteinRoe as it is from one Janus fund to other," says Kenneth R. Liebler, president of Liberty Finan Cos., parent of SteinRoe funds.

Worse, some fund operators fear that once they're hook on OneSource—when 25% or 30% of their business is com from Schwab—they'll see their service fees rise. "I think dancing with the devil," says one fund operator, who advis his board against hooking up with OneSource, to no avail

OneSource isn't the only place Schwab hunts up mutu fund assets. It has established a network of independent nancial planners, who advise individuals on their investmer usually for a flat fee. Schwab hooks them up with SchwabLi a software program that connects them with Schwab co puters, not only to execute trades but also to help them ma age their bookkeeping and other back-office chores. Abo 27% of Schwab's asset base is channeled through these vestment advisers.

"Before Schwab, we had to get statements from probably 12 to 15 families of funds," says Judith A. Shine, one of two financial planners at Financially Speaking, a financial-planning service in Englewood, Colo. "You would cry real tears when the mail came. You couldn't keep up. Clients were paying us to be bookkeepers."

To pay for the services and the no-fee come-ons and to keep itself competitive on commissions and interest rates, Schwab must keep its costs low, and it depends heavily on technology to do it. As Chief Financial Officer A. John Gambs says: "It's

ASSET WARRIORS

Other discounters, some of which undercut Schwab prices by 35% or more, could be more of a threat than the full-service firms

DESPITE SCHWAB'S SUCCESS, POTTRUCK WORRIES SOMEONE WILL "FIGURE OUT WHAT WE DO AND DO IT BETTER"

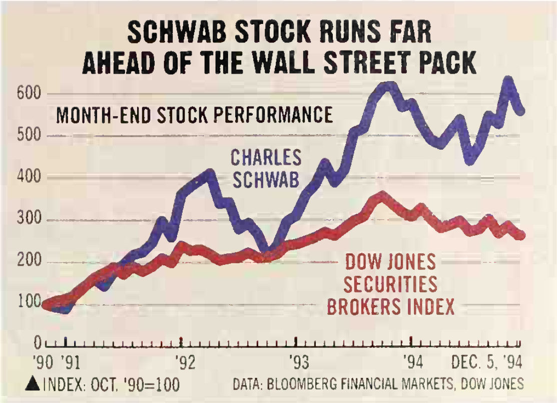
TOP, BOTTOM: PHOTOGRAPHS BY [illegible] GAMMA LIAISON; MARK [illegible]

pay electric bills and amor- n for computers rather than es and benefits."

wab has started a wholesale rsion to what's known as -server computer systems, ng most of its data off main- es and onto networks of op machines, reorganizing ms and rewriting software goes along. "This is a huge st. It's an opportunity to re- the way we do things," says G. Lepore, chief informa- fficer.

ample: A new mutual-fund ng system allows a bunch of orders for many funds to ap- on a screen at one time. With the new software, fund actions that sometimes took up to half an hour can be ssed in a few minutes. The bottom line: Schwab can ss 20,000 trades a day with the same 150 employees who ears ago processed 2,000 a day.

wab is turning to technology to help trim costs in its h network as well. Plans are to set up regional centers to handle drudge work for the branches and to make heavy use of image-scanning technology. Brokers, for example, post checks daily to customer accounts, then copy, bundle, and send them to headquarters. In the new system, they will just ship checks and other documents to be scanned into computers. Records will be stored digitally, so they can be transmitted easily across networks, and most paper records will be thrown out.

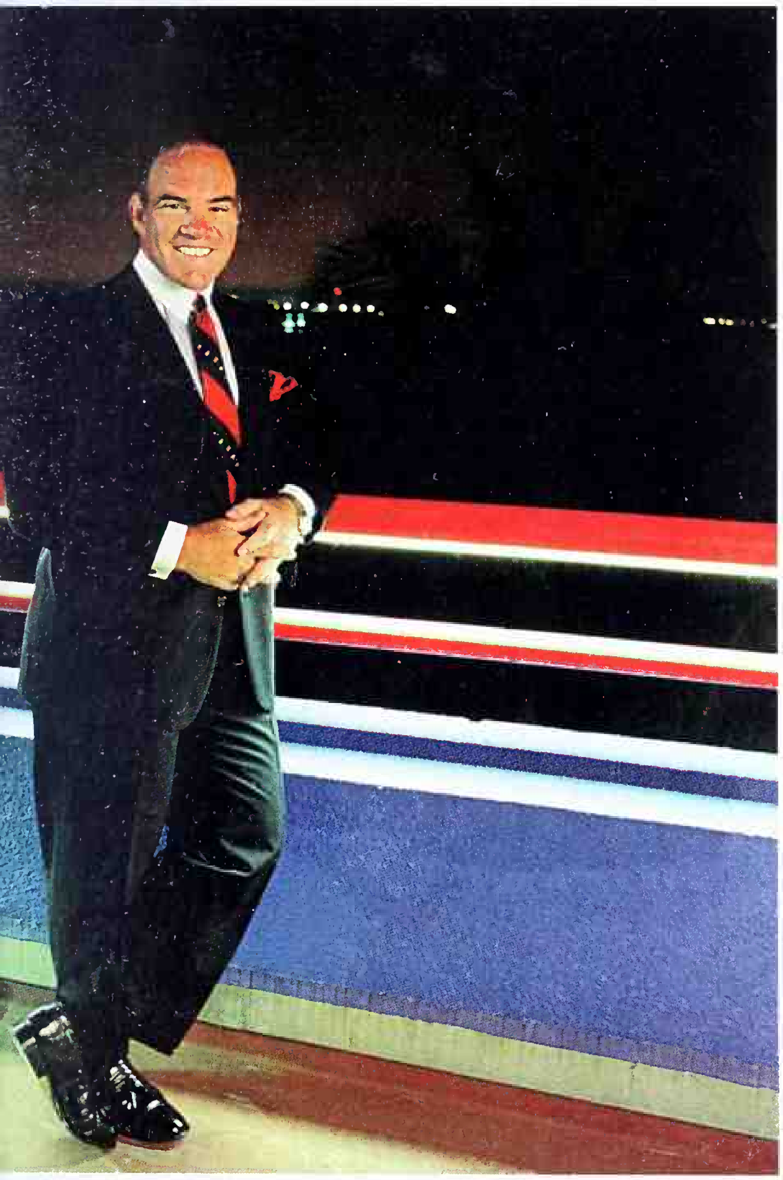


SCHWAB STOCK RUNS FAR AHEAD OF THE WALL STREET PACK

▲INDEX: OCT. '90=100 DATA: BLOOMBERG FINANCIAL MARKETS, DOW JONES

Seip hopes to cut the size of its largest branches from 20 brokers to 7. Instead of doing clerical work, they will spend more time with customers—for example, assisting them with new "asset-allocation" software that helps them design an investment plan.

Although Schwab's brokers are judged primarily by two gauges—the quality of customer service and assets gathered—Seip insists asset allocation programs won't be used as an overt sales tool. "We will not be putting our brokers in the business of advising customers on asset allocation," he says. Schwab has staked its reputation on avoiding conflicts of interest, and Seip says the company plans to keep it that way. "Many people come to us—it sounds sad, but it's true—after they have been shafted somewhere else," he says.

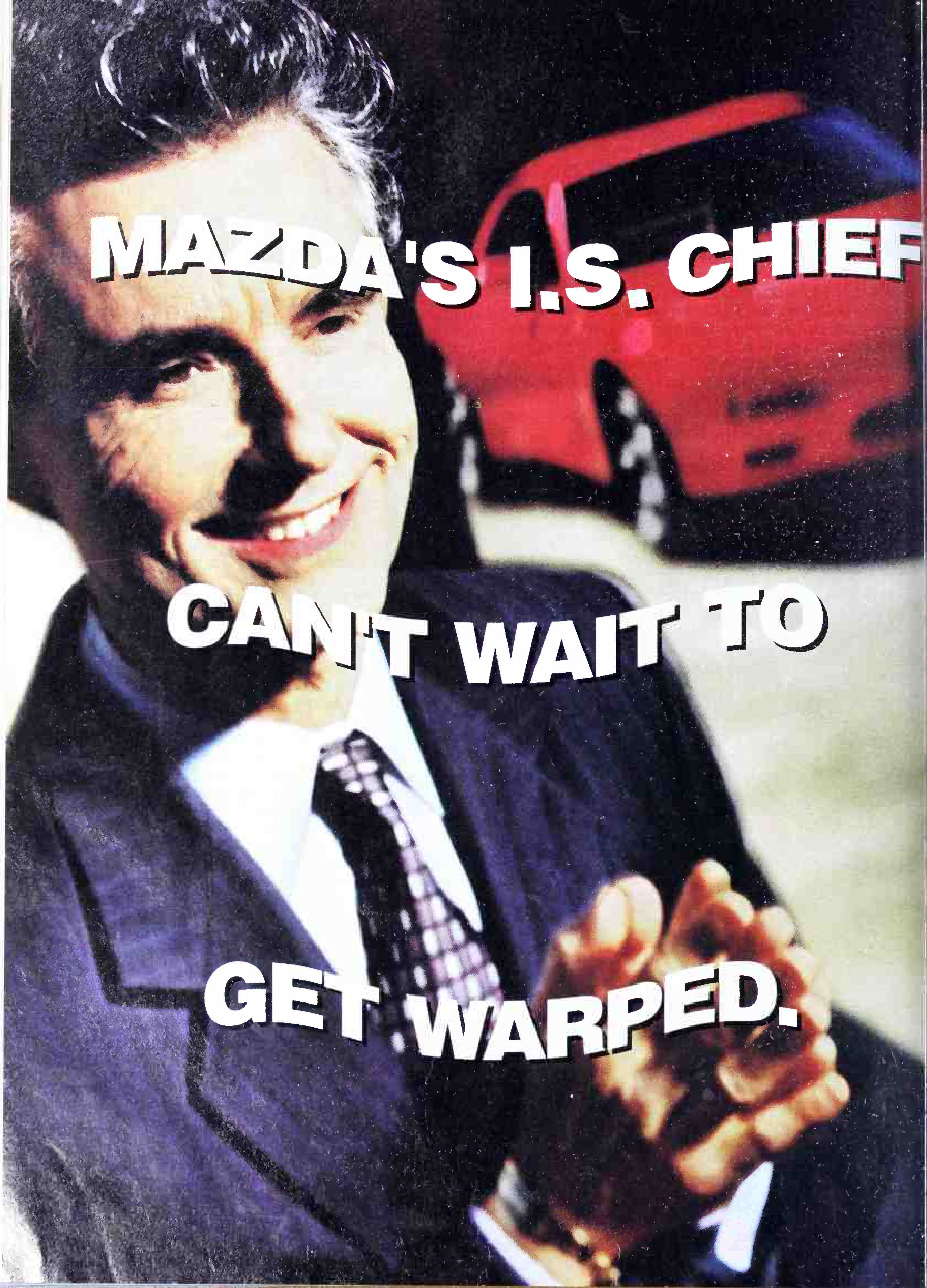


Chuck Schwab points out that the company has consciously stayed away from "all the scandalous things Wall Street has delivered to the public"—such as limited partnerships and exotic derivatives. John P. Coghlan, who runs Schwab's institutional services, says: "We are now untouched by scandal. We have not had losses."

"SQUEAKY CLEAN IMAGE." Good thing there is plenty of wood to knock on in Schwab's executive suite. Every day, Schwab's computer system searches accounts for irregularities. Employees are allowed to trade only through Schwab's employee branch—which is headed by the chief of Schwab's compliance department. The records of the independent financial advisers get similar treatment. Pottruck says Schwab has developed a "squeaky clean image" and intends to maintain it. (Well, pretty clean. In 1988, BUSINESS WEEK reported that the Schwab back office engaged in unauthorized trading of customer securities. Within days, Schwab agreed to pay the customers the profits from such trades—which turned out to be about $2 million.)

It remains to be seen what the fallout will be from the Justice Dept.'s investigation of trading in the NASDAQ market. Schwab in 1991 bought the big NASDAQ trading firm Mayer & Schweitzer, which has, along with other NASDAQ traders, become the subject of numerous suits, most of them alleging collusion in trading in order to maintain wide spreads for bigger profit margins.

Ronald W. Readmond, the Schwab executive who oversees Mayer & Schweitzer, says the academic study that sparked the investigation is "interesting, but incomplete, superficial, and unsophisticated." The lawsuits, he says, are


MAZDA'S I.S. CHIEF
CAN'T WAIT TO
GET WARPED.

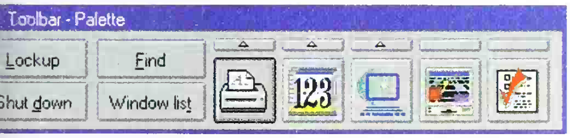
IT'S ONE MODEL THEY REALLY NEED ON THE ROAD.

Your on-ramp to the information superhighway
IBM
New!
BonusPak
OS/2 Warp

*2 is in its third rev, so
solid, stable, and mature.*

Mike Anzis is the I.S. man behind the wheel of Mazda's computers. And OS/2® Warp is about to make his life easier.

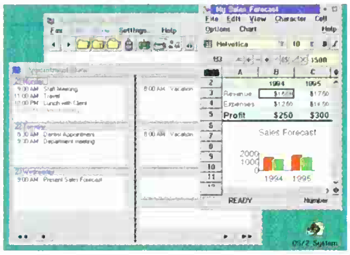
As Mike puts it: "We use OS/2 on our head-
rters' client/server systems. It's also installed in
900 dealerships.
until now, we
en't been able to get
/2 everywhere we need it – on laptops in the
d. OS/2 Warp changes all that." OS/2 Warp
he 32-bit, multitasking, Windows™-friendly way
run a computer. With simple installation and


Toolbar - Palette
Lockup
Find
Shut down
Window list
123

olbar gets users into their applications quickly and easily.

ven reliability, OS/2 Warp is a total computing
ution that performs ruggedly at every level.

From a basic 4MB laptop to a client/server system, the OS/2 family now scales an even wider variety of PC platforms.


File
Settings
Help
My Sales Forecast
File Edit View Character Cell
Options Chart Help
Helvetica
10
1500
OS/2 System
READY
Number
Sales Forecast
2000
1000
0
1994
1995

9:00 AM Staff Meeting
11:00 AM Travel
12:00 PM Lunch with Client
8:00 AM Vacation
8:30 AM Dental Appointment
9:30 AM Department meeting
8:00 AM Vacation
9:00 AM Present Sales Forecast

	A	B	C
2		1994	1995
3	Revenue	$1500	$1750
4	Expenses	$1250	$1450
5	Profit	$250	$300

The BonusPak gives mobile users the applications they need.

And OS/2 Warp is a real communicator. With fax, Internet e-mail, and desktop conferencing, there isn't an easier way to keep those out on the road in the loop.

OS/2 Warp also offers Mike Anzis rock-solid reliability. "I know from years of experience with OS/2, I can trust it to keep performing. Now I can enjoy this peace of mind at every level."

OS/2 Warp is available for under $90. To get warped, stop by your local software dealer, or call 1 800 3 IBM-OS2. Ask for a free demo disk.

The new 32-bit, multitasking, multimedia, Internet-accessed, crash-protected, Windows-friendly, totally cool way to run your computer. **OS/2® WARP**

IBM®

Warp is available from your software dealer. It's also available from IBM for $89 by calling 1 800 3 IBM-OS2.

er prices may vary. OS/2 Warp consists of OS/2 version 3 and BonusPak. IBM, Operating System/2 and OS/2 are registered trademarks of the International Business
nes Corporation. Crash Protection and the OS/2 logo are trademarks of IBM. Windows is a trademark of Microsoft Corporation. ©1994 IBM Corp. All rights reserved.

without merit. He predicts NASDAQ and Justice will reach some kind of face-saving settlement without a finding of wrongdoing. And, he believes, Schwab's reputation won't suffer.

There is bravado to spare at Charles Schwab Corp. And any objective observer would say the company has earned it. But the rest of Wall Street will not sit by while Schwab lures away their customers. Fidelity gets stronger all the time, and the deep discounters aren't going away. Companies such as Microsoft Corp. and the Baby Bells are gearing up to enter the financial-services arena—companies capable of besting Schwab in technological prowes

Big David Pottruck, after spending half an hour extoll the virtues of the company he works for, returns later squeezes back into his armchair. He has had some sec thoughts. "We don't walk around here thinking about h great we are," he says. "We walk around here worried frightened. I literally lose sleep at night worrying someo going to figure out what we do and do it better." Sure. I those shoulders don't look any less aggressive.

By Russell Mitchell in San Francisco, with Jeffrey Laderman and Leah Nathans Spiro in New York, Geoff Smith in Boston, and Sandra Atchison in Denver

SEEING THE WORLD THROUGH A DIFFERENT LENS

He's the founder and CEO of a $1 billion company, but Chuck Schwab leaves virtually all the day-to-day details to others. "Chuck is very Big Picture," says the company's president, David S. Pottruck, who adds that Schwab isn't even a "McKinsey-type strategic guy. He works more instinctively." It is his knack for picking patterns out of marketplace chaos and his feel for the wants and needs of individual investors that account for his success, say those who know him best.

Schwab believes his struggle with dyslexia, a learning disability whose sufferers have a difficult time with reading, led him to develop other traits to compensate. "I've always felt that I have more of an ability to envision, to be able to anticipate where things are going, to conceive a solution to a business problem than people who are more sequential thinkers," he says.

PASSIONATE GOLFER: *Lee Trevino with Schwab*

KEITH ROSENTHAL

HUNGRY FOR CAPITAL. He built his little discount brokerage into a giant-killer by overriding the naysayers, often those within his own corporation. He insisted on an extensive branch network when some executives argued otherwise. While other discounters scoffed, he backed big spending on technology, which he saw as a way to cut costs, boost service, and increase revenue over the long term. But he can pinch pennies, too. In November, 1993, when the industry was still expanding, he ordered a major cost-cutting drive because his instincts told him 1994 would be tough. "It's embarrassing to me that he was more on top of it than I was," says Pottruck.

Schwab grew up the upper-middle-class son of a California lawyer. Despite his dyslexia, he graduated from Stanford University with a degree in economics, though he admits getting through literature classes by reading Classics Illustrated comic books. He remained at Stanford to earn an MBA. But more than his studies, Schwab's main passion was golf, which he continues to indulge, taking his handicap of nine to such events as the AT&T Pro-Am at Pebble Beach, Calif. After graduation, he started an investment newsletter and went broke in the early '70s when a stab at running a mutual-fund company failed.

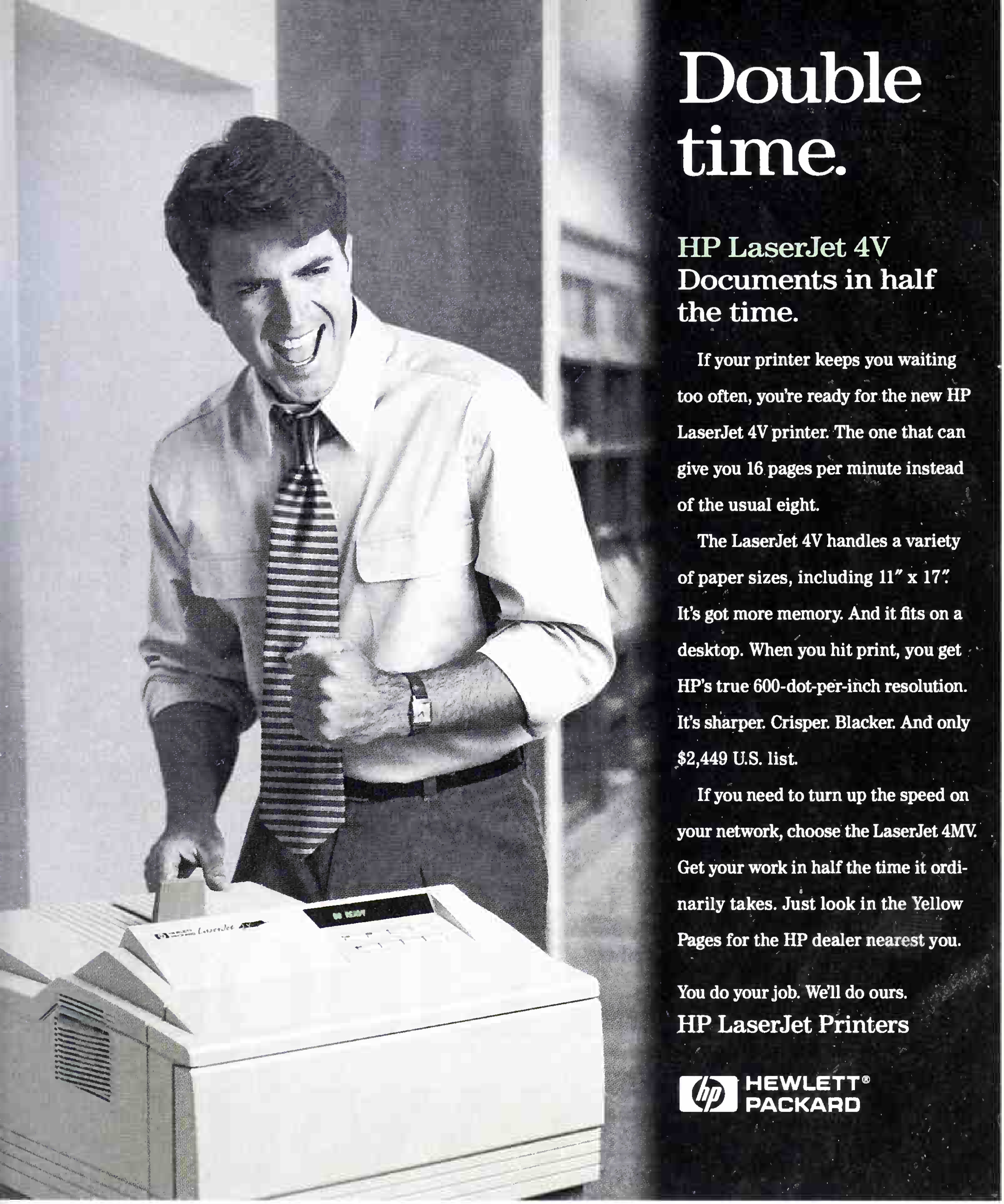
A $100,000 infusion from his uncle, Bill Schwab, helped him start his discount brokerage when the government deregulated stock commissions in 1975. Schwab soon made his mark as an innovator: His firm became the first to offer 24-hour-a-day order taking. In 1983, hungry for capital to expand, he sold his company to Bank of America, becoming its largest shareholder, but bought it back four years later after the then-troubled bank began selling assets.

Schwab went public in 1987—about a month before the October stock market debacle. The crash nearly sank Schwab, which had done a poor job of monitoring its option and margin traders. One Hong Kong trader alone cost Schwab $13 million. Since then, the company has become fanatical about oversight.

DYSLEXIA ACTIVIST. It was a decade ago that Schwab learned he had dyslexia, after his son Michael, now 18, was diagnosed with the condition. Schwab was relieved to find that the reading problems he and his son shared had an explanation. Since then, Schwab and his wife, Helen, have become activists, raising money for treatment and to spread awareness of the problem. Sandra Leanza, who runs the Charles Armstrong School for children with learning disabilities in Belmont, Calif., says too many dyslexic children are tagged as dumb. "We have 200 kids in our school," she says. "And tons of them have real high IQs, like Charles Schwab."

Schwab says willpower and strong self-esteem helped him cope with his disability. Indeed, though Schwab does not always see words the same way most of us do, the success of his company demonstrates that he also can envision things that most of us can't.

By Russell Mitchell in San Francisco



Double time.

HP LaserJet 4V
Documents in half the time.

If your printer keeps you waiting too often, you're ready for the new HP LaserJet 4V printer. The one that can give you 16 pages per minute instead of the usual eight.

The LaserJet 4V handles a variety of paper sizes, including 11″ x 17″. It's got more memory. And it fits on a desktop. When you hit print, you get HP's true 600-dot-per-inch resolution. It's sharper. Crisper. Blacker. And only $2,449 U.S. list.

If you need to turn up the speed on your network, choose the LaserJet 4MV. Get your work in half the time it ordinarily takes. Just look in the Yellow Pages for the HP dealer nearest you.

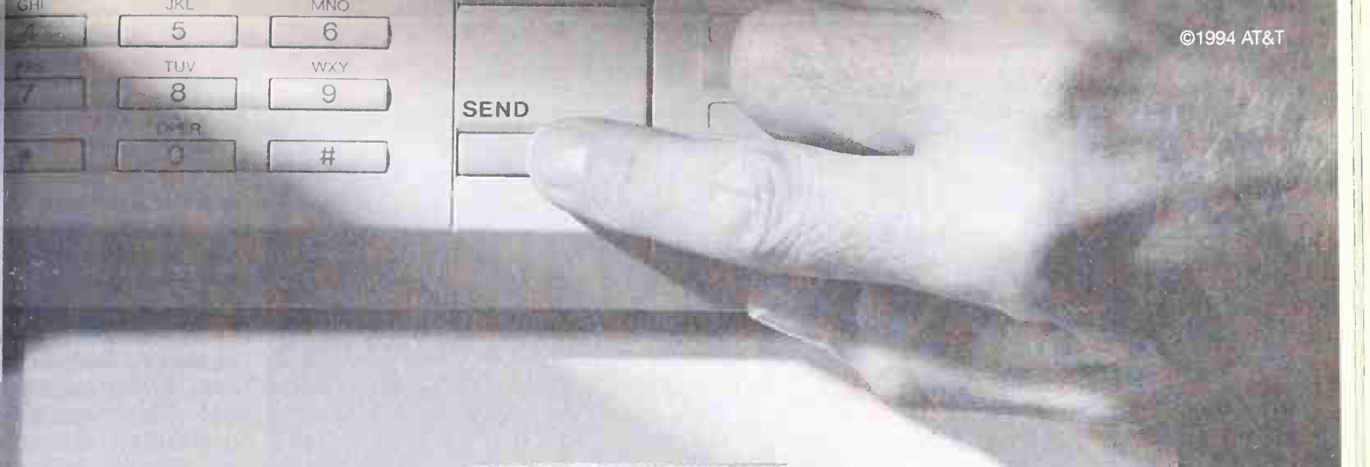
You do your job. We'll do ours.
HP LaserJet Printers

HEWLETT® PACKARD

e information, call 1-800-LASERJET, Ext. 8550. In Canada call 1-800-387-3867, Ext. 8550. ©1994 Hewlett-Packard Company PE12458

Only AT&T backs this button with a guarantee that every international fax will get there.

©1994 AT&T



GUARANTEED

International Fax

There is nothing more frustrating than an international fax that just will not go through. That's why AT&T is bringing certainty to the uncertain world of business.

Only AT&T guarantees to get your international fax there. No matter what it takes.

If you ever have a problem, make it our problem. Just call our unique International Fax Service Center at **1 800 THRU FAX**. Our specially trained staff will isolate the fault while you're on the line. Then help you overcome it. Even if that means delivering your fax by hand.*

After you've put time and effort into that vital document, you can now be sure it will reach its destination. So you can do international business with a new level of certainty.

There's only one international fax guarantee like this. And it's only from AT&T.

AT&T International Fax Service Center helps you get your fax there. No matter what it takes.

*Call for details. Delivery by courier service if needed. Limitations on coverage and remedies apply. Pending tariff effectiveness.

AT&T. For the life of your business.℠

AT&T

CHEMICAL REACTION:
It will eliminate 3,700 b

ERICA LANSNER/BLACK STAR

BANKS

BANKERS' HOURS DON'T LOOK SO GOOD

Slowing profit growth is forcing banks to pass out pink slips

You've seen it in Detroit, around Boston's Route 128, and in every defense-industry outpost in the country: Over the past 10 years, industries from autos to aerospace have shed thousands of employees and cut millions of dollars in expenses in the face of mounting competition. Indeed, it has been a mark of pride for some CEOs to show how many people they can remove from their payrolls.

Bankers, though, have generally ignored the cost-cutting mania. To be sure, the industry has seen plenty of consolidation. The number of banks declined 13% between the end of 1990 and the middle of 1994, according to the Federal Deposit Insurance Corp. But bankers have been too busy chalking up record profits from the huge gap between their lending rates and their funding costs to worry much about costs. The number of bank employees dropped less than 2% over the same period.

But now reality is biting. Revenue growth has been stalled by rising rates, costs are increasing, and nonbank rivals are stepping up their incursions into the banks' turf. So these institutions are finally starting to follow the lead of their industrial counterparts and take sharp pencils to their costs. On Dec. 1, for example, Chemical Banking Corp. announced that it would eliminate 3,700 positions, which, along with other moves, will allow it to cut $440 million from annual expenses.

The new cost-cutting fervor stands to permanently transform the banking industry. As small, independent institutions are swallowed up
big rivals benefiting f
economies of scale, bank
ployees will have to cont
with the same job-loss
ries as their industrial c
terparts. William E
Siart, president and
elect of Los Angeles' F
Interstate Bancorp, e
mates that employmen
banking, which has actu
risen slightly since 199
1.5 million in June, 1
could drop 10%—nea
150,000 people—over
next five years. Siart is h
ing to lead a cost-cutt
drive at his bank.

What's behind all
cuts? Revenues are suddenly har
come by. Rising rates have made bu
bonds a high-risk venture, and r
those rates are even squelching dem
for financial products such as h
mortgages. Some financial instituti
are simply walking away from unpro
able businesses. In October, Fide
Federal Bank, a Glendale (Calif.) th
laid off 65 employees in its whole
mortgage business because Presid
and CEO Richard M. Greenwood did
want to compete against the below-m
ket teaser rates on mortgages that m
thrifts now offer. "Last time I chec
my arithmetic, putting assets on
books at a negative [interest-ra
spread didn't make sense," he says.

RAZOR-THIN PROFITS. The picture is s
ilar in commercial lending. Because pl
ing the yield curve is no longer v
profitable, banks are eagerly seek
borrowers. But the competition is
fierce that profits are razor thin, so co-
panies are looking to pare expenses
boost earnings. Even Chemical Ba
the leading syndicator of big commer

THE BIG SHRINK

Banks are slashing costs and paring staff to maintain profitability

BANC ONE Eliminating 4,300 jobs, 9% of its workforce, consolidating back-office processing, closing up to 100 branches

CHEMICAL BANK Cutting 3,700 jobs, closing branches, improving purchasing, reducing expenses by $440 million

FIRST INTERSTATE Reducing staff by more than 3,000, consolidating opera
tions and systems to save $167 million annually

CHASE MANHATTAN Offering voluntary retirement to 2,600 employees, holding annual expense growth to 2%, selling some businesses

CORESTATES FINANCIAL Freezing hiring and implementing wide-ranging cost cuts by the end of first-quarter 1996

FLEET FINANCIAL Eliminating 5,500 staff positions, paring annual costs by $30
million by Spring 1995

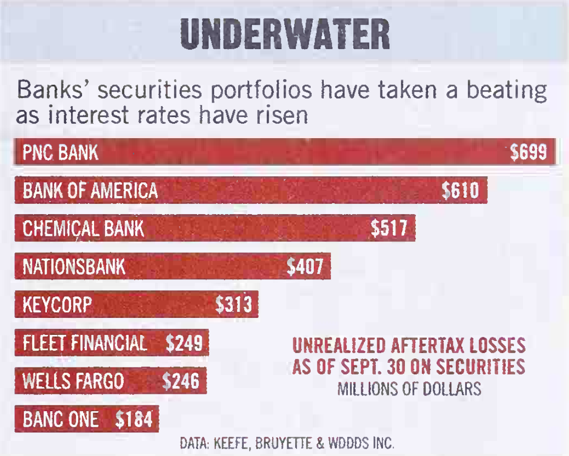
DATA: BUSINESS WEEK

expects to cut $80 million in com-
l lending costs. "Lending is a very
:ant product for us," says Chemi-
airman and CEO Walter V. Shipley.
e adds, "you bet we can make it
efficient."
t-cutting is also being propelled
v interstate banking laws. Banks
oon be able to consolidate inter-
branch operations and eliminate
state-level back-office operations.
nterstate banking legislation is in-
l to create efficiencies, and those
ncies are going to be accomplished
:ting staff," says Ashby G. Hils-
ı partner and banking law special-
Marks & Murase.
st Interstate is taking full advan-
f the new law. Siart says the bank
nerge 14 separate banking opera-
into one and consolidate seven
mer loan centers into two, among
moves. "We either had to react
weren't going to be here," he
"We knew we had to improve our
ability, and it's either costs, reve-
or loan losses." Similarly, Banc
Corp., the Columbus (Ohio) super-
nal, plans to consolidate 77 bank
diaries into a mere 13 and close
100 branches—and meanwhile
4,300 jobs.
:E MARKETPLACE. Easing inter-
banking restrictions also means
competition. Some of the coun-
most aggressive banks may ex-
into markets all over the country.
would spell big trouble for those
inefficient cost structures. Most
; don't yet face as much direct glo-
ompetition as auto makers do, but
will be facing more and more from
banks that used to be only in oth-
gions of the country.
me are already preparing them-
s. Philadelphia's Corestates Finan-
Corp., itself an active acquirer in
gion, has announced plans to freeze
; and develop a range of cost-cut-
deas to be implemented over the
ifteen months. "The consolidation
industry raises the issue of econ-
; of scale," says Chairman and CEO
nce A. Larsen. "We're looking to-
the company we think we need to
the next five years or so."
nkers concede that slashing costs
will not be a panacea. Chemical,
ne, plans to invest $180 million in
esses it sees growing rapidly. "All
utting does is put you on the plat-
to compete," says First Interstate's
"The way you're going to win or
sn't cost-cutting. It's marketing."
s true. But in today's increasingly
herous environment, banks that
t sharpening their axes may not
be around five years from now.

By Kelley Holland in New York

FIXED INCOME, BROKEN BALANCE SHEETS

The huge jump in interest rates over the past year has wreaked havoc in fixed-income portfolios throughout the country, and banks were not immune. They have plowed vast sums into securities over the past three years, and now many face unrealized losses worth hundreds of millions of dollars in their portfolios. Many institutions built up massive positions in mortgage-backed securities, which declined in price even more than Treasuries did. "This huge move in rates really surprised the banks," says Dennis F. Shea, an analyst at Morgan Stanley & Co.



DATA: KEEFE, BRUYETTE & WOODS INC.

Banks have always had problems with their securities portfolios whenever the fixed-income markets have soured. But the consequences this time are unusually noxious. During the last recession, banks shied away from lending and, taking advantage of the bull market in bonds, used their securities portfolios as a major profit center. Their holdings have been augmented by derivatives. Now, many of both are unprofitable. The results are startling. PNC Bank Corp., for one, has $699 million in unrealized aftertax losses, according to Keefe, Bruyette & Woods Inc.

New accounting rules are making matters worse. Banks now must classify securities either as trading account assets; short-term investments, which they can sell at will but must report at market value; or as long-term investments, which they can report at book value but generally must hold to maturity. As a result, banks now have limited flexibility in how they manage securities positions.

Some banks whose short-term investments have lost value are simply taking the losses and liquidating the investments. For instance, Banc One Corp., which is based in Columbus, Ohio, has been hit particularly hard with losses on both securities and derivatives. Banc One announced in November that it would take a $170 million aftertax charge to unload $5.7 billion worth of securities.

LOW YIELDS. Banks with big unrealized losses in long-term investment accounts face a more difficult dilemma. Those accounts often contain volatile, illiquid securities, whose value and yield relative to the market have likely declined precipitously this year. Having to hold these investments to maturity could be costly, producing sub-par investment income for years to come. For some banks, says Judah S. Kraushaar, an analyst at Merrill Lynch & Co., "there could be an open-ended penalty on earnings, depending on the rate environment."

PNC is a case in point. The bank expects its net interest income to decline 7% in the fourth quarter and to fall 15% in 1995 from 1994's level as a result of low yields on much of its $23 billion in securities. Cleveland's KeyCorp, whose biggest securities losses are in its long-term investment account, announced on Dec. 7 that it will incur pretax losses of up to $100 million over the next four months to reflect the cost of reducing its exposure to interest rates.

Fortunately for the banks, the rate increase that decimated their portfolios is boosting their consumer deposit profits. The value of a demand deposit account goes up when rates are higher. That's because a bank pays out next to nothing for that money but can make loans at a higher rate.

That assumes, however, that the banks will do a whole lot better picking borrowers than they did selecting securities.

By Kelley Holland in New York, with Zachary Schiller in Cleveland

BY GENE G. MARCIAL

ICAHN'S RECIPE FOR 131% RETURNS

Carl Icahn is back on the Street—where he's at his best as a stock-picker. But the once-feared raider has turned bearish. He's shorting stocks he finds overpriced and making a pile buying deep-discount junk bonds.

"To make money, bet on the obvious," he says. "And what's obvious is the dangerous state of the market." He thinks a virtual Ponzi scheme is going on, with investors being led to put more and more money into mutual funds. "Many funds are buying shares being dumped by insiders—mainly in over-the-counter stocks." Some of these OTC companies have little assets or net worth. Any kind of bad news will unravel the markets, he warns.

So Icahn has been snapping up bonds of troubled but asset-rich companies that produce returns of 10% to 12%. He won't disclose what he's buying, but one trader says Icahn has accumulated a big stake in the debt of Darling International (DARL), which filed for bankruptcy four years ago and recently completed a restructuring to reduce its debt. Darling collects cooking grease and scraps from 80,000 butcher shops, groceries, restaurants, and meat processors, and makes them into tallow, yellow grease, and meat and bone meal. They are then sold to producers of soap, cosmetics, rubber, plastic, pet food, and livestock feed. The bonds that Icahn bought at $750 per $1,000 of principal amount are part of the $70 million subordinated notes due in mid-2000, with interest of 13.7% in the first year and 11% thereafter to maturity. The bond has since climbed to $930.

"TAKEOVER PLAYS." Icahn also loaded up on the 8⅞% bonds of RJR Nabisco Holdings (RN), maturing in 2004. Icahn bought in when the issue was selling for $870. It has since gone up to $940, carrying a 10% yield to maturity. Based on the company's assets, "the bond is cheap," says one analyst, who notes that RJR has a cash flow of $3.5 billion vs. debt of $11 billion.

"Icahn is getting back into takeover plays," says one arbitrageur. Icahn has bought big stakes in stocks he sees as buyout bait, such as Western Co. of North America (WSN), in which he bought a 5% stake before the oil-field-

LIFE AFTER TWA: *"Bet on the obvious"*

services outfit agreed to be acquired by BJ Services (BJS) in mid-November. It was trading at 12 before BJ Services made a $20 bid. It's now at 16½, and Icahn has continued buying shares.

Since giving up as TWA chairman and CEO five years ago, Icahn has been running his investment firm, Icahn Holdings. According to a KPMG Peat Marwick audit of performance over five years (Nov. 3, 1989, to Oct. 31, 1994), Icahn's portfolio posted a stunning annualized rate of return of 131% or—on an unleveraged basis—of 54%.

READY TO CLEAN UP IN POLLUTION GEAR

Pollution-control stocks have yet to stage a comeback, but one that investment adviser Alan Gaines expects to get a powerful shot in the arm is little-known Sonic Environmental Systems (SONA). It has attracted major customers and strategic partners, including Taiwan's Formosa Plastics, DuPont, and Chevron.

Sonic lost money in the year ended Apr. 30, 1994, but Gaines predicts earnings will jump to 40¢ a share in fiscal 1995 and 84¢ the next year. The company, he notes, has evolved from a small engineering firm dependent on government regulatory moves to a worldwide supplier of products such as dust-suppression gear and high-temperature heat exchangers.

Gaines expects a contract with Formosa Plastics to be announced soon, to be worth, he figures, $7 million to $12 million in sales. That could lift profits by $1 million, Gaines says, or 30¢ a share. The pact is for an incineration system and the heat exchanger.

Analyst Richard West, of New York investment firm Gaines Berland, says the potential business in Taiwan r Sonic could be at the $22 million le by 1996. "Incoming orders are sett records," notes West, who sees fis 1995 revenues of $14.8 million in 1 and a heady $32 million in 1996— from 1994's $2.6 million.

Sonic stock, trading at 5¼, sho double in a year, predicts Gaines.

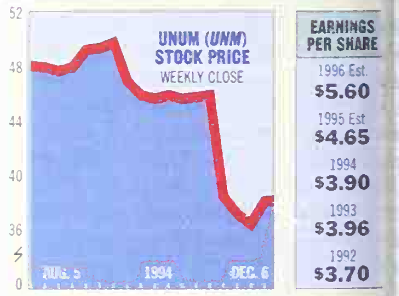
JAPAN MAY PUT UNUM BACK ON ITS FEET

Shares of disability insurer UN (UNM) stumbled in early Nove ber—slumping from 46 to 40—when vestors found that claims had shot And when UNUM took a $10 milli charge to boost reserves, the stock even more—to 36. Naturally, analy have cut back their estimates for t year and next. So why is money man er Ed Wachenheim III snapping UNUM shares?

"The company will come out stro ly profitable next year, and its st should recover from its bad spill," sa Wachenheim, president of investm firm Greenhaven Associates in P chase, N.Y. He thinks UNUM will be fit from the raised premiums for its icies, lower expenses, and a resumpt of share buybacks by next year.

More important, UNUM recently tained a license to be the first compa to offer long-term disability insura in Japan, and it could start selling p cies there as early as 1995. The mark in Japan "is very large and could, wi in a year, boost UNUM's bottom line a accelerate growth," says Wachenhei UNUM has a strong position in a gro ing market, a healthy balance she and first-rate management, he argu He sees the stock climbing to betwe 67 and 72, based on his 1995 earnin estimate of $4.50 to $4.80 a share.

UP FROM DISABILITY ?



FISCAL YEARS END DEC. 30

DATA: BLOOMBERG FINANCIAL MARKETS, GREENHAVEN ASSOCIATES

AN THE GOP BRIDGE HE GENDER GAP?

party tries broadening a base beyond angry white men

When House Republican leaders targeted the Small Business Committee for elimination, alarms went off at GOP head- ters. True, many of its functions go to other panels. But party offi- —sensitive to a gender gap among rs—feared they would send the g message by dumping the only se committee set to be headed by a an, Jan Meyers of Kansas.

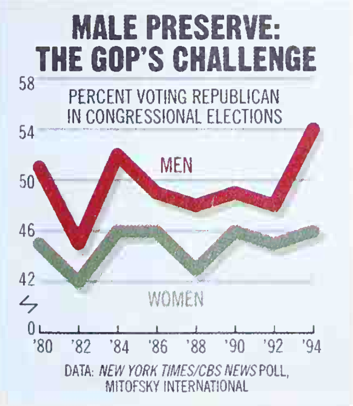
e Small Business Committee re- ed intact when the GOP House tran- n team unveiled its plans on Dec. 2. nor victory for Republican women, But the panel's survival also illus- es a recognition by party leaders to hold permanent majority status, OP must appeal to more than just y white men, who supplied the par- margin of victory this fall.

D SALE.” That's why congressional ublican leaders and national party egists, with an eye on 1996 and be- , are mounting an aggressive cam- n to woo women voters. Incoming te Majority Leader Bob Dole has out of his way to credit publicly ellow Kansan, Senator Nancy L. ebaum, as the author of the most inent plan to revamp welfare. She other GOP women are moving into ership posts, and the party is step- up efforts to recruit women candi- s. Most crucially, the party has de- d to downplay social issues that ate many women rs. “We don't need ange our mes- , we may just to express it in a er fashion,” says ublican National mittee Chairman y Barbour.

MYRICK
An outspoken conservative and Gingrich protégé, the House freshman has been thrust into the limelight

e '94 landslide ed that. The tally vomen voting for ublican congres- al candidates ed up just one per- age point from 1992, to 46% (chart), while 54% of men voted for the GOP. The biggest reason, pollsters say, is a stark attitudinal difference on the role of government in such issues as abortion, civil rights, social welfare, crime, education, and the environment. Women generally view government activism more benignly. “Women are more likely to believe that government can help you achieve the American Dream,” says Democratic pollster Celinda Lake. Indeed, Representative Barbara F. Vucanovich (R-Nev.), the dean of House GOP women, admits that persuading women to vote Republican “is a very hard sale sometimes. There's a perception that Republicans are not caring about families and kids.”

To change that perception, many GOP leaders are convinced that the party has to downplay divisive social issues such as abortion and stress economic growth.



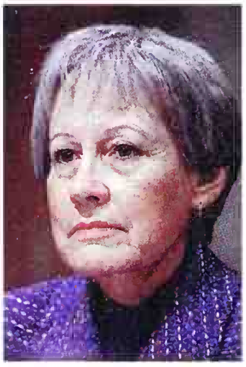
DATA: *NEW YORK TIMES/CBS NEWS* POLL, MITOFSKY INTERNATIONAL

“I'm very concerned that we understand what the ['94] mandate was,” says Governor Christine Todd Whitman (R-N.J.), a prominent moderate. “It was for smaller government and less taxes. Government is the least responsible place to determine moral values.”

WHITMAN
New Jersey's governor has toured widely to spread the gospel of less government and lower taxes

Indeed, economic issues seemed to attract some groups of women in 1994. Among those who trended Republican: white working women (56%), married women with children (56%), white single mothers (59%), and political independents (53%). “They are concerned about the economic situation, and they see Republicans able to deal with that,” says former Bush Commerce Secretary Barbara H. Franklin.

On Capitol Hill, Republicans are willing to reshuffle priorities. After holding female focus groups, among others, the House GOP sidestepped hot-button social issues in its Contract With America. The party is discussing the elimination of its controversial anti-abortion platform plank. “We have to represent the entire spectrum of voters, not just the angry white male,” says Representative Deborah Pryce (R-Ohio).



KASSEBAUM
The first woman to chair a major committee will influence the issues central to the economy

MENTOR PROGRAM. Increasingly, Republican women will be delivering the message. For the first time, House Republicans chose two women leaders: Susan Molinari (R-N.Y.) as vice-chair of the House Republican Conference and Vucanovich as secretary. In the Senate, Kassebaum will make history as the first woman to chair a major committee, Labor & Human Resources. Both she and Meyers will hold sway over key economic issues, ranging from reducing business regulation to the potential repeal of the Davis-Bacon Act, which requires federal contractors to pay union wages.

Meanwhile, Speaker-designate Newt Gingrich (R-Ga.) is doing his part. He met with female House chiefs of staff to discuss their goals for 1995 and he's

(TOP TO BOTTOM) PHOTOGRAPHS BY NAJLAH FEANNY/SABA; GAMMA-LIAISON, AL STEPHENSON/WOODFIN CAMP, CHART BY ALAN BASEDEN

THE FORCE MAY ALREADY BE WITH YOU.

Many of the world's most important companies are using a new force to drive their success. At a time when innovation is the key to increased profitability, Silicon Graphics systems - from desktop workstations to supercomputers - are helping companies take advantage of their competition. This force not only helps them invent their products, but helps them invent their future. If you would like to see your company have the force, please call us at 800-800-7441*, dept. D290.

THE NEW FORCE IN COMPUTING

*Outside the U.S., call (415) 390-2710. Visit us on the World Wide Web at http://www.sgi.com

SILICON GRAPHICS®
CUSTOMERS in the FORTUNE® 100

Abbott Laboratories
Alcoa
Allied Signal
Amerada Hess
American Brands
American Cyanamid
American Home Products
Amoco
Anheuser-Busch
Ashland Oil
Atlantic Richfield
Baxter International
Boeing
Bristol-Myers Squibb
Caterpillar
Chevron
Chrysler
Coastal
Coca-Cola
Coca-Cola Enterprises
Colgate-Palmolive
Compaq Computer
Cooper Industries
Dana
Deere
Dow Chemical
E.I. Du Pont De Nemours
Eastman Kodak
Eli Lilly
Emerson Electric
Exxon
Ford Motor
General Electric
General Mills
General Motors
Georgia-Pacific
Gillette
Goodyear Tire
Hoechst Celanese
Honeywell
Johnson & Johnson
Johnson Controls
Kellogg
Kimberly-Clark
Levi Strauss Associates
Litton Industries
Lockheed
Martin Marietta
McDonnell Douglas
Merck
Miles
3M
Mobil
Monsanto
Motorola
Pfizer
Philip Morris
Phillips Petroleum
PPG Industries
Procter & Gamble
Ralston Purina
Raytheon
RJR Nabisco Holdings
Rockwell International
Shell Oil
Tenneco
Texaco
Texas Instruments
Textron
TRW
Unisys
United Technologies
Unocal
USX
W.R. Grace
Warner-Lambert
Westinghouse Electric
Weyerhaeuser
Whirlpool
Xerox

Silicon Graphics

Silicon Graphics, Inc. All rights reserved. Silicon Graphics and the Silicon Graphics logo are registered trademarks of Silicon Graphics, Inc. Fortune is a registered trademark of Time, Inc.

pushing new House women, such as social conservative Sue Myrick (R-N.C.), into the limelight.

Republican women are having a major impact beyond the Beltway, too. The Republican National Committee dispatched Governor Whitman to key states this year to spread the party's economic gospel. Whitman is playing another part, too—as a role model who can help the party recruit more women. GOP leaders are encouraging recruitment and fund-raising groups such as the Republican Network to Elect Women (RENEW), Wish List, and the Susan B. Anthony List. The RNC this year created a "Women Who Win" program that beamed campaign advice by satellite to female contenders. And House Republicans set up a "buddy system" for women members to serve as mentors to female candidates. Vucanovich, for example, called mining company CEOs to plead for campaign cash for Idaho's victorious Helen Chenoweth.

These outreach efforts are working. The number of GOP women in Congress jumped from 13 in 1992 to 21, and 28 Republican women were elected to major state offices, vs. 5 in 1992. Meanwhile, GOP women gained 87 state legislative seats, as female Democrats lost 104.

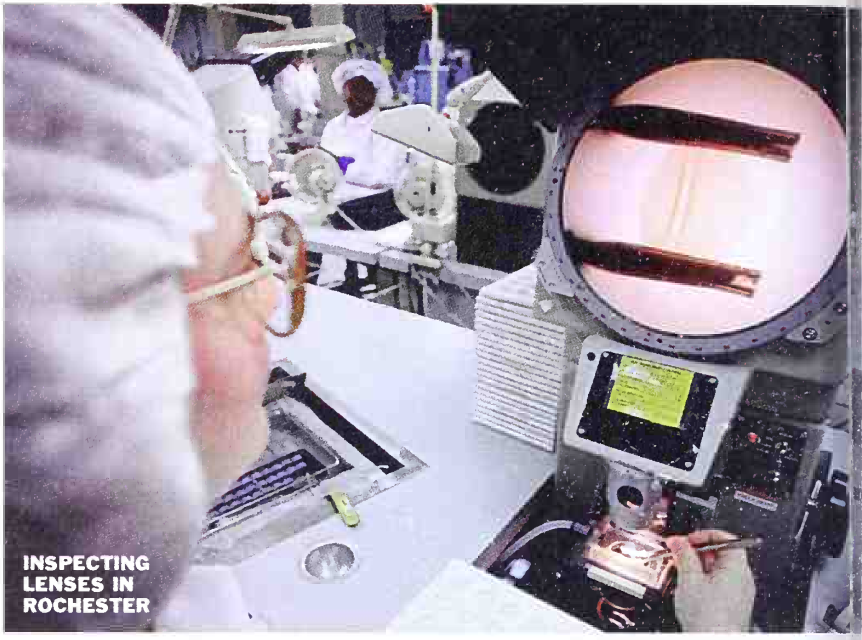
REMAINING HURDLES. The women's victories were no accident. Polls reveal that Republican women candidates appeal to independent and Democratic voters more than GOP men. According to RENEW, 70% of Democratics say Republican women candidates "can be trusted to do what's right," but only 48% say that about Republican men. And 74% of independent voters say GOP women office seekers "understand middle-class concerns," but only 59% believe that about their male counterparts. Indeed, several Republican women overcame the gender gap entirely. The most successful was Senator-elect Olympia J. Snowe (R-Me.), who won 59% of the women's vote and 58% of men's.

Nonetheless, GOP women politicians still have obstacles to overcome within their own party. The RENEW poll shows that rank-and-file Republicans view women as less qualified than men, not as trustworthy, more moderate, and less likely to shake things up. The poll was no fluke: This year, just 8 of 34 women candidates for Senate or governor survived GOP primaries, only half the success rate of Democratic women.

Republicans may never erase the gender gap. But they don't have to. Picking up two percentage points or so could guarantee not only a lock on the White House but also a long-term lease on the Capitol. The question now is whether the Republican Right will let it happen.

By Richard S. Dunham in Washington

The Corporation



INSPECTING LENSES IN ROCHESTER

MICHAEL GREENLAR/THE IMAGE WORKS

INVESTIGATIONS

NUMBERS GAME AT BAUSCH & LOMB?

It may have used dubious methods to inflate yearend sale

Late last year, Bausch & Lomb Inc. hastily summoned its 32 independent contact lens distributors to a meeting at the company's Rochester (N. Y.) headquarters. As the distributors filed into the Dec. 13 meeting, they figured something big was up.

They weren't disappointed. Harold O. Johnson, the longtime head of B&L's contact lens unit, announced a change in sales strategy. B&L wanted to cut its direct shipments to eye doctors and funnel more business through the distributors. To ensure they could meet rising demand, Johnson told distributors they'd have to boost inventories.

Then came the bombshell. B&L's sales representatives gave each distributor a list of lenses to buy. The amounts were staggering: up to two years' of inventory. Moreover, prices were at least 50% more than B&L charged just three months earlier—and the lenses had to be bought by D
24, when B&L closed its 1993 books. Jo
son says he made it clear that any
refusing to take their quota would l
their distributorship. "When your N
vendor says you'd better take it or e
what're you going to do?" says James
Butner, president of Doctor's Opti
Supply Inc. in Vinita, Okla. In the end
but two agreed—and by January,
dropped the two holdouts.

Hard-nosed tactics? You bet. The
tributors swallowed close to $25 mill

A Marketing Push—Or An Accounting Gimmick?

SEPTEMBER, 1

Independent contact l
tributors say B&L ask
to buy four to six mont
worth of inventory. B&
buildup supported new
ing program, but distri
say uneven results lea
with 4 to 12 months'
inventory in early Dec

h of goods in the waning days of
. boosting B&L's U.S. contact lens
20%, to $145 million, and providing
t half the division's $15 million in
ngs for the year. Now the transac-
has come back to haunt B&L. In
, it announced that "high distrib-
inventories" in its contact lens and
ass businesses would severely hurt
results. Third-quarter profits
ged 86%, to just $7.7 million. Ana-
expect profits for the year to fall
to $121 million, while sales are ex-
ed to fall slightly to
billion. Since late May,
stock has slid from 50
e low 30s.

URANCES." But an in-
igation by BUSINESS
has revealed that the
December transaction
accompanied by ques-
ble accounting prac-
. In interviews with
than a dozen of B&L's
ibutors, most tell a re-
kably similar tale:
pany executives prom-
that the distributors
dn't have to pay for
enses until they were
and said that a final
ent would be renego-
ed if the program
ed. "Payment terms
scheduled, but I had
al assurances that
wouldn't force
gh payment. If sales
n't sufficient, they said they would
aluate with an eye toward extend-
he terms," says David T. Rusch,
ident of Firestone Optics Inc. in
sas City, Mo. Ten months after the
B&L had collected less than 15% of
oney—and some distributors nev-
aid a dime for lenses worth hun-
s of thousands of dollars.

the distributors' tales are accurate,
ral accounting experts agree that
ch & Lomb appears to have violat-
counting principles for revenue rec-
tion. If payment was contingent on
istributors' own sales, that would be
signment sale. "If the distributors
were told they didn't have to pay for inventory until they sold it, the company is supposed to hold off booking the revenues," says Robert S. Kay, professor of accounting at New York University's Stern School of Business. "[It] has no sale to record. It merely has inventory."

Furthermore, Howard Schilit, a professor at American University and expert on accounting irregularities, says "revenue should be recognized only when the risk has passed from seller to buyer." Based on the facts supplied by BUSINESS WEEK, he says, "by shipping out huge amounts of inventory, the company seems to have artificially created revenues on products not ordered by its customers. It's outright wrong."

GILL: FACING A SHAREHOLDERS' CLASS ACTION

Bausch & Lomb executives deny that distributors were told they would renegotiate a final balloon payment if inventory was not sold

Bausch & Lomb CEO Daniel E. Gill declined BUSINESS WEEK's requests for an interview. But other Bausch & Lomb executives strongly deny charges of accounting irregularities. They portray the sale as a failed marketing program. They concede that distributors were told they could pay only for what they sold during the first six months but insist that final payment for the lenses was due in June. "It has always been our policy with distributors that what they buy, they own," says Johnson. "I said two things specifically at that [December] meeting: The payment must be paid when it comes due, and 'you own this inventory.' I don't know how anybody could misread that." Stephen C. McCluski, B&L's controller, says the company's financial staff and its outside auditors, Price Waterhouse, twice reviewed the contact lens transactions. "Our accounting treatment was appropriate," he says. Price Waterhouse declined to comment.

Although B&L also suffered from excess inventory in its sunglasses business, the company says that problems in U.S. contact lenses account for roughly half its third-quarter earnings drop. In October, B&L agreed to take back roughly three-quarters of the December inventory and discount the rest, resulting in a $20 million sales reserve in the third quarter. The 60-year-old Johnson stepped down from his post at midyear but remains on the payroll until next March, when he will retire. B&L says he had planned to retire early. Yet B&L's troubles may just be beginning. A shareholder class action filed in June accuses the company of misleading investors by falsely inflating sales and earnings. B&L says the suit is "without merit."

SECOND PLACE. Led first by its contact lens unit and later by explosive growth in sales of its Ray Ban sunglasses, B&L had been a stellar performer: Through 1993, it posted 12 straight years of double-digit growth in earnings before nonrecurring charges. But growth has been tougher in recent years. The contact lens business, which accounts for 17% of sales, has been hammered. B&L stuck too long with traditional lenses, while the market shifted to frequent-replacement models and to disposable lenses pioneered by Johnson & Johnson. In

C. 13, 1993

a meeting and tells
rs to take additional
s ranging from one to
worth or face cutoff.
the buildup was
programs aimed at
gh-volume accounts
n distributors rather
ompany.

DEC. 24, 1993

Insisting lenses be ordered by Dec. 24, B&L rushes out shipments. That adds sales of $25 million, but distributors say B&L gave verbal assurances they'd only pay for lenses when sold. B&L says small payments were set through June, when balance was due.

JUNE 15, 1994

With the new promotions flagging, less than 10% of the inventory is sold—or paid for. When the final payment falls due, most distributors refuse to pay. Meanwhile, B&L continues to sell directly to some high-volume accounts at prices below what distributors paid.

OCTOBER, 1994

With the majority of the inventory unsold, B&L takes most back. Distributors pay sharply discounted prices for the rest. B&L's third-quarter revenues drop 10%, to $449 million, and earnings plummet 86%, to $7.7 million, due to inventory reduction efforts and price cuts.

MICHAEL GREENLAR

1992, J&J elbowed perennial leader B&L into second place in the U.S.

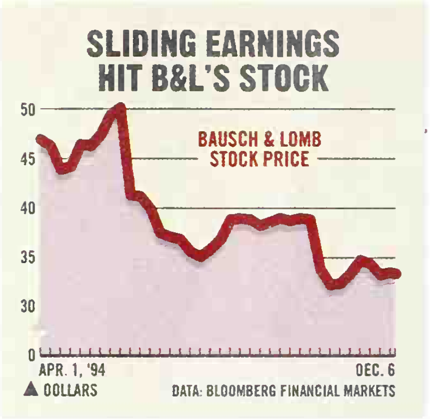
Johnson says B&L tried to perform a tricky balancing act: ramping up sales of the newer lenses while maintaining a strong piece of the shrinking but far more profitable market for traditional lenses. But with resources short, he decided to let distributors take a larger share of the traditional lens business.

Johnson describes the December sale as a great deal for the distributors. If they bought more traditional lens inventory, B&L would allow them to sell to large accounts. Johnson says the distributors needed the inventory to serve such accounts. Moreover, the shift was accompanied by promotional programs. "We said to our distributors, 'You become our agent,'" says Johnson. "'We'll move our warehouse into your warehouse.'" Distributors' reactions, Johnson adds, were "excellent."

But if distributors welcomed the idea, many say they were very unhappy about the inventory. They say they already had 4 to 12 months' worth of supplies after an earlier promotion in September. They add that B&L refused to let them simply order more inventory as needed later on—and they wondered why the orders had to be made in the 11 days before B&L's fiscal year ended. "It was just a blatant attempt to make their numbers," says Michael W. Elton, contact lens marketing manager at Omega Group in Dallas. Johnson denies that the quickly organized promotion was tied to the yearend. Instead, he says B&L believed that distributors would be more motivated to sell its products if they had stock on hand that they were committed to paying for.

But distributors say they weren't committed to pay. After the Dec. 13 meeting, B&L asked each to sign a purchase agreement and a promissory note. Distributors would make five small monthly payments, with a final balloon payment of around 60% due in June. B&L charged no interest on the inventory in the meantime. Even B&L's McCluski says the first payments were not firm. "[For] the first six months, the payment terms were based on the distributors' sell-through of that inventory," he says, adding that payment "didn't have to be a specific amount a month."

Yet many distributors say B&L's sales reps promised orally that the balloon payment would be extended if they didn't sell the lenses. B&L says that while Johnson told distributors he would "reevaluate the program" if it didn't work, there was no specific talk of extending payment. But two distributors say they protected themselves in writing. "I had an addendum [to the note], so to speak, that we had no obligation to pay," says Butner. "If push came to shove, all they could do was to take it back." Rusch of Firestone Optics added a clause reserving the right to return the lenses for full credit in lieu of payment.



DATA: BLOOMBERG FINANCIAL MARKETS

B&L says it can't find Butner's note and says that the add-on clauses were not legally binding. But accounting expert Schilit says such written agreements "underscore why this shouldn't be recorded as revenue," since they indicated questions over whether the distributors had assumed the risks for the inventory.

Several distributors simply refused to sign the promissory note. "I never signed anything to pay in intervals," says Everett West, vice-president in charge of contact lenses at Omega Group. "I told them, if you want to put inventory in my house, fine. But we weren't responsible for payment until we sold it."

Most of the contact lenses sat around for months. Says one distributor: "We had boxes piled seven feet high... for a year"

Once the lenses reached the distributors, the merchandise sat around for months, often unopened. "I had boxes piled seven feet high in my employee break room for a year," says Butner of Doctor's Optical. While the plan to shift sales to distributors did improve business for many, the uptick was small. One problem: B&L continued to sell lenses directly to high-volume eye doctors and chains. An executive at one small optical chain says it could buy Optima FW lenses directly for $9 early this year, well below the $11.90 B&L charged distributors for the same lenses.

By June, when the final balloon payment fell due, many distributors say they
hadn't sold a single lens from the
cember inventory. McCluski conce
that few of the 30 made the balloon
ment. B&L's accounting staff tried to
lect the money during the summer
met fierce resistance. "I told 'em, y
company is a bunch of liars," claims
"They told us when they shippe
it was on a pay-as-you-use-it basis.
didn't use it, so we weren't obligate
pay for it." Although B&L stopped s
ping new orders to some distributor
did little to force collection—which
counting experts say hints at the
signment nature of the sale. "It's a to
call, but the facts suggest that there
clearly an understanding by the dist
utors" that they wouldn't have to
until they sold the product, says N
Kay. "The proof of the pudding is t
[B&L] didn't enforce" the payment ter

"THEY'VE BEEN FAIR." After John
stepped down as head of the contact l
division last summer, new head Car
Sassano agreed to take back most of
lenses. Some distributors sent back ne
ly the entire purchase. Others ship
back about two-thirds and were gi
two months to pay for the rest at a
discount. The move has quieted m
discontent. "They
cleaned up our warehou
says Michael Abbruzz
president of Target Ind
tries in Cohasset, Ma
"They've been fair. T
saw they made a mist
and tried to rectify

But cleaning up the
ventory problem has d
little to address B&L's
competitive troubl
Moreover, B&L's proxy l
Johnson as earning a 6
performance-related bo
on top of his $275,000 sa
ry for 1993, thanks to p
formance "substantiall
excess" of company go
B&L wouldn't address Jo
son's bonus but says
yearend sale accounted for only "a sm
fraction" of bonuses paid to contact l
executives. But it also noted that "
company has altered its executive c
pensation systems to assure that eq
attention is focused on the balance sh
as well as the income statement." It m
be none too soon. With the sharehol
suit charging that CEO Gill and other
executives may have also received
duly large bonuses stemming from ov
stated 1993 sales, B&L's accounting and
gal problems could be just beginni

By Mark Marem
in Rochester, N

ALBERTO MENA/BW

SYNERDYNE
Moving into New Dimensions
New Markets
Streamline Production
Strong Overseas Demand
Q1
Q2
Q3
Q4
Digital Annual Report
Janet Curry, CFO
PROJECTED GROWTH
MENU

10.4" dia. The 10.4" color active matrix screen with Indeo™ video displays stunningly realistic images and smoother video playback.

810 MILLION BYTES Choose between a robust 810 Million Byte (= 772MB) or 520 Million Byte (= 500MB) hard disk drive configuration for storing large multimedia files.

Type II and Type III PCMCIA slots provides connection to your LAN, fax/modem and much more.

Integrated .WAV Audio and MIDI pump out clear and powerful sound effects, music and dialogue.

TAKE MULTIMEDIA INTO NEW DIMENSIONS.

NNOUNCING THE HIGH-PERFORMANCE T4850CT. Now you can create dazzling multimedia presentations on a large 10.4" display, with the excitement of Indeo™ video and the richness of integrated .WAV and MIDI Audio. The new T4850CT lets you put the show and the audience in the palm of your hand. **For your nearest Toshiba dealer, call 1-800-457-7777.**

T4850CT FEATURES:

- 75MHz IntelDX4™, 3.3 volt processor, 16KB cache
- 10.4" dia. color SVGA TFT-LCD active matrix display
- 810 Million Byte (= 772MB) HDD or 520 Million Byte (= 500MB) HDD
- 8MB RAM expandable to 24MB
- Two PCMCIA slots (16mm and 5mm)
- VL local-bus video
- Integrated graphics accelerator
- 65,536 (64K) simultaneous colors
- .WAV Audio and MIDI sound
- Audio jacks: headphone, built-in speakers and microphone
- 6.9 lbs.
- NiMH battery for extended life
- 3.5" 1.44MB floppy disk drive
- Ballpoint™ Mouse with QuickPort™
- Pre-installed software: DOS™, Windows for Workgroups™, Windows Sound System™, Run Time Video for Windows™, Indeo™ video and Fn-esse™ software
- Toll-free Technical Support – 7 days a week/24 hours a day

In Touch with Tomorrow

TOSHIBA

© 1994 Toshiba America Information Systems, Inc. All products indicated by trademark symbols are trademarked and/or registered by their respective companies.
The Intel Inside and Indeo video logos are trademarks of Intel Corporation.

YOU'VE JUST MISSED THE FIRST SIGN OF BREAST CANCER IF YOU DIDN'T SEE THAT SMALL DOT IN THE UPPER LEFT HAND CORNER. Because it can start that small inside your breast. That's why a yearly mammogram is a must, especially if you're over 50. Doctors agree that as you get older, the risk of breast cancer is higher. But with early detection, you increase your chance of successful treatment. Even though you may have missed the first sign of breast cancer, a mammogram won't. For information, please call the American Cancer Society at **1-800-ACS-2345**.

**A MAMMOGRAM.
EARLY DETECTION IS THE
BEST PROTECTION.**

Ad Council A Public Service of This Publication MASSACHUSETTS DIVISION AMERICAN CANCER SOCIETY®

WHY FRAN TARKENTON MAY DRAW PENALTY FLAGS

Claiming misrepresentation, shareholders sue his company

TARKENTON: WERE SALES INFLATED?

When Francis A. Tarkenton, the CEO of KnowledgeWare Inc., faced shareholders at a Nov. 30 meeting, the former quarterback probably wished he were back on the gridiron staring down a 300-pound lineman instead. Shares in his Atlanta-based software company had traded as high as 43 in 1991. Now, Tarkenton proposed selling the company to Sterling Software Inc. for a paltry $5 a share. In a 20-minute meeting, shareholders approved the deal.

It's likely that the tumult surrounding Tarkenton's tenure as CEO will take much longer to settle. The company faces a class action from shareholders, who allege that it concocted financial results to lift its stock price to ensure a merger. And the Securities & Exchange Commission has informally requested information related to the merger and KnowledgeWare's results, according to company documents. The SEC won't comment.

Tarkenton, 54, has also managed to infuriate his longtime friend, financier Ir-
win L. Jacobs. The Minneapolis e
tive has known Tarkenton since the
of-Famer's playing days as a Minn
Viking. Jacobs and his associates
$14.8 million into Knowledge
through a private placement last Ja
after allegedly receiving assurances
Tarkenton that KnowledgeWare's
pects were sound. "This company
hyped to anybody and everybody
listen," says Jacobs, who wants K
edgeWare to cover his group's $9.5 m
in losses. Tarkenton and other K
edgeWare executives declined to be
viewed by BUSINESS WEEK. The com
has yet to respond to the class a

HOT GROWTH. For Tarkenton, K
edgeWare is a dark episode i
otherwise sparkling career. Aft
years in the National Football Le
Tarkenton retired in 1978. The c
matic quarterback made a name for
self as a motivational speaker and
bled in varied businesses. In 198
merged one, Tarkenton Software
a consulting firm, with Knowledge

nown as Database Design Inc.
ll accounts, it was a successful
ge. KnowledgeWare was a tech-
al leader. Its top-selling pro-
, the Information Engineering
ench and later the Application
pment Workbench, helped cor-
programmers customize their
ainframe software. And Tarken-
xtensive contacts with the corpo-
ite helped further the business.
une, 1989, IBM signed a licensing
use KnowledgeWare's technolo-
Blue also agreed to work with
edgeWare to develop the next
tion of programming tools. IBM
cquired a 10% stake in the compa-
$10.5 million. KnowledgeWare
ublic in October, 1989, at $12.50 a
raising $37.5 million. Its roaring
esults propelled it to No. 2 on
SS WEEK's annual ranking of hot-
h companies the following year.
by 1991, KnowledgeWare's busi-
and IBM's—slumped as corporate
turned away from mainframes
sonal-computer networks. In Oc-
the company reported an unex-
$4.9 million loss for the fiscal first
er ended in September. Later,
olders filed a class action, alleging
anagement had previously mis-
vestors about the company's
. In one instance, company docu-
show that it booked $11.9 million
es from its European distributor,
& Young International, even
h E&Y was given over a year to
ff much of it. Without admitting
rongdoing, KnowledgeWare set-
e suits last April, agreeing to give
olders $1.75 million in cash and
nts on 500,000 shares.
ER BID. KnowledgeWare appeared
recovering from these setbacks.
2, Tarkenton started cutting costs.
M signed a new $12 million licens-
greement, according to
edgeWare's documents. In
on, Big Blue promised to
nowledgeWare $13 million
hree years for maintenance
rvice. The pact, insiders al-
was nothing more than a
fusion to help keep Knowl-
are alive. Without IBM, the
er's licensing revenues
have fallen 77% from the
efore, rather than the re-
32% drop, to $25.5 million,
ing to company documents.
clined to comment.
kenton apparently felt con-
enough that he turned
a merger offer from Ger-
armaker BMW's Softlab Inc.

S: *His group sank $14.8*
n into KnowledgeWare

INVESTOR IRE

- Shareholders have filed a class action against KnowledgeWare, alleging the company released inaccurate financial results to lift the stock price. KnowledgeWare won't comment and has yet to respond formally to the suits.
- Investors led by Irwin Jacobs are demanding that KnowledgeWare pay them $9.5 million to cover their losses from a January private placement. KnowledgeWare declines to comment.
- Investors who settled a 1991 class action in April have filed a motion to renegotiate the deal, claiming they were defrauded by KnowledgeWare. Company denies any wrongdoing and stands by the original agreement.

DATA: BUSINESS WEEK

unit. It bid $22.38 a share for KnowledgeWare in March, 1992, claims a source familiar with the talks. At the time, the company was trading at about $17.

Tarkenton began 1994 with a new outlook. In a letter to shareholders, he wrote "of unprecedented opportunity." Tarkenton allegedly expressed similar optimism when he suggested a private placement to Jacobs, who had made about $2 million from a prior KnowledgeWare investment.

Tarkenton needed the cash. KnowledgeWare's audit for fiscal 1994, ended in June, by Coopers & Lybrand revealed that some 13.4% of its receivables were more than 90 days past due, and it was late paying half its suppliers. In documents filed with the SEC, the company acknowledged that part of the problem was that it was booking revenues before collecting cash from its distributors. The upshot: As of June 30, "there existed substantial doubt about KnowledgeWare's ability to continue as a going concern," according to SEC filings.

Tarkenton soon found a way out of the mess. Dallas-based Sterling Software expressed an interest in buying the company. Sterling, which makes the same kind of mainframe software as KnowledgeWare, saw the deal as a way of enhancing its position in the market. On July 31, the companies announced a tentative stock swap that valued KnowledgeWare stock at roughly $8.75. Under the pact, Tarkenton will be a consultant to Sterling for $300,000 a year.

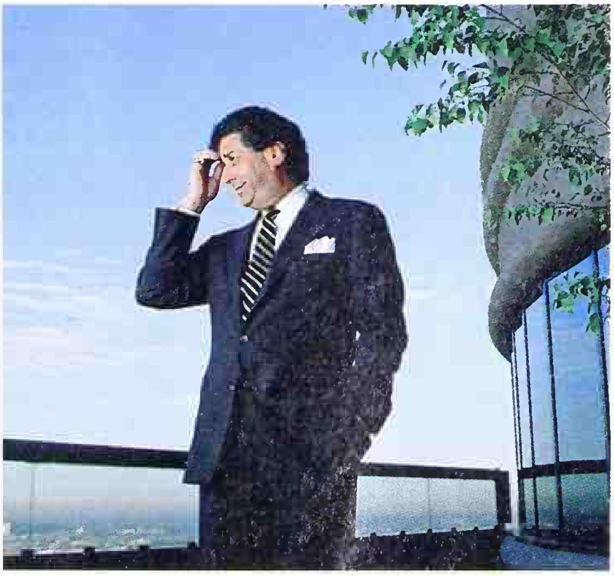
BIG LOSS. There was little time to celebrate. After its yearend audit, KnowledgeWare said it would restate its first three quarters and report a $19 million loss for fiscal 1994. As KnowledgeWare's stock slipped beneath $4, Sterling slashed the purchase price to about $5 a share.

Still, the legal wrangling is just starting. On Oct. 27, lawyers for Jacobs' investment group wrote Tarkenton and KnowledgeWare, demanding reimbursement for its loss. "They're going to have to pay it," vows Jacobs. And KnowledgeWare was hit with a second shareholder class action, alleging that management overstated and misrepresented KnowledgeWare's financial position.

What's more, the shareholders from the 1991 class action have filed a motion to renegotiate their settlement, claiming they were defrauded. The warrants they received, exercisable at $17.50 a share, may be worthless. The company denies any wrongdoing and defends the settlement. KnowledgeWare has also been sued by Ecta Corp., a small software maker based in Fairfield, Iowa. Tarkenton agreed to buy the company last May. Ecta claims it was induced into a merger when KnowledgeWare's stock was artificially high and wants to renegotiate terms. KnowledgeWare denies any wrongdoing and stands by the deal.

Without commenting on KnowledgeWare's legal problems, Sterling says it has set aside funds to cover possible liabilities. Shareholders may have approved the merger, but Tarkenton is still a long way from the end zone.

By Maria Mallory in Atlanta



KnowledgeWare's recent merger with Sterling Software may put an end to its cash crunch

LAYNE KENNEDY

TELECOMMUNICATIONS

GUESS WHO'S OUT FRONT ON THE I-WAY

U S West, the Baby Bell dealt the worst hand, has the most ambitious plans

Back when Ma Bell was split up 10 years ago, U S West Inc. was something of a stepchild among the seven Baby Bells. It got the least-populated region—14 states of plains and rugged mountains. Half its lines are in communities of less than 100,000 people. Its biggest urban area, Minneapolis/St. Paul, is the 15th largest in the U. S. Jokes John O'Farrell, vice-president for corporate strategy: "There are more sheep than people."

But that's yesterday's story. Over the past 18 months, Chairman Richard D. McCormick has worked a huge transformation at U S West. After inking a deal in May, 1993, to buy 25.5% of cable giant Time Warner Entertainment, McCormick hasn't stopped a series of deals and alliances to push beyond the basic phone business (table). Now, U S West is emerging as the Baby Bell most likely to succeed in the race to the Information Superhighway.

Most recently, it expanded its cable stable with the July acquisition of two Atlanta operators, Wometco Cable Corp. and Georgia Cable Television, for $1.2 billion. That same month, it formed a cellular joint venture with AirTouch Communications. In October, it teamed with Bell Atlantic, Nynex, and AirTouch to bid for licenses in personal-communication services, where it already has gained valuable experience from its 50% ownership of Mercury One-2-One, Britain's pioneering PCS service.

CEO McCORMICK: *Arranging the marriage of television and telephony*

This month, the flashiest component yet will take shape—the nation's most ambitious interactive TV trial. On Dec. 14, U S West partner Time Warner will unveil the beginnings of the Full Service Network in Orlando, Fla. Initially to be installed in a half-dozen homes, it's scheduled to expand to 4,000 by the end of 1995, offering customers mo on demand, interactive games, and h shopping. U S West will begin testi similar system in two Omaha home late December. If all goes well, it expand to 50,000 by mid-1995.

U S West plans to duplicate Om throughout its 14-state, 25 million tomer region. It has budgeted $500 lion a year for the next 20 years for grading the capacity of its netw converting it to so-called broadban adding a combination of fiber optics coaxial cable that can carry dozen channels of voice, data, and two-way eo simultaneously. Says analyst Ste R. Yanis of Kidder, Peabody & Co.: " West is the biggest broadband bet the Baby Bells. They're either goin be the broadband leader or die tryi

BIG IFS. The plan is not without per hinges on two key factors, neither o sure thing: Telephone deregulation permit Baby Bells to deliver video telephony, and a sizable market for untested interactive services. McCor-mick, 54, has no qualms about ma this particular leap of faith. "You hav have it in your guts that this is goin happen," he says. "This is a rough-a tumble period. If you don't have stomach for it, you take a safer ro

Now, if he can just convince inves Concerns about the dilution of U S W shares as it snaps up cable prope has sent the stock skittering 16%, to

FROM OUT OF THE WEST: NEW PHONE FRONTIERS

U S West's big moves beyond local phone service

DEC., 1991 Forms Tele-West, British cable-phone joint venture with Tele-Communications Inc.

JULY, 1992 With TCI and AT&T, launches market test for video on demand in Denver, offering movies for 99¢ to $3.99.

FEB., 1993 Major phone upgrade for interactive services. First by any Bell.

MAY, 1993 Buys 25.5% of Time Warner Entertainment for $2.5 billion.

SEPT., 1993 Launches first commercial personal communications service, with Cable & Wireless in Britain.

MAR., 1994 Forms Interactive Video Enterprises Inc. to develop TV services.

JULY, 1994 Acquires two Atlanta cable companies.

JULY, 1994 Forms a ce lular joint venture with Ai Touch Communications.

OCT., 1994 Joins Bell Atlantic, AirTouch, and Nynex for PCS license bic

DEC., 1994 Starts inter active-TV trial in Omaha.

August. It has underperformed the)f the Bells for most of the year. 'sts expect U S West to earn $1.3 1 on revenues of $10.9 billion this compared with 1993's loss of $2.8), including restructuring charges, venues of $10.3 billion. Losses from iational ventures are expected to $100 million this year.

d then there's the question of when ose multimedia investments will ff. "There are issues that haven't worked out: costs, the demand po- il, and regulatory issues," says an- Richard G. Klugman of PaineWeb- nc. Even U S West concedes the lband payoff could be 5 to 10 years . But executives say the conver- of TVs and telephones is inevita- and not to dig in today would be ardy. They point to the company's joint venture in Britain, TeleWest nunications, which it owns 50-50 cable giant Tele-Communications Three years after the birth of the ire, TeleWest is the largest provid- joint cable-telephone service in the l, with 273,000 cable subscribers 19,000 phone lines in Britain.

id for all the risks, the Information rhighway may have a better chance aking money than the company's diversification attempts. Previous tments in financial services and real e were disappointing: McCormick umped most of them. At the same U S West almost missed the cellu- oom. Its New Vector Group, serving 00 customers, is one of the smallest lar operations of any of the Bells.

key to making the new strategy is to make sure U S West execs thinking like "Bell heads." It's a ency that McCormick says he's ly aware of, having joined AT&T in as an engineer in Kansas City, Mo. y, he's known for his open-minded ngness to change with the times. In pare time, he likes to roar around Harley-Davidson. "You're talking to r little boy from Iowa," he claims. he's also an accomplished I-way maker. Says Sharon Ambrust, sen- nalyst at Paul Kagan & Associates: Cormick has fraternized with and en into the same mind-set as TCI John Malone."

TAL GAME PLAN. Shortly after ormick, then CEO and president, add- e title of chairman in May, 1992, he op executives to thinking about U est's place in the new digital world. A of 30 to 40 managers were assem- in a house outside Denver. Dubbed 'Cottage Team," the group worked eeks, hammering out their vision of uture of telecom. By yearend, they a picture and a plan: Telephony and ould converge, regulations would

---

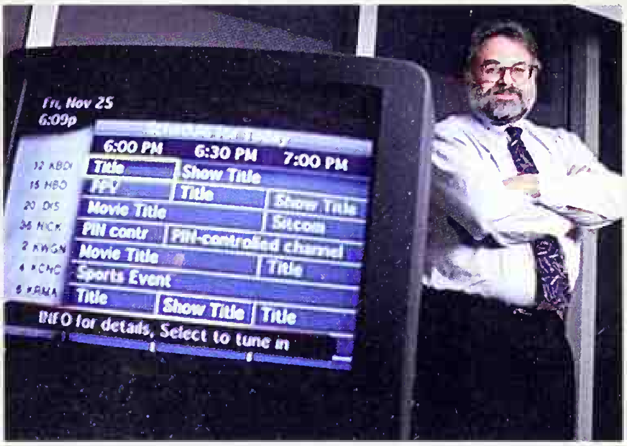
SNEAK PREVIEWS OF INTERACTIVE TV

Interactive television, at long last, is here. Sort of. Well, at least part of it.

On Dec. 14, the most ambitious interactive-TV trial yet will get its first public airing when Time Warner Cable Group unveils its whizzy new Full Service Network in Orlando. By the end of the month, its partner, U S West Inc., will try out new interactive-TV technology in Omaha.

STOP AND SKIP. How whizzy? Imagine having hundreds of movies at your fingertips without leaving home—just a flip of the remote control and you can stop, reverse, or skip forward. Consider perusing an electronic mall or examining groceries in a TV supermarket. And news shows? You could tailor those to get video feeds on just the subjects you care about.

There's just one snag: It will be months before many of these goodies are available. Both systems are deploying limited services while they work out the kinks of an incredibly complex technology.



TUBE OF PLENTY: *U S West's Levine and program menu*

In Orlando, the trial, eight months behind schedule, will begin with six or so Time Warner employees. Plans call for 4,000 test homes by the end of 1995. In Omaha, U S West, which had originally scheduled its launch for last summer, will start with just two employees' homes. It hopes to reach 100 in early 1995 and 50,000 by midyear.

It turns out that delivering interactive TV is, well, a lot like rocket science. Sophisticated digital switches, computers for storing vast libraries of movies and data, and the software to navigate it all must be engineered to work together. Then there's a whole new class of TV set-top boxes from Scientific-Atlanta Inc., built around an advanced chip used in powerful workstations. "It took an incredible amount of hard work that produced a number of miracles to get the software working," says Thomas C. Feige, president of Full Service Network.

The cost? Analysts peg it at around $4,000 per home—making it the Cadillac of interactive trials. Omaha's system, on the other hand, is the solid family sedan. There, U S West is putting together a network costing no more than $1,000 per home. The difference is that U S West wants an affordable system that can go commercial by 1996. Time Warner is testing the full spectrum of possible services in the belief that by the time it's ready to hit the market, costs will come down.

The nub is, what will people pay for? No one knows for sure. Time Warner points to its "very successful" test in Queens, N. Y., where customers can surf 150 channels, 57 of which are dedicated to pay-per-view. U S West cites its two-year-old market test in Denver, in which customers ordered movies at 12 times the national pay-per-view rate.

Analyst Martyn Roetter of market researcher Decision Resources estimates that interactive TV could be a $300 billion business—at some point. But, he says, less than 10% of that business will materialize in the next five to seven years. All the more reason to get the tests up and running. Says Larry Levine, U S West vice-president for broadband and multimedia services: "A lot of people come from Missouri and say, 'Show me.'"

So show us.

By Kathy Rebello in Denver and Gail DeGeorge in Miami

STEVE GOLDSTEIN

fall, and U S West should get ready for the competition by betting on broadband.

The company's been on a roller-coaster ride of change ever since. Like other Baby Bells, U S West has launched a massive efficiency drive. Its sparsely populated market means it's not likely to be the target of competitors, but executives are still intent on cutting costs by 50% by 2000. U S West has taken an $880 million write-down to cut 9,000 jobs, consolidate customer service centers, and deploy $360 million worth of computers across the company.

OVERNIGHT NO. 2. At the same time, U S West is determined to expand its reach through cable deals. Analysts say that by the time federal regulators permit joint cable-phone operations—perhaps within a year—the Baby Bell wants to have deals in place to reach a potential 30 million U. S. homes. Today, it can reach 26 million, thanks to its Time Warner partnership, Atlanta cable deals, and in-region service.

For months there has been widespread speculation in the cable industry that U S West would buy a 25% to 30% stake in Boston-based Continental Cablevision Inc. But that looks unlikely anytime soon. McCormick will not comment on Continental but does say the company will not make any acquisition with its stock at its current price.

Now, speculation has turned to Time Warner. Cable-industry analysts say it is contemplating restructuring and perhaps spinning off its cable unit and selling it to U S West. If the spin-off occurs, in one stroke U S West would become the country's No. 2 cable operator.

Problems yet to be resolved: "Costs, the demand potential, and regulatory issues"

Meanwhile, U S West has a lot of work ahead with the cable operations it already owns. Take Atlanta, where its properties serve 466,000 customers in the heart of BellSouth Corp.'s territory. Analysts estimate that once U S West wins regulatory approvals to enter the phone market, it will have to spend some $700 per subscriber to add voice capability to its cable systems. Then it will take six years or so to pers 15% of its cable customers to sw away from BellSouth for phone ser

And BellSouth isn't about to just over the business. It has filed an a cation to build a video facility and la an interactive-TV trial in Chambl town north of Atlanta. By the tim West is allowed to offer phone servi Atlanta, BellSouth may be ready t liver full multimedia services.

Other Bells are also challenging West for the multimedia crown. Bel lantic, which has been offering vi on-demand services to 300 empl homes in Virginia for 20 months, p to reach 20,000 homes by the en 1995. It has also set up a deal with cific Telesis, Nynex, and Hollyw agent Michael Ovitz to distribute programming.

So while U S West looks like a lea it is still too early to predict who multimedia winner will be. For Cormick's part, he is unwavering. "T is no doubt in our minds we're headi the right direction." If not, it's bac stepchild status for U S West.

By Kathy Rebello in Denver, Paula Dwyer in London and bur reports

INVESTING PROFITABLY?

SMARTER TRADING
Improving Performance in Changing Markets
Perry Kaufman
Here's how to build a winning trading system using hi-tech methods like neural networks, fuzzy logic, expert systems, chaos, and fractals to profit from today's unprecedented market volatility.

VALUATION
Measuring and Managing the Value of Companies
Second Edition
Tom Copeland, Tim Koller, and Jack Murrin
Completely updated to reflect changing business conditions, this book provides crucial insights into how company values can be managed, measured, and maximized.

TECHNICAL ANALYSIS IN THE OPTIONS MARKET
The Effective Use of Computerized Trading Systems
Richard Hexton
The most comprehensive account yet of state-of-the-art techniques for identifying and playing market trends with consistently good results. Covers trend recognition, stochastics, white Wednesday, short-term oscillators, Japanese candlestick techniques, and more.

THE NEW SCIENCE OF TECHNICAL ANALYSIS
Thomas R. DeMark
Hailed as "a trading system developer without peer" by *Futures Magazine*, Tom DeMark reveals the secrets to his highly successful systems and indicators and shows how they can be applied to all markets and data.

STREET SMARTS FROM THE McGRAW-HILL BOOKSTOR

Fax or mail this coupon to: The McGraw-Hill Bookstore, 1221 Avenue of the Americas, New York, NY 10020. Order by phone toll-free at 800-352-3566. In NY call 212-512-4100 fax this coupon to us at 212-512-4105. *Fax or phone orders delivered within 10 days!*
☐ Yes! Please rush me:
___ SMARTER TRADING, *244 pp., 0-07-034002-1, $29.95*
___ VALUATION, 2nd Ed., *558 pp., 0-471-00993-8, $69.95*
___ TECHNICAL ANALYSIS IN THE OPTIONS MARKET, *240 pp., 0-471-08489-1, $55.*
___ THE NEW SCIENCE OF TECHNICAL ANALYSIS, *320 pp., 0-471-03548-3, $49.95*
☐ Check or money order: please add applicable sales tax, plus $3.50 for U.S. postage and handling. Credit cards accepted: ☐ Visa ☐ AMEX ☐ MasterCard ☐ Discover
Account No. ____ Exp. Date ____
Name ____
Address ____
City ____ State ____ Zip ____
BW1

THE McGRAW-HILL BOOKSTORE—SERVING TODAY'S PROFESSIONAL

ACCO

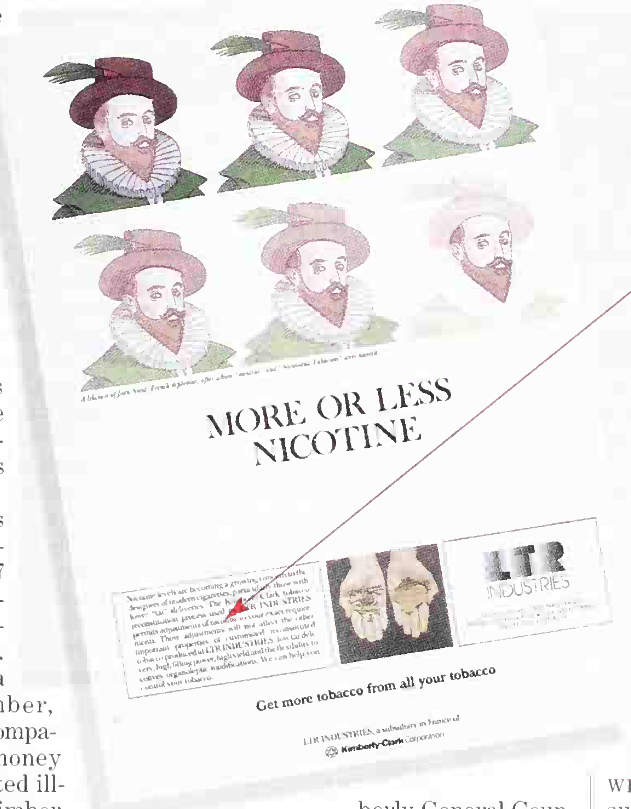
ICOTINE STAINS ON IMBERLY-CLARK?

tle-known business threatens to become a liability

imberly-Clark Corp. has built a squeaky-clean reputation as the trusted maker of such household staples as Huggies disposable di-, Kotex feminine hygiene products, Kleenex facial tissue. What's less n is that the Dallas-based consum-oducts giant is also a major player ar less chaste business: tobacco.

ice 1957, Kimberly-Clark has been plier of goods used by nearly every co company to make cigarettes, in-ng industry leaders Philip Morris and R.J. Reynolds Tobacco Co. berly supplies paper and material iters and tips. Also, the any in the early 1980s fied a widely used ess that enables ufacturers to use iously discarded to- by-products, such as s and leaf particles, in ng cigarettes. Kim- 's adjustment to the ess, known as tobacco nstitution, also allows co companies to manip- nicotine levels in cigar- s. The discovery was ed so monumental at the that Kimberly adver- it in trade publications dwide.

OK? But now, Kimberly's -known tobacco busi- —less than 3% of its $7 n in revenues—threat- o become more of a li- y than a profit center. state of West Virginia Kimberly in September, with six U.S. tobacco compa- to recover taxpayer money treating smoking-related ill- es. The charge: That Kimber- nspired with cigarette compa- to deceive the public about the rds of smoking. The state alleges Kimberly's reconstituted tobacco ed by the tobacco industry to hook tting smokers. "Eighty-nine percent of smokers are addicted before they are 18 years old," says Ronald L. Motley, lead attorney in the West Virginia case. "The reconstituted tobacco made by Kimberly adds to this toll."


MORE OR LESS NICOTINE

Get more tobacco from all your tobacco

LTR INDUSTRIES, a subsidiary in France of Kimberly-Clark Corporation

Kimberly, which denies any wrongdoing, has until Jan. 15 to respond to the suit. Company spokeswoman Tina S. Barry admits that the reconstituted tobacco process, developed by its wholly owned French unit LTR Industries, "is able to adjust nicotine content within a very limited range, either up or down." But Kimberly General Counsel O. George Everbach says the product represents just 1% of LTR's business and is only sold in Europe.

The company's domestic reconstituted tobacco factory, located in Spotswood, N.J., isn't equipped to adjust nicotine levels, Everbach says. "We don't fortify reconstituted tobacco with nicotine in the U.S.," he says. For their part, tobacco manufacturers flatly deny that nicotine is addictive or that they manipulate nicotine content.

Given that Kimberly denies it even sells its nicotine-adjusting capability in the U.S., the antitobacco advocates' case won't be easy. "Plaintiffs' lawyers need to prove that [suppliers] knowingly aided and abetted in the conspiracy," says product-liability expert Victor E. Schwartz of Washington, D.C. "That would be very difficult to prove." Lawyers working on the West Virginia case admit that they don't yet have hard evidence that Kimberly's nicotine-altering product is used in the U.S. But they contend that Kimberly's ads trumpeting the company's ability to adjust nicotine levels is enough to warrant the suit. "Discovery will show the extent of availability in the U.S.," says plaintiff lawyer Susan Nial.

The case against Kimberly appears to be the first time antitobacco forces have dragged an industry supplier into the smoking litigation morass. But it may not be the last. Attorneys in tobacco cases pending in Mississippi and Louisiana have told BUSINESS WEEK that they are also considering suing Kimberly. And the Food & Drug Administration, which has been investigating whether cigarette makers intentionally adjust nicotine levels to addict smokers to their products, is also probing several tobacco suppliers, including Kimberly. Last summer, the FDA in-

> "The Kimberly-Clark tobacco reconstitution process used by LTR Industries permits adjustments of nicotine to your exact requirements..."

AN AD RUN BY KIMBERLY SUBSIDIARY LTR IN THE JUNE, 1989, ISSUE OF *TOBACCO JOURNAL INTERNATIONAL*

spected the company's tobacco reconstitution plants in France and New Jersey and requested documents from Kimberly about the nicotine-altering process, confirms Kimberly's Barry.

The prospect of a high-profile, costly legal fight has not escaped the notice of shareholders. The Interfaith Center on Corporate Responsibility, a coalition of 225 religious orders, dioceses, and health-care concerns whose members claim to own more than 1 million Kimberly shares, is meeting with company executives Dec. 13 to discuss the situation. The group has submitted a shareholder resolution asking Kimberly to divest its tobacco-related businesses and has expressed concern over a potential boycott of the company's other consumer goods.

That Kimberly would suddenly be targeted by plaintiffs—after some 40 years of legal wrangling solely with cigarette manufacturers—suggests a shift in the plaintiffs' strategy. Past lawsuits, which have uniformly failed, have primarily focused on smoking as a cause of illness or death. More recent tobacco cases—and the FDA's push to regulate tobacco—argue that smokers do not freely choose to continue smoking. "The aspect that gets the agency so engaged is that it's not a matter of adults choosing to smoke," explains a top FDA official. "It's hard to accept the industry's contention that tobacco is not addictive."

TARGETS. So far, Kimberly is the only supplier to be named as a defendant in tobacco cases. But plaintiff lawyers say they are considering others. Likely targets: Eastman Kodak, which in 1993 divested itself of its Eastman Chemical unit, a maker of cigarette-filter material; Hoechst Celanese, which makes a fiber used in filters; and Pfizer, whose food-service group makes flavorings, extracts, and oils used in cigarettes. Kodak and Hoechst won't speculate on the likelihood of being included in tobacco cases, and Pfizer says it deliberately doesn't itself sell products directly to tobacco companies. "It would be a stretch to try and include Pfizer in this litigation," says Pfizer spokesman Andy McCormick.

For the moment, Kimberly's Barry insists the company won't be forced out of the tobacco business. After all, she says, Kimberly simply contributes to the making of a legal product. "It's the government's responsibility, not Kimberly-Clark's, to make decisions about the legality of cigarettes," says Barry. But with antismoking furor sweeping the country, Kimberly may soon have to decide between profiting from a controversial, though legal, business and preserving its pristine image.

By Stephanie Anderson Forest in Dallas and Maria Mallory in Atlanta, with bureau reports

---

Science & Technology

SEMICONDUCTORS

THE 'LURKING TIME BOMB' OF SILICON VALLEY

Eradicating bugs from complex chips is costing billions

For a full year, the tiny Pentium microprocessor bug that has become a marketing nightmare for Intel Corp. eluded a massive search-and-destroy mission. Intel tested extensively before selling the Pentium and then kept testing afterward, hoping to catch mistakes so it could correct future Pentium editions. Computers at Intel labs in Santa Clara, Calif., and Hillsboro, Ore., ran tests 24 hours a day. It took roughly 2 trillion random calculations for the elusive bug to surface last July. Overall, Intel's Pentium testing regimen may have been the most exhaustive ever done on a chip. Says Joseph B. Costello, chief executive of chip-design software maker Cadence Design Systems Inc.: "They ran the hell out of all the software they could find."

The appearance of the bug despite Intel's Herculean efforts highlights a growing problem: Chipmakers simply cannot guarantee that their chips will work perfectly. Chips have grown so impossibly complex that they're bound to have bugs somewhere. The Pentium crams 3.1 million transistors on a thumbnail-sized slice of silicon—25 times more than a decade ago.

To be sure, serious bugs in chips are rare. The bug in the Pentium's floating-point unit, which affects certain high-precision division problems, would never affect the vast majority of customers. In contrast, serious bugs in software are appallingly common—and have had more serious consequences, such as knocking out telephone service.

Still, as Intel has been shocked to discover, even tiny bugs in chips strike a deep vein of fear. That's because chips are the very foundation of the info
tion economy. At the same time,
functions that used to be handle
separate specialty chips are now
squeezed onto one piece of silicon.
unlike software bugs, chip bugs g
ally can't be fixed just by downloa
patch of code. No wonder that
Splain, an engineer with computer
er Sun Microsystems Inc., calls
bugs "a lurking time bomb."

DOUBLING UP. It's a bomb that won
defused anytime soon—though mor
more companies are trying. The d
software and testing hardware that
exterminate these bugs is a $5.5 b
industry. Still, the tools to detec
prevent bugs aren't keeping up wit
vances in chips, which keep dou
the number of transistors on the
piece of silicon every 18 months. "T
is no magic bullet," says design
ware consultant Ronald E. Coll
Collett International Inc. in Sant
ra. "No question, it could get wo
the future."

To cope with the growing com
ity, chipmakers are striving for sin
ity through automation. They're
software that allows them to de
chips by specifying particular logic
tions and then have the software
matically translate their concepts
maps of wires and transistors. Tes
too, is largely automated. The idea
increase speed and reduce human e
It's a trend that started in the
1970s, with computer-aided-design
tems that let engineers lay out cir
on a computer screen instead of o
per (table). The early 1980s bro
software from companies like Ca

A Growing Arsenal of Bug Exterminators

Chipmakers are increasingly counting on automation in the war on bugs

MID-1970s/EARLY 198

- Automatic testers that m
sure finished chips respon
erly to electrical signals
- Layout software that lets
neers draw designs on a c
instead of on paper, reduc
big source of human error

lentor Graphics Corp. of
nville, Ore., that auto-
l circuit layout. A few
later came so-called log-
thesis software, allowing
eers to merely describe
nction of a circuit.
uble is, there's no guar-
that the design software
is perfect. To make sure
ts are correctly laid out,
akers run tests on net-
s of computers that are
d up to mimic the func-
of the chip. And they're
ng a silicon wall: Sun
a room-size bank of 600
ful engineering worksta-
to run simulations on its
generation microproces-
and sometimes still bor-
processing power from
achines. Indeed, Intel is
unning tests on the Pen-
It's up to about 7 trillion
om calculations now.
makers recognize the
em: Compaq Computer
has hundreds of engi-
developing "meat grind-
rograms to test how mi-
ocessors work in their
ines. Even before the
um snafu it was planning
l 80 engineers in the next
onths to test new rivals
tel microprocessors.
nulation software is in-
tly slow, because it forc-
mputers to act like chips,
they're not. A recent so-
to that borrows a classic method:
typing. Quickturn Design Systems
Mountain View, Calif., makes sys-
that wire up hundreds of program-
e logic chips to emulate an entire
processor in a box the size of a file
et. It plows through instructions
lion times faster than simulation
are. With Quickturn, Advanced Mi-
evices Inc. found 30 bugs in its
ium-rival K5 chip prototype.
t simulation and prototyping are
l only for catching errors. To make
errors in the first place, chipmak-
re turning to companies such as
psys Inc., whose software uses higher-level descriptions of chip logic functions than ever before. These high-level tools aren't tied to any particular method of laying out circuits, so they don't need to be changed—thus introducing potential errors—every time manufacturing technology improves.

In the quest for rigor, chipmakers are even employing mathematical proofs. Andover (Mass.) startup Chrysalis Symbolic Design Inc.'s new Design Verifyer software employs proofs to determine whether logic circuits actually correspond to the high-level designs. Another mathematical approach, model checking, developed by Carnegie Mellon University researchers, quickly analyzes all capabilities of a chip design to ensure they match desired specs.

Even a logically laid out circuit can fail if electrons don't do as they're told. In ever-smaller circuits, the timing of electrical signals along circuit pathways has become a big source of errors. One program from High Level Design Systems Inc. in Santa Clara, Calif., tries to ensure that high-level designs take into account the final circuit layout.

TIRESOME. Actually measuring those faint electrical signals is the job of massive test machines, some as big as a car and costing up to $5 million, made by companies such as Boston-based Teradyne, LTX in Concord, Mass., and Japan's Advantest. They can detect manufacturing glitches and minute errors in the timing of signals inside the chip.

Chipmakers could avoid a lot of this tiresome effort if they didn't insist on constantly reinventing the chip. That's why there's an emerging movement to reuse circuit designs. Custom chipmaker LSI Logic Corp. in Milpitas, Calif., offers a library of designs that customers can mix and match. LSI used the same core circuits for cable set-top boxes announced by Hewlett-Packard, General Instrument, and Zenith so it didn't have to spend so much time simulating and debugging each time.

But when it comes to microprocessors, there's always an urge to manually tweak designs to squeeze out the last nanosecond of performance—which introduces the same old bug problem. Says Vinod K. Dham, an Intel vice-president who headed the Pentium design effort: "I wouldn't bet my paycheck that we will never find another discrepancy of this kind." He can only hope that next time, the bug's bites don't hurt as much.

By Robert D. Hof in San Francisco, with Peter Burrows in Dallas

GLITCH PATROL Chipmakers are taking ever more elaborate steps to avoid errors in the first place

80s

ation software that exhaus-
mics the most demanding
s, sometimes running for
at a time
n-made software that throws
of random instructions at a
erret out obscure errors

LATE 1980s

- Software that lets engineers describe logic functions in a language that is then automatically synthesized into circuit layouts
- Simulators that catch bugs before logic functions are synthesized into layouts

1990s

- Mathematical algorithms that prove in a rigorous way the existence or absence of bugs
- Reuse of circuits that have been proven to work
- Emulation of new chip designs on gangs of programmable logic chips

ILLUSTRATION BY JACQUES COURNOYER

Developments to Watch

EDITED BY NEIL GROSS

LISTENING IN ON DAVY JONES'S LOCKER

SOUND HAS LONG OFFERED A window into the murky ocean. Sensitive hydrophones can hear the throb of a ship or the call of a whale hundreds of miles away. And active sonar, which releases its own pings of sound, can spot lurking submarines. But the first approach can home in only on noisy targets. And the second makes it impossible for the listener to remain undetected.

Researchers at Scripps Institution of Oceanography at the University of California at San Diego think they can overcome both these limitations with a new listening device that can silently scope out an enemy harbor, spot mines, or locate sunken cargo. The approach, called "acoustic daylight," uses 130 sensors and powerful computers to identify objects, based on how they absorb or deflect the rich ambient sounds of the deep—from the crash of waves to the clicking of millions of shrimp. Just as the human eye can pick out a tree against a landscape, the sensors catch subtle variations in sound, and the computer then assembles those data into images. Scientists are thus able to study the underwater supports of an oil rig, say, and can even diagnose malfunctions. Project leader John R. Potter calls it "a brand-new way to see in the water." Scripps has licensed the technology to EDO Corp. in College Point, N. Y., which hopes to sell both military and commercial systems.

NOW, YOU CAN SWAP COUPONS FOR . . . COUPONS

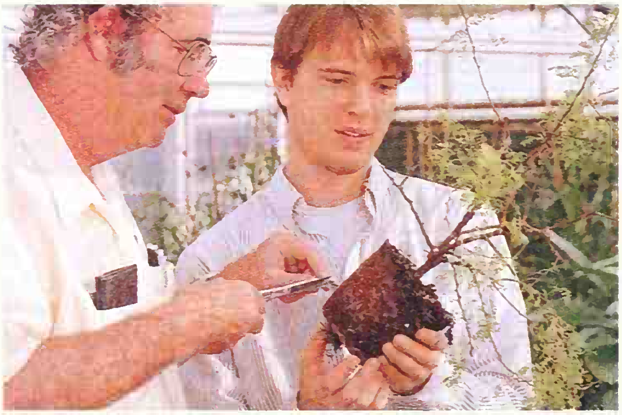
CONSUMER-PRODUCT MAKERS issue more than 300 billion discount coupons in the U. S. each year. But fewer than 3% are ever redeemed. Inventor Everett E. Schulze Jr. wants to boost efficiency—and cash in—with fancy point-of-sales gear and some smart marketing. His company, In Store Media Systems Inc. in Aurora, Colo., has devised a coupon exchange center, similar to a downsized bank ATM, that lets shoppers trade wads of unwanted clippings for special coupons on products they hanker after.

Participating customers will be able to earn extra benefits by filling out questionnaires on their shopping habits. In return for reports from the questionnaires and sales data from a network of PCs at each store, Schulze figures manufacturers will pay roughly $1.50 per redeemed coupon, plus a monthly fee of $20 per store. He is betting the extra savings from customized coupons will outweigh consumers' worries over privacy. After all, who else is willing to pay you for something you consider worthless?

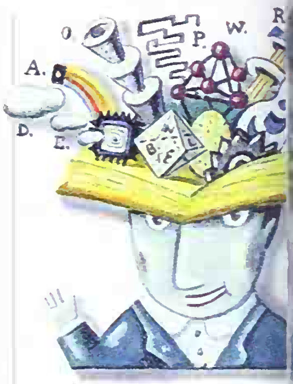
PLANTS SO STINKY THAT BUGS BUG OFF

IN THE RAIN FOREST, NOT ALL OF NATURE'S BOUNTY IS sweet. Combing the jungles of South America, botanists have uncovered exotic plants that emit foul-smelling sulfur gases as a defense against fungi and parasites. University of Georgia scientists Peter G. Hartel and Bruce L. Haines say these fetid emissions may someday help farmers curb their dependence on pesticides.

Harnessing plants' pungency, however, could be tricky. Since they produce sulfides under stress, one approach is to grow them in fields during fallow periods and force them to release gas when the land is plowed in the spring. Another tack is to transplant sulfide-producing genes into ordinary crop seeds. That's hard, since the biochemistry of organic sulfides is unknown. But Haines and Hartel have begun their quest, forcing mutations in fast-growing plants such as brassica, a sulfur-producer in the mustard family. They hope mutations that don't yield the gas will lead them to the target genes. The two have applied for grants and are looking for partners among farm chemical makers.



HAINES AND GRAD STUDENT: *Alternative to pesticides?*



WHERE TO FIND YOUR OWN THOMAS EDISON

NEED A BREAKTHROUG
help your company g
Next year, help may l
near as an on-line direc
A nonprofit group in Ak
building an electronic "Y
Pages" of independent in
tors willing to work for
porations under a temp
contract or come in for a
time brainstorming ses

Leading the project i
venture Place, an Akro
ganization that is buildi
interactive science mu
to serve as, among o
things, the National In
tors Hall of Fame. It
on July 20. In preparatio
venture Place will start
piling a list of proven in
tors. Inventure Place h
to collect fees from comp
that use the service.

INNOVATIONS

- Radio pioneers don
West. They go up—to
crowded frequencies. T
as T. Wong of Illinois I
tute of Technology says
developing a way to pr
500 channels of TV and p
service above 26 billion c
a second.
- IBC Advanced Technol
Inc. in Provo, Utah, say
custom-made, basket-sh
molecules have been suc
fully tested in separa
cesium and strontium
liquid nuclear wastes o
by the Energy Dept.

IT'S NOT IF. IT'S WHEN.

486, Pentium, PowerMac...

lo matter how fast your PC is, can't outrun a power problem

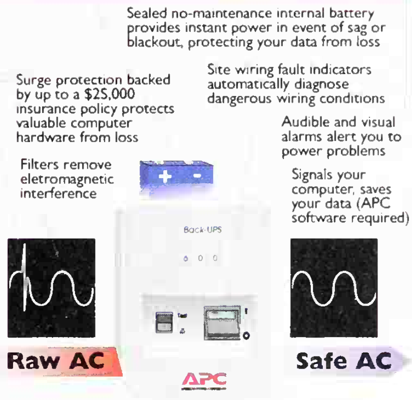
Get Uninterruptible...starting at $119)

t have the time for power problems on your
't worry. They'll always make the time for
not if a power problem will occur, but
to household appliances, poor wiring, bad
even other office equipment, power prob-
inevitable as death and taxes.

E NEXT THREE MONTHS, MORE 0,000,000 PCs WILL BE HIT BY POWER PROBLEMS...

, you have better odds of winning the lottery
aping the sting of power problems on your
udy discovered a typical PC is hit over 100
nth, causing keyboard lockups, hard drive
nd worse. And since sags and blackouts
nore than 85% of power problems likely to hit your computer, standard surge suppressors are literally powerless to protect you. And a study in a recent *PCWeek* showed that the largest single cause of data loss is bad power, accounting for almost as much data loss as all other causes combined.

APC UNINTERRUPTIBLE POWER MEANS SAFE DATA, HAPPY COMPUTERS


Sealed no-maintenance internal battery provides instant power in event of sag or blackout, protecting your data from loss
Surge protection backed by up to a $25,000 insurance policy protects valuable computer hardware from loss
Site wiring fault indicators automatically diagnose dangerous wiring conditions
Audible and visual alarms alert you to power problems
Filters remove eletromagnetic interference
Signals your computer, saves your data (APC software required)
Back-UPS
Raw AC
Safe AC
APC

APC Uninterruptible Power Supplies provide instant battery backup to protect your data from loss and your hard drive from damage. Units are even backed by up to $25,000 in lifetime surge protection insurance.

Back-UPS
4 0 0
Test
I
0
APC
AMERICAN POWER CONVERSION

PROTECT YOURSELF BEFORE YOU KICK YOURSELF...

Get instantaneous battery backup power from an APC Uninterruptible Power Supply and prevent keyboard lockups, data loss, and hard disk crashes. Surge protection performance is even backed by up to a $25,000 Lifetime Equipment Protection Guarantee.

Ask for APC at your computer reseller today or call for your FREE handbook.

PC MAGAZINE UK EDITORS' CHOICE

Starting at just $119, an APC UPS is serious protection no serious computer user should be without.

PC World Top 20 Upgrade

"Don't take chances...get the ultimate protection... from APC."--PCWorld

OVER 3,000,000 SATISFIED APC USERS...

"This is the best computer related purchase I have ever made! Has saved me hours of re-programming..."
Carol Irvine, Wizard Assoc.

"We reduced our maintenance costs the first year by 50% in repairs of equipment."
Valentin Gonzalez, Pfizer

"Our server was running a project when it lost power... messed up all the data files. It took four days to recover. But we don't worry anymore since we got APC."
Tony Chen, DeAnza Systems

"We were working on a state bid when the power went off. APC saved the day and year and future...about 800 pages of data saved thanks to APC."
Ravi Iyer, Software Galleria

"A power surge did significant damage to all of our systems except those protected by APC. The APC units were undamaged..."
C. Jeffrey, C. Jeffrey Eng.

"APC has virtually eliminated downtime in our corporate network..."
Kurt Roemer, Searle Corp.

"Power went out while processing payroll! If not for APC we would have had a walkout!"
Suzi Higgason, OSI Inc

Home office user Don Traux knows first hand about APC reliability: "It ought to be against the law to buy a computer without an APC Back-UPS 250. I recently had a direct lightning hit right outside the house...my computer never blinked."

"APC lets me sleep better at night. How much would you pay to get back that one file you worked all day to complete for the boss who gets on the plane at 8:00 a.m? You should assume that you'll buy a UPS, not that it's some luxury item."
R. Morella, Westinghouse

"A power surge wiped out the FAT tables on all PC's not protected by APC. Now have APC installed on all."
Craig Post, Comm. Tech.

"Before I purchased the UPS I had to put in at least two hard drives at $1000. With APC products...no new hard drives in two years!"
S. Foreman, LSP

FREE 60-PAGE HANDBOOK

*What are the causes and effects of power problems? The most common power protection mistakes? Call for your free handbook today! Please reference Dept **R3***

APC™

AMERICAN POWER CONVERSION

800-800-4APC

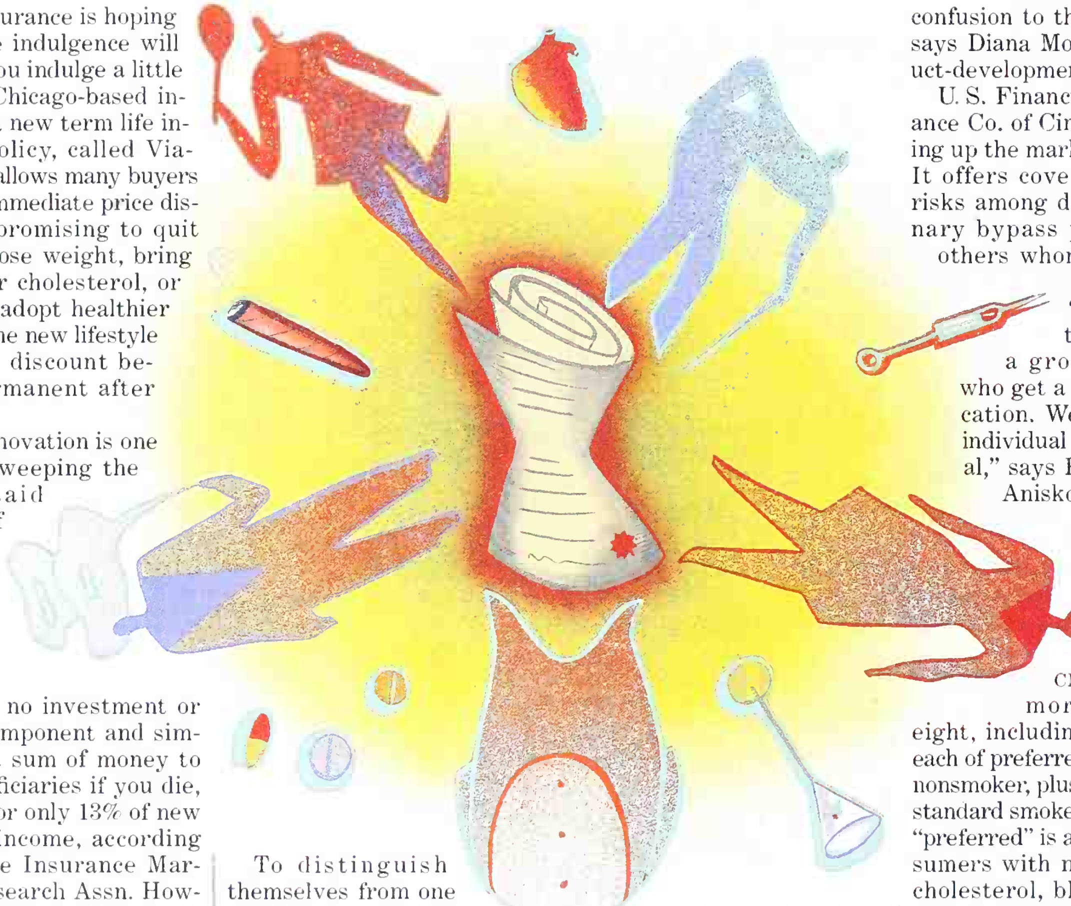
401-788-2797 fax / 800-347-FAXX faxback
132 Fairgrounds Rd., W. Kingston RI 02892 USA

FT.
VS.
LE

Trademarks are the

EDITED BY AMY DUNKIN

AND YOU THOUGHT TERM LIFE WAS PLAIN-JANE



SERGIO BARADAT

CNA Insurance is hoping a little indulgence will help you indulge a little less. The Chicago-based insurer has a new term life insurance policy, called Viaterm, that allows many buyers to get an immediate price discount by promising to quit smoking, lose weight, bring down their cholesterol, or otherwise adopt healthier habits. If the new lifestyle takes, the discount becomes permanent after four years.

CNA's innovation is one of many sweeping the once staid world of term insurance. This straightforward coverage, which has no investment or savings component and simply pays a sum of money to your beneficiaries if you die, accounts for only 13% of new premium income, according to the Life Insurance Marketing Research Assn. However, says the American Council of Life Insurance, because term is so much cheaper than cash-value life, it represents 60.9% of the $11.05 trillion of life insurance in force in the U. S.

MEN WITH MONEY. Term is taking on added luster in part because it's used by brokers to lure customers into costlier cash-value plans, which pay a higher sales commission. Term attracts a desirable demographic group: high-income, middle-aged married men. And face amounts are typically much larger than for whole life: an average of $165,000, compared with $100,000 for permanent insurance.

To distinguish themselves from one another, marketers have been compelled to develop new wrinkles. "There's no such thing as proprietary products in term, so to be effective, you have to stay in the forefront of product innovation," says Joan Zief, life insurance analyst for Goldman Sachs.

INSURANCE

Which is just what CNA and some of its rivals are doing. For example, Federal Kemper Life Assurance has a new policy called CEO, for class enhancement option, that offers health-incentive discounts and other features. Buyers have more time to convert to whole life, more favorable renewal rates, and a rider that allows the terminally ill to tap benefits.

NEW CLASSES. Allstate Life Insurance did away with its Shape Up term plan, which had some of the features CNA is providing, in favor of a simplified three-way rate structure: smoker, nonsmoker, and "healthy American." A person in the last category, in addition to being a nonsmoker, must have a good driving record, have an excellent health profile, and be able to prove he or she exercises regularly. "We don't want tons of categories. It causes confusion to the custo
says Diana Montigney,
uct-development actuar

U. S. Financial Life I
ance Co. of Cincinnati i
ing up the market differ
It offers coverage for
risks among diabetics,
nary bypass patients,
others whom insure
ten turn
"Underw
throw you
a group of pe
who get a rating cla
cation. We look at
individual as an indi
al," says President
Aniskovich.

But w
most ins
are mai
ing rel
ly few
categ
CNA is goin
more: a tot
eight, including three t
each of preferred and sta
nonsmoker, plus preferre
standard smoker. In insur
"preferred" is assigned t
sumers with normal we
cholesterol, blood pres
and medical history.

Additional classes c
more opportunities for
ings. A $500,000, 10-yea
term policy written for
year-old male costs as
as $760 annually for (
One (people who have
smoked), $805 for Class
(healthy people who ha
smoked in five years),
$880 for Class Three (
smokers for at least
years). Kemper's best
for its CEO plan is $1,
year for a preferred nons
er. Allstate's healthy A
can price for a five-year
cy—it doesn't offe
years—is $1,115 a year.

What makes Viater

ʼe is that it gives policy-
rs the benefit of the
,. The difference be-
classes could be a sin-
ficiency, such as high
terol. In this circum-
, CNA grants the lower
t once, giving you four
to correct the problem.
have to supply docu-
ıtion from your physi-
r submit to an exam by
ısurer's paramedic. If
ɔn't pass, you revert to
ostlier classification.
ers who promise to quit
pass a urine test, show-
trace of nicotine. And
yone seeking policies in
s of $500,000, CNA will
.ct a "personal inspec-
hat often includes inter-
with family and co-
ers.
BLES. Insurers' zeal to
out new term products
s shopping for a policy
ıuch more dizzying. The
n you are buying the
ʼage will influence the
of questions you need
wer before you act. If it
ended to protect against
fixed future need—such
ingle parent's desire to
e a child's college edu-
ı—finding a policy that
ies that time frame may
e most important criter-
Vhen level-payment pol-
expire in 5 or 10 years,
eplacing them can cost
imes as much or more.
our plan is to buy term
ecause it's cheaper and
rt it later into perma-
insurance, the issuer's
eputation, and available
ıatives, such as variable
ould be key. In this case,
ould want the ability to
ert the policy without
g to provide evidence of
ability.
d if you are attracted to
ype incentives to lose
t or reduce your choles-
you might want to ask
elf a question: If it's so
why haven't you already
t? "I know how hard it is
e to stop eating and lose
t," says Zief of Goldman
. "So I don't know what
of monetary incentive it
." *Timothy Middleton*

SMART MONEY

STUCK WITH SHAKY STOCKS? TRY A TAX SWAP

While not an *annus horribilis*, 1994 certainly hasn't been a kind year for investors. Rising interest rates dealt mortal wounds to many stocks and bonds. But when it comes to taxes, those regrettable losses can become quite rewarding.

How? By utilizing a tax swap, you realize losses that you can write off against capital gains while keeping a stake in a given industry. This strategy is most commonly used with bonds or bond funds, but it's just as effective for stocks. To recognize losses for this year's taxes, you'll have to act before January.

Some Stock-Swapping Possibilities

SELL	PRICE	1994 CHG	P/E*	BUY	PRICE	1994 CHG	P/E*
CAROLINA FREIGHT	9¼	–28%	18.5	WERNER ENTERPRISES	24½	–20%	18.7
HOUSTON INDUSTRIES	34⅛	–28	10.7	PIEDMONT NATURAL GAS	18½	–8	12.3
KMART	14	–35	9.3	MAY DEPT. STORES	34¾	–12	11.8
LONG ISLAND LIGHTING CO.	16½	–32	7.9	WPS RESOURCES	27	–20	11.7

*12/5/94 stock price/1994 estimated earnings

DATA: A.G. EDWARDS & SONS, INC.

BALANCING ACT. Here's how it works. Say you own Burlington Northern, a rail company whose industry is down. Burlington has dropped 7⅝ since last January, and you would like to sell it, but you want to own some major rail company. So you sell Burlington at 50¼ and buy Conrail at 52⅝. You can use the Burlington losses to offset an equal amount of capital gains. If you have more losses this year than gains, you can use the excess to offset up to $3,000 in ordinary income. Any further losses can be carried over into subsequent years.

Switching to a different stock in the same industry with characteristics like the one you're unloading lets you avoid the wash-sale rule, which prohibits selling a stock for tax purposes and then buying it back within 30 days. But if you're especially attached to a losing stock or think the turnaround prospects are good, you can get the tax benefit by selling the stock and buying it back after 30 days—gambling that the price won't surge in the interim. If the stock price drops, you will make a bigger profit should it later revive.

The key is to sell and buy depressed companies at the same time, says Hersh Cohen, president of Smith Barney Investment Advisers. "You want to sell banks, for example, because they've gotten hammered," he says. "But for the same reason you want to own them." Companies that are beaten down for market reasons such as interest rates are often cheap and poised for a rebound. Cohen sold Nynex, off 15%, and Bell Atlantic, down 12%, and bought AT&T instead, which is off 9.3%. "Unfortunately, selling things when they're down may be the mistake in and of itself," he says, "but when you take tax losses, it gives you a chance to clean up your mistakes."

Industries that have been hit hard, such as electric utilities and homebuilding, are a good place to seek tax-swap candidates. A rule of thumb is to look for companies that are down 25% or more from their 52-week highs and that lack good turnaround prospects for at least 12 months, says Annette Ceresia, a securities analyst at A. G. Edwards in St. Louis. She suggests exchanging Long Island Lighting, which is down 30% and has a shaky long-term dividend, for WPS Resources. WPS is a Midwest utility with "a safe and growing dividend, a yield of 6.8%, and limited exposure to competitive threats."

KEEP WATCH. Before you rush out to cut your losses, however, consider the weightings in your portfolio and your goals. Are you sure you want to sell that stock? Do you need the losses? Even if you don't have capital gains, you may want to use the losses against ordinary income or carry them over to next year. Remember, too, "there are costs of disposition and brokerage fees that will diminish [the] overall benefit," says Price Waterhouse partner Kevin Roach.

Losses aside, this is a good time of year for bargain hunters. With investors madly selling stocks for tax purposes, good buys are likely to surface. *Pam Black*

COMPACT SEDANS THAT DO MOTOWN PROUD

AUTOS

Finally, Detroit has come up with some compact family sedans that can run wheel-to-wheel with their Japanese rivals. The Chrysler Cirrus, Ford Contour, and its sister model, the Mercury Mystique, offer the same kind of surefooted handling and tasteful interiors that have made cars such as the Honda Accord and Toyota Camry perennial favorites. Better yet, they do so for thousands less.

There's a high practicality quotient to these sedans, since they're designed for ferrying around young families with sundry baggage. Each offers the latest safety goodies, such as dual air bags and antilock brakes. The latter are standard on the Cirrus and are a worthwhile $565 option on the Contour and Mystique models. Their backseats fold down to accommodate long items such as skis and two-by-fours. And convenience features, such as cup holders and storage bins, abound.

BALANCED. These models do not scrimp on performance, either. Even the base Contour GL ($13,310) and the Mystique GS ($13,855), both equipped with a 125-horsepower, four-cylinder engine and manual transmission, are nimble runners. They zip from 0 mph to 60 mph in a respectable 10 seconds and have reserve power for passing. Only when really loaded do they start to feel clumsy.

Choose the top-end Contour SE (starting at $15,695) or Mystique LS ($15,230) with a 170-hp V-6 and four-speed automatic transmission, and you'll hit 60 mph in 9 seconds. Plus, they're quieter and smoother. In fact, both of the all-new, overhead-cam engines in these cars are remarkable improvements over the clunky, sluggish power plants in the Tempo and Topaz models they replace.

The Cirrus LX, which starts at $17,435, comes standard with a 2.5-liter V-6 and automatic transmission. It's peppy, too, jumping to 60 mph in 9 seconds. At cruising speeds, its Mitsubishi-made engine is quiet and smooth. But open it up to merge or pass, and there's a raucous clatter under the hood. Fuel economy is disappointing, too: about 20 mpg, vs. 22 mpg for the V-6 Contour and Mystique.

A SPORTY YET SMOOTH RIDE: *Chrysler's Cirrus LXi*

On the road, all three cars are delightfully nimble through corners. They're balanced and poised, even at spirited speeds, and exhibit little of the disconcerting list Detroit used to be famous for. The Cirrus LXi, which starts at $19,365, as well as the Contour SE come with stiffer suspensions and better-gripping, 15-inch tires that make them positively sporty. This athletic behavior doesn't detract markedly from ride. Even on badly potholed roads, body motions are muted and controlled.

PEPPY, WITH POWER TO SPARE: *Ford's Contour*

None of these cars breaks dramatic new ground on exterior styling. But clearly the flashiest is the Cirrus. Its flared fenders, aggressive nose, and high rear end give it a solid, brawny look. The Contour has attractive, subtle sculpting on the hood and grill, but from there back the distinctiveness ends. The Mystique has the most conservative appearance, with rather generic, aero-sedan lines.

CONTENDERS. Despite being nicely outfitted inside, each of the cars has annoying flaws. The Cirrus is wonderfully roomy. The low dash and raked windshield out-Honda Honda for wide-open visibility. Unfortunately, the high tail limits rearward vision and makes parallel parking an adventure. The backseat has the legroom of a much larger car, although the seats are a bit low for tall passengers. The dash, though nicely laid out with simple controls, has a cheap, plastic appearance.

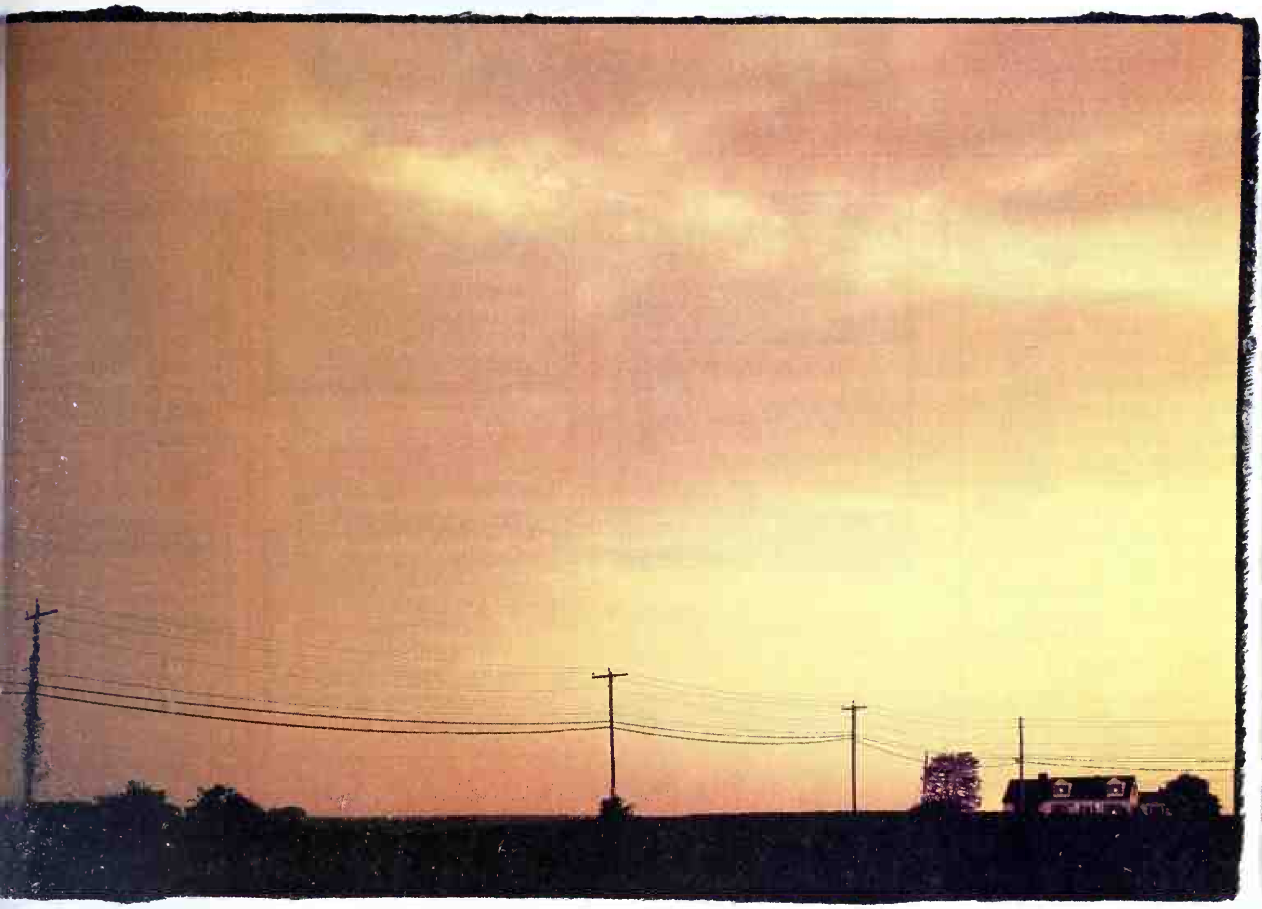
The Contour and Mystique have more finished-looking interiors but are shy on room. Their dashboards are nicely sculpted, with controls that fall readily to hand. Oddl
steering wheel lacks a ti
justment. Quarters are
edly cramped—especia
the rear, where passe
have neither enough he
legroom. If you expect t
ry adults back there fre
ly, the Cirrus might be
ter choice.

Among foreign co
sedan competitors, th
V-6 Honda Accord is a s
out, with
smoothness
poise of more
rious cars.
then, its sti
starts at $2
And Toyot
mains the qu
king, althoug
Camry, w
starts at $1
with a four-cy
engine and $
for an LE wit
is getting a bi
in the tooth. On the
however, Detroit has
up with a trio of strong
tenders that are worth
look, even from diehar
port buyers. *David Woo*

WORTH NOTIN

TAX TRAP. If you pla
to invest in an equity
tual fund before yeare
check to see when it d
clares annual dividend
and capital-gains distr
tions. For most funds,
in December. Buy afte
the record date so you
don't pay 1994 taxes o
gains you never earne

CHINESE LAW. Wuha
University in China is
offering a postgraduat
correspondence cours
Chinese commercial la
Core subjects include
general principles of c
law, foreign-investme
law, and commercial a
tration and litigation.
$621 per subject or $4
for the eight-course p
gram. For information
fax the Hong Kong off
at 011-852-544-9377 or
write to GPO Box 1270
Hong Kong.



We've been known to send some people's garbage right back to their house.

It may come back to light a room, cook your food, or even heat your home. Because all that garbage you threw out actually had a lot of energy in it.

Energy that, once the garbage is in a landfill, is released as methane. Methane is just like natural gas. It's a clean-burning fuel. Good enough to fuel turbines that run power generators. Like the 4,000-kilowatt generators that supply 13,000 people in Geneva, Illinois with electricity. All from the local landfill. Or the generators at the 29 other sites around the country where we capture methane to generate power.

Last year alone, we produced enough energy from methane to save 1.9 million barrels of oil. Not only as electricity, but also as an alternative fuel to actually replace gas, oil, or coal for industry. In 1993, we sold it to customers like a carmaker and a chemical company. All of which makes good use of landfill gas.

It comes from garbage, but it's nice to know it's not going to waste.

What business do we have saying we help the environment? That is our business.

Waste Management
A WMX Technologies Company

FOR AD RATES AND INFORMATION
PHONE: (312) 337-3090
FAX. (312) 337-5633 OR WRITE:

BUSINESS WEEK MARKETPLACE

BUSINESS WEEK MARKET-PLAC
100 EAST OHIO STREET SUITE 6
CHICAGO, ILLINOIS 60611

Telecommunications Products

Two Cellular Phones – One Number –

Order this handheld MOTOROLA phone and we will put it on the same number as your existing cellular phone!

No second bill, no second number to give out!

Only $495 Programmed to your existing cellular number!

Spy Supply, Inc.
1212 Boylston St. #120
Chestnut Hill, MA 02167

(305) 340-0579 • (617) 327-7272

Travel Abroad with a PC & fax/modem?

Recognize this problem?

TeleAdapt provides solutions which enable you to connect & communicate from **anywhere** in the world

Contact us now for more information!

USA Tel: 408-370-5105
Fax: 408-370-5110
CompuServe ID: 72623,706
UK Tel: +44 (0)81 421 4444

Computer Equipment

HEWLETT-PACKARD

Buy–Sell–Trade

LaserJet	ColorPro
DeskJet	Draft Pro
RuggedWriter	Draft/Master
Electrostatic Plotters	DesignJet

HP 9000 Workstations and Vectras also available.

Ted Dasher & Associates
4117 Second Ave., S. Birmingham, AL 35222
Phone: 205/591-4747 Fax: 205/591-1108
800/638-4833

Videos

TomKat PRODUCTIONS

The TEN COMMANDMENTS OF NETWORKING

Who do you know? Who knows you?

POWER NETWORKING secrets from the master, Sandy Vilas. ONLY $39.95 VISA & MasterCard Accepted

(800) 580-0857

Books

1995 CHINESE MANUFACTURERS GUIDE

List of Chinese manufacturers. 3 Vol., over 1000 pages, with name, address, etc. Cross-referenced. $195/set. Send check to:

C.B.S.
2665 Alder St.
Eugene OR 97405
1-800-875-3059/Fax 503/342-3676

Pets/Pet Supplies

TROPICAL & MARINE FISH AQUATIC & MARINE PLANTS

COMPLETE PET SUPPLY CATALOG
BUY DIRECT FROM FISH FARM
SEND $1.00 TO PET XPRESS
DEPT B
10520 BRANCHTON CHURCH RD
THONOTOSASSA, FL 33592

Cable TV

CABLE TV ACCESSORIES

Save Money! Own Your Own Equipment

Lowest Prices On All Major Brand Names

30 Day Money Back Guarantee

Call for information

1-800/613-4554

E.T.I. International, Inc.

Investment Opportunities

INTERNATIONAL EQUITY PARTNER WANTED

A recently established and successful record label with a dynamic programme of classic, pop and folk music is seeking an international equity partner. Located in a southern German music metropolis, the company offers

- A diversified source of productions which have proven their attractiveness on the German market and could be distributed in other countries under the equity partner's label
- Entry to the German market for the equity partner's own productions.

Germany Fax: ++49 89 480 22 60

Education/Instruction

LEARN IN YOUR CAR® FOREIGN LANGUAGES

Only $15.95
Money Back Guarantee!
FAST • FUN • EFFECTIVE
Free Catalog
CALL 1-800/748-5804

SPEAK BETTER

Complete audio programs for
- VOICE IMPROVEMENT
- ACCENT REDUCTION

by David Alan Stern, PhD
$29.95 each
1-800-753-1016

University Degrees

Approved Self Paced Home Study
Associate Bachelors Masters Doctors
Business Admin, Public Admin, Health Care Admin, Human Resources, Finance, International Business, Tech Mgmt, Law, Paralegal, Psychology Call for brochure
(800)477-2254 (24 hrs)
Southern California University for Professional Studies
1840 E. 17 St-BW, Santa Ana, CA 92701

ASSOCIATE, BACHELOR'S, MASTER'S DEGREE for Academic, Military and Work Experience. Accredited. Send resumé for Free Evaluation. No class attendance.

ADAM SMITH UNIVERSITY
2200 Main St., Suite 500-BW
Wailuku, Hawaii 96793
1-800/732-3796

Contact Lenses

CONTACTS AT LOWEST PRICES!

- Same Day Shipment Via Federal Express
- All Major Brands And Prescriptions
- All Lenses 100% Guaranteed

For a FREE Catalog Call
1·800·571·LENS
INTERNATIONAL ORDERS.
(305) 422-8181

LENS EXPRESS INC

"I Don't Trust These Baby Blues To Just Anyone"

Doctor's Prescription Required

350 S.W. 12th Avenue Deerfield Beach, Flori

JAPANESE RUSSIA
or any of 81 Languag
FREE CATALOG
Audio Language & Knowledge Insti
1202 Lexington Avenue Suite 27
New York, NY 10128
800 722 639
212 343 1203

No-Classroom College D

Earn your no classroom, *fully-accredited deg* USNY/Regents College in Business, Liberal Nursing using Moore's successfully refined stud

FOR FREE INFORMATION OR A TRAN EVALUATION, CALL OR WRITE TO

Moore Educational PUBLISHERS
Belmont Blvd
Nashville TN 37212-
(615)383-5633 • FAX
1-800-737-222

EARN YOUR COLLEGE DEGREE AT

- B.S. & M.B.A. in Business
- B.S. in Environmental Studies
- M.S. in Management/ Environmental Studies
- Approved for tuition reimbursement by major companies.

CHAD UNIV ACCREDIT *World Associat and*

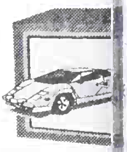
For a free catalogue call 1-800-76

• FREE VIDE

EXTERNAL DEGR
BA/BS MS/MBA PhD/
Credit for work./life exp. • Acc
(800) 444-8569 (24 hr
LASALLE UNIVERS
Dept. 569 Mandeville, LA 704

Computer Equipme

CUSTOM COMPUT SCREEN SAVERS



Turn your favorite photos into screen savers. Makes a great gift. For *only* $25.00.

Please specify for P Computers

Send photos to:

ONTAR Corporation
9 Village Way North Andover, MA
TEL. 508-689-9622 FAX 508-681-

MC/VISA Accepted

AD RATES AND INFORMATION
PHONE: (312) 337-3090
: (312) 337-5633 OR WRITE:

BUSINESS WEEK MARKETPLACE

BUSINESS WEEK MARKET-PLACE
100 EAST OHIO STREET SUITE 632
CHICAGO, ILLINOIS 60611

Travel

TRAVEL NETWORK
AIRLINE TICKETS
CE - EARN TWICE! JOIN
NETWORK'S FREQUENT
PROGRAM / 300+ locations
31 BILLION SALES
1-800-222-2220

ancial Services

SINESS OWNERS
: will pay your bills by
ating with your creditors.
Save 40% to 80%
60-9955 (call 24hrs/7days)
settle business disputes
OUT OF COURT
RESULTS - NO COSTS
Free information

isiness Services

EARCH REPORTS
) academic topics available!
.00 for the 290-page catalog
m-written reports available.
ESEARCH ASSISTANCE
322 Idaho Ave., #206BF,
os Angeles, CA 90025
ree Hotline: 800-351-0222
(or 310-477-8226)

Calendars/Planners

DAY-RUNNER.
Calendars • Refills • Planners
1-800-322-3723
Office Warehouse, Inc.
Major Credit Cards Accepted

Business Opportunities

$10,000+ PER MONTH
Potential
Earnings Collecting
Judicial Judgments Locally.
Free Information 24 hours
Call 1-206/863-7827

Direct Marketing

TAKE A QUANTUM LEAP
INTO DATABASE MARKETING
Do you sell products or services
to businesses & institutions?
Put our expertise in custom
built datbsbses for b-to-b
marketing to work for you!
For more details, call or fax:
INFORMATION PLUS
Ph: 716/852-2220 Fx: 716/842-6049

ERTISE IN THE *BUSINESS WEEK* MARKETPLACE...
ND REACH 6.5 MILLION RESPONSIVE READERS!!

For rates and information mail or fax this coupon today!
The next MarketPlace section closes on December 16

____

ANY: ____________________

ESS: ____________________

____________________ STATE: __________ ZIP: __________

E: ____________________ FAX: ____________________

fax to:

Business Week MarketPlace
500 North Michigan Avenue, Suite 2010
Chicago, IL 60611
Phone 312/337-3090 • Fax 312/337-5633

Holiday Gifts

HEAVENLY GIFTS.
EASILY DONE.
The world's finest hardwood smoked and honey-spice
glazed, spiral sliced Hams, Turkeys and
other Heavenly Holiday gifts.
Call your local store or
1-800-725-4267 ext. 320
HEAVENLY HAM®
"A taste that is out of this world."®

Corporate Gifts

YOUR LOGO HERE
IMPRINTED MUGS
AS LOW AS 99¢ EA
IMPRINTED SOLAR CALCULATORS
AS LOW AS $1.89 EA
AS LOW AS $3.59 EA
EMBROIDERED
CALL FOR FREE BROCHURE
LOGOGEAR USA
1-800-936-5646
FAX: (415) 579-5534

Investment Services

Growling bear eating your investments?

Protect yourself. Read the *Agressive Investor*

Three months $ 55
One year $ 195

The Agressive Investor
P.O. Box 4011
Cerritos, CA 90703-4011

Corporate Gifts

WHY PAY MORE???
FACTORY DIRECT!!!
Free Set-up, Die, Artwork, Shipping
Embroidered Caps as low as **$3.55**
Embroidered Jackets as low as **$26.50**
Embroidered Polo Shirts as low as **$13.90**
Patches 3" as low as **$ 0.37**
Lapel Pins 3/4" as low as **$ 0.55**
800/775-7722
for free catalog
Best Greetings, Inc.

Holiday Gifts

n.y. eats

Food & Delicacies uniquely from the gourmet kitchens of New York - with tidbits from some on NY's finest: Balducci's, Carnegie Deli, Dean & Deluca, E.A.T., Sarabeth's, Zabar's, & NY's best restaurants.

Kosher pickles or NY bagels *from*	$ 29.95
Breads of all nations	$ 39.95
Worldwide exotic cheeses	$ 49.95
Old world bakery cakes & pastries	$ 59.95
Cheesecake one dozen varieties	$ 69.95
Corned beef, pastrami & trimmings	$ 79.95
Smoked fish platter & garnish	$ 89.95
A taste of NY - sampler!	$ 99.95
Montauk lobster clam bake	$119.95
NY's finest prime steaks	$129.95

The perfect corporate, personal or family gift
overnite 800/964-2468 overnite

AS YOU'RE READING THIS, 23 MILLION PEOPLE ARE STANDING BY FOR PAUL HARVEY.

WITH NUMBERS LIKE THAT, YOU CAN BET YOUR CUSTOMERS ARE LISTENING.

Each week, over 23 million* loyal listeners make an appointment to tune in to Paul Harvey News & Comment on over 1200 radio stations across the USA. He's the most listened-to broadcaster in the world.

Advertisers understand the power of Paul Harvey. Quite simply, he gets results. That's why he's virtually unchallenged as the most sought-after commercial spokesman in the medium.

Want proof? Just contact ABC Radio Networks at 212-456-1940. Or better yet, listen in. And make it 23 million and 1.

PAUL HARVEY NEWS & COMMENT & **THE REST OF THE STORY**

MORNING NEWS (M-F); MIDDAY (M-F); MIDDAY NEWS (SAT.)

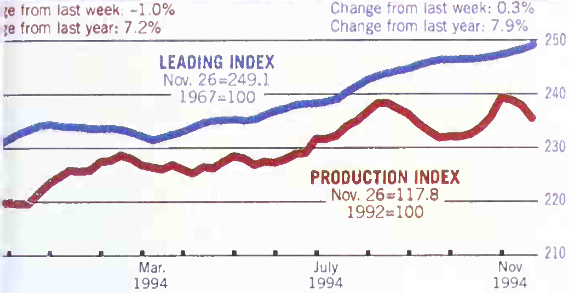
"THE REST OF THE STORY" (M-F AND SAT.)

ABC RADIO NETWORKS

* Radar 49, Vol. 3, SP '94, Persons 12+, Audience to commercials within programs

siness Week Index

UCTION AND LEADING INDEXES



es are 4-week moving averages

luction index dropped during the week ended Nov. 26, as unseasonably warm n November reduced electricity and coal output. Before calculation of the four-week verage, the index edged up to 116.5, from 116.2.

ing index increased in the latest week, paced by faster growth in M2 and materi-s. The unaveraged index was little changed at 250, from 249.1.

ion index copyright 1994 by McGraw-Hill Inc.   BW leading index copyright 1994 by CIBCR

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (12/3) thous. of net tons	2,001	1,991#	8.2
AUTOS (12/3) units	137,186	79,822r#	-8.0
TRUCKS (12/3) units	115,481	65,999r#	3.1
ELECTRIC POWER (12/3) millions of kilowatt-hrs.	58,051	55,475#	1.5
CRUDE-OIL REFINING (12/3) thous. of bbl./day	14,176	14,224#	2.4
COAL (11/26) thous. of net tons	17,847#	20,146	18.1
PAPERBOARD (11/26) thous. of tons	909.6#	895.4	8.4
PAPER (11/26) thous. of tons	836.0#	843.0r	2.5
LUMBER (11/26) millions of ft.	320.1#	506.2	3.5
RAIL FREIGHT (11/26) billions of ton-miles	20.6#	25.2	11.4

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

ING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
PRICES (12/2) S&P 500	453.05	452.65	-2.1
RATE BOND YIELD, Aaa (12/2)	8.57%	8.62%	23.3
TRIAL MATERIALS PRICES (12/2)	110.7	110.5	18.5
SS FAILURES (11/25)	NA	296	NA
STATE LOANS (11/23) billions	$450.8	$450.0r	8.0
SUPPLY, M2 (11/21) billions	$3,570.5	$3,553.4r	1.4
. CLAIMS, UNEMPLOYMENT (11/19) thous.	329	326	-2.7

es: Center for International Business Cycle Research (CIBCR), Standard & Moody's, *Journal of Commerce* (index: 1980=100), Dun & Bradstreet (failures companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on failures and real estate loans.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (12/7) $/troy oz.	377.000	383.100	-1.4
STEEL SCRAP (12/6) #1 heavy, $/ton	140.00	138.50	1.8
COPPER (12/3) ¢/lb.	140.4	137.5	76.4
ALUMINUM (12/3) ¢/lb.	92.5	96.0	84.1
COTTON (12/3) strict low middling 1-1/16 in., ¢/lb.	77.08	72.85	30.3
OIL (12/6) $/bbl.	16.94	17.97	15.2

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

REST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
AL FUNDS (12/6)	5.07%	5.54%	2.92%
ERCIAL PAPER (12/6) 3-month	6.29	6.05	3.40
FICATES OF DEPOSIT (12/7) 3-month	6.23	6.12	3.31
MORTGAGE (12/2) 30-year	9.36	9.36	7.38
TABLE MORTGAGE (12/2) one-year	6.47	6.36	4.32
(12/7)	8.50	8.50	6.00

: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (12/7)	100.20	98.93	109.09
GERMAN MARK (12/7)	1.57	1.57	1.70
BRITISH POUND (12/7)	1.56	1.57	1.47
FRENCH FRANC (12/7)	5.40	5.38	5.83
ITALIAN LIRA (12/7)	1622.9	1617.0	1676.0
CANADIAN DOLLAR (12/7)	1.38	1.38	1.33
MEXICAN PESO (12/7)[3]	3.451	3.437	3.105

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

ata in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense nt. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

HE WEEK AHEAD

SALES

, Dec. 13, 8:30 a.m. ▶ Retail sales y increased by a solid 0.5% in No- projects the median forecast of ists surveyed by MMS International, a of McGraw-Hill Inc. Shopping to have started off slowly last month ed with a bang to usher in the holi-son. In October, sales jumped 1.1%. ng car purchases, retail sales prob-reased 0.3% in November, after ris-% in October.

CER PRICE INDEX

, Dec. 13, 8:30 a.m. ▶ Producer f finished goods likely rose 0.4% in er, after a 0.5% decline in October. Energy and vehicle prices, which dropped in October, rebounded in November. Excluding food and energy, producer prices probably increased 0.3% last month, after also dropping 0.5% in October.

CONSUMER PRICE INDEX

Wednesday, Dec. 14, 8:30 a.m. ▶ The MMS median forecast calls for a 0.3% advance in November consumer prices, after a small 0.1% increase in October.

INDUSTRIAL PRODUCTION

Wednesday, Dec. 14, 9:15 a.m. ▶ Output at the nation's factories, mines, and utilities probably grew by 0.5% last month, a shade less than the 0.6% gain in October. Increased factory jobs suggest manufacturing production was up strongly, but an unseasonably warm November in the East dragged down utility output. Operating rates for all industry likely rose to 84.8% in November, up from 84.6% in October.

BUSINESS INVENTORIES

Thursday, Dec. 15, 10 a.m. ▶ The MMS survey projects that factory, wholesale, and retail trade inventories rose 0.4% in October, after a 0.5% gain in September.

HOUSING STARTS

Friday, Dec. 16, 8:30 a.m. ▶ Housing starts in November were probably unchanged from October's annual rate of 1.41 million.

Whaddya Say To A Guy Who's Had The Same Job For 50 Years, Has Never Called In Sick Or Showed Up Late, Never Taken A Vacation Or A Holiday, Never Asked For A Raise Or Griped About His Bonus And, Believe It Or Not, Has No Plans For Retirement?

Thanks.

Remember - only you can prevent forest fires.

Ad Council A Public Service of the USDA Forest Service and Your State Forester

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Advanced Micro Devices 118
Advantest 118
A.G. Edwards 123
AirTouch Communications 114
Alex. Brown & Sons 24
Allstate Life 122
Aloha Airlines 4
American Express 88
American Honda 54
America Online 88
Apple Computer 10, 15
Arlington National Racecourse 4
AT&T 15, 123

B

Banc One 102, 103
Bank Lease Consultants 54
Bank of America 98
Bausch & Lomb 108
Beatrice 18
Bell Atlantic 114, 123
BellSouth 114
Best Data Products 15
BJ Services 104
Bloomingdale's 10
BMW 112
Boeing 50
Borden 42
Burlington Northern 123

C

Cadence Design Systems 118
Canuk Exploration 42
CD Light 15
Centrust 42
Charles Schwab 88
Chemical Banking 102
Chevron 104
China International Trade & Investment 50
China Ocean Shipping 50
Christie's 42
Chrysalis Symbolic 118
Chrysler 10, 54, 124
Citibank 50
Citicorp 50
C.J. Lawrence 10
CNA 122
CNA Financial 42
CNW Marketing/Research 54
Cohen & Steers Capital Management 88
Collett International 118
Compaq Computer 15, 35, 118
CompuServe 88
Conrail 123
Continental Insurance 42
Coopers & Lybrand 112
Corestates Financial 102
CSX 32

D

Darling International 104
Davenport & Co. of Virginia 82
De Beers Centenary 34
Decision Resources 115
Diamant Boart 34
Doctor's Optical Supply 108
Dow Jones News Retrieval 88
DRI/McGraw-Hill 47
DuPont 104

E

Eastman Kodak 117
Ecta 112
Eddie Bauer 82
EDO 120
Ernst & Young 112

F

Federal Kemper Life 122
Fette Ford 54
Fidelity Federal Bank 102
Fidelity Investments 42, 88
Financially Speaking 88
Firestone Optical 108
First Boston 28
First Interstate Bancorp 102
Fletcher Jones Motorcars 54
Ford 54, 124
Formosa Plastics 104
Forrester Research 15
F.W. Dodge 25

G

Gaines Berland 104
Gap 10
GE 34, 50
GE Capital 50, 54
General Instrument 118
GM 32, 54
General Motors Acceptance 54
General Nutrition 10
Georgia Cable 114
Goldman Sachs 32, 50, 122
Greenhaven Associates 104

H

Hanover Direct 82
Hewlett-Packard 10, 18, 35
High Level Design 118
Hoechst Celanese 117
Honda 10, 54, 124
Hongkong & Shanghai Banking 50

I

IBM 10, 15, 35, 112
Independent Strategy 52
In Store Media System 120
Intel 10, 118
Inventure Place 120

J

Janus 88
J.C. Penney 82
J. Crew 82
Jenny Craig 36
Johnson & Johnson 36
JW Charles/CSG 88

K

Keefe, Bruyette & Woods 103
Kellogg 36
KeyCorp 103
Kidder Peabody 114
Kimberly-Clark 117
KnowledgeWare 112
Kohlberg Kravis Roberts 18
KPMG Peat Marwick 104

L

Lands' End 42, 82
Lawrence Meyer 47
Lehman Brothers 50
Liberty Financial 88
Lillian Vernon 82
L.L. Bean 82
Lockheed Martin 31
Loews 42
Long Island Lighting 123
Lotus Development 35
LSI Logic 118
LTR Industries 117
LTX 118

M

Maersk 50
Marketing Logistics 82
Marks & Murase 102
Mayer & Schweitzer 88
McCall Pattern 18
McGraw-Hill 25, 129
Meadowlands Racetrack 4
Mellon Bank 24
Mentor Graphics 18
Mercedes-Benz 54
Merrill Lynch 28, 50, 88, 103
MFS Communications 10
Micron 88
Microsoft 15, 35, 88
Mitsubishi 54, 124
Moody's Investors Services 28
Moran Group 4
Morgan Stanley 28, 50, 103
Morningstar 28

N

National Discount 88
National Football League 112
Nissan 54
Nomura Securities 4, 28
Northern Telecom 15
Northland Cranberries 42
Northrop-Grumman 31
Novell 15, 35
Nucor 42
Nynex 114, 123

O

Omega Group 108
Omega Optical Supply 108

P

Pacific Telesis 114
PaineWebber 24, 88, 114
Patient Education Media 36
Paul Kagan 114
Payden & Rygel 28
Peacock 35
Pearle Vision Centers 108
Pennzoil 10
Performance Optical Service 108
Petoseed 4
Pfizer 117
Philip Morris 117
Pitney Bowes 88
PNC Bank 103
Price Waterhouse 1 123
Prudential Securitie 88

Q

Quaker State 10
Quickturn 118

R

RJR Nabisco 104,
Rolm 15

S

Salomon Brothers
Scientific-Atlanta 1
Sea-Land 50
Sears 82
Shell International Petroleum 52
Sinochem 50
Sinopec 50
Smith Barney 88
Smith Barney Inves Advisers 123
Smith New Court 5
Softlab 112
Sonic Environment Systems 104
Southeast Toyota 5
Standard Chartered
Steamboat Ski & Resort 4
SteinRoe 88
Sterling Software 1
STI Classic 28
Sun Microsystems
Synopsys 118

T

Target Industries 1
Tele-Communications 1
TeleWest Communications 1
Teradyne 118
The Limited 82
Time Life 36
Time Warner Cable Group 115
Time Warner Entertainment 11
Tokyo Insideline 53
Toyota 124
Tucker/Green 36
Twentieth Century Funds 88

U

Unipec 50
UNUM 104
U.S. Financial Life
U S West 114, 115

V

Vobis Microcomput

W

WEFA Group 47
Wertheim Schroder
Westinghouse 42
William Blair 88
Wometco Cable 11
World Omni Financ
WPS Resources 12
WSN 104

Z

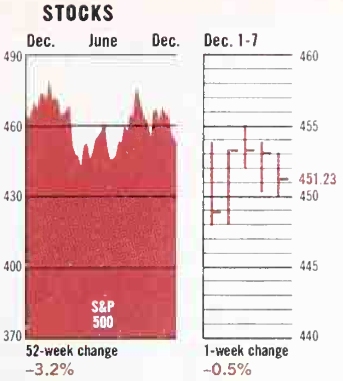
Zenith 118

Business Week (ISSN 0007-7135) published weekly, except for one issue in January, by McGraw-Hill Inc. Executive, Editorial, Circula
Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate $46.95/year; Canada: CDN $69/year.
class postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publicati
Product Sales Agreement No. 246484. Postmaster: Send address changes to BUSINESS WEEK. P.O. Box 430, Hightstown, N.J.

estment Figures of the Week

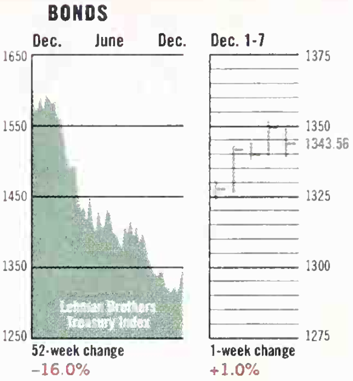
ARY

ged a rather snappy per--considering the chaos in arket. At midweek, the industrials were virtually from a week earlier, &P index retreated, but ially. Asian stocks also ne strength, largely in re-he rise in the dollar. The filing by Orange County unicipal bond market into Dec. 7, with the *Bond* index falling 48 basis sharpest decline in re-ry.



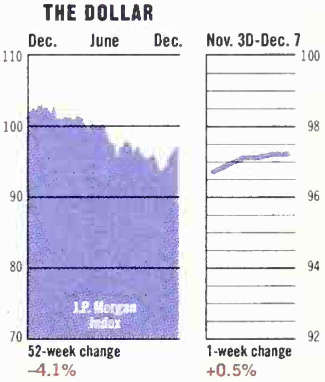
52-week change
−3.2%

1-week change
−0.5%



52-week change
−16.0%

1-week change
+1.0%



52-week change
−4.1%

1-week change
+0.5%

ET ANALYSIS

KS	Latest	% change Week	% change 52-week
INDUSTRIALS	3735.5	−0.1	0.0
MPANIES (S&P MidCap Index)	165.5	−1.6	−5.6
PANIES (Russell 2000)	240.2	−1.7	−5.6
NIES (Russell 3000)	257.9	−0.8	−4.0

STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
INANCIAL TIMES 100)	3012.5	−2.2	−8.1
KEI INDEX)	19,174.2	0.5	16.2
TSE COMPOSITE)	4079.8	−0.3	−5.3

FUNDAMENTALS	Latest	Week Ago	Year ago
90-DAY TREASURY BILL YIELD	5.79%	5.71%	3.14%
30-YEAR TREASURY BOND YIELD	7.89%	7.99%	6.17%
S&P 500 DIVIDEND YIELD	2.86%	2.83%	2.75%
S&P 500 PRICE/EARNINGS RATIO	16.4	16.6	22.8

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	458.5	459.0	Negative
Stocks above 200-day moving average	24.0%	25.0%	Positive
Speculative sentiment: Put/call ratio	0.82	0.76 r	Positive
Insider sentiment: Vickers sell/buy ratio	1.33	1.30	Positive

BLOOMBERG FINANCIAL MARKETS

TRY GROUPS

EK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
AINMENT	6.0	−8.3	WALT DISNEY	10.2	5.2	43 3/8
	4.6	20.0	NIKE	10.9	37.8	66 1/8
	4.4	11.9	MERCK	6.8	10.3	37 1/2
IC COMPANIES	4.4	−16.8	PACIFIC GAS & ELECTRIC	11.1	−27.0	25
WARES	3.7	−3.8	NEWELL	7.3	9.3	22

EK LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
PLORATION AND PRODUCTION	−16.0	−25.1	MAXUS ENERGY	−25.0	−32.5	3 3/8
TMENT STORES	−13.0	−17.4	J.C. PENNEY	−17.6	−24.6	42 1/8
ERING AND CONSTRUCTION	−11.8	−8.0	FOSTER WHEELER	−22.1	−20.1	27 3/4
ION CONTROL	−11.3	−0.3	BROWNING-FERRIS INDUSTRIES	−13.2	8.5	27 1/8
D GAS DRILLING	−10.9	−11.6	ROWAN	−11.7	−23.2	6 5/8

AL FUNDS

MORNINGSTAR INC.

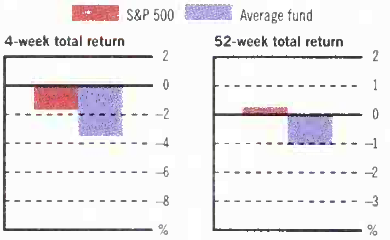
k total return	%
US EDISON ELECTRIC INDEX	2.8
LIN UTILITIES	2.6
BARNEY UTILITIES A	2.4

otal return	%
AN COMMUNICATIONS & INFORM. A	36.9
SMALLER COMPANIES	27.6
Y SELECT MEDICAL DELIVERY	23.8

LAGGARDS

Four-week total return	%
VAN ECK ASIA INFRASTRUCTURE A	−24.1
LEXINGTON STRATEGIC INVESTMENTS	−18.3
WRIGHT EQUIFUND-HONG KONG NATL.FID.EQ.	−17.5

52-week total return	%
MONITREND GOLD	−52.6
STEADMAN OCEANOGRAPHIC TECHNOLOGY	−35.6
STEADMAN AMERICAN INDUSTRY	−35.3



TIVE PORTFOLIOS

DRI/McGRAW-HILL

ounts represent the alue of $10,000 one year ago ortfolio

ges indicate otal returns

Foreign stocks	Money market fund	U.S. stocks	Gold	Treasury bonds
$11,322	$10,474	$9,984	$9,824	$8,865
−0.21%	+0.36%	−0.45%	−1.94%	+2.27%

this page are as of market close Wednesday, Dec. 7, 1994, unless otherwise in- dustry groups include S&P 500 companies only; performance and share prices are as of market close Dec. 6. Mutual fund returns are as of Dec. 2. Relative portfolios are valued as of Dec. 6. A more detailed explanation of this page is available on request. r=revised

IT'S A WHOLE DIFFERENT ECONOMY

Last year, if you had said there could be 4% annual growth and a stable inflation rate of 2.7% in 1994, economic pundits and market practitioners would have said you were crazy. If you had said unemployment could drop to 5.6% with no wage inflation, the verdict would have been the same: crazy. And if you had predicted interest rates would soar 250 basis points while inflation remained just a specter on the horizon, again the pundits would have shouted the same thing: nuts!

Well, nuts to them. All three predictions have come true in 1994. This economic cycle is different from previous ones. Big gains in productivity, a monetary policy acting ahead of inflation, and a sharp reduction in the federal budget deficit are creating a new paradigm for the U.S. The economy has been growing faster without igniting inflation, and there is a chance that noninflationary growth can continue. Instead of a 2.5% "natural" rate of growth, the economy can cruise along at 3% plus. Instead of a 6.5% "natural" rate of unemployment, far more people can work without pushing up wages.

BUSINESS WEEK has previously said that a shift to higher productivity was radically altering the American economy. In Cover Stories "Why are we so afraid of growth?" (May 16) and "The real truth about the economy" (Nov. 7), we said a new era of high growth and low inflation might be at hand. The markets took many months to validate this view, but it is now quietly spreading to pundits and practitioners alike.

If current trends continue, the implications are profound: When economic growth broaches 3% without inflation, then investment spending soars, spurring even higher productivity and further investment. This is the virtuous cycle that was behind Germany's and Japan's successes in the 1980s. It may be close at hand in America, if Washington doesn't mess it up.

So far, the Fed has played a canny game. Chairman Alan Greenspan has been dead right in fighting the effects of high growth. By shifting to a policy of preemptive action, the Fed has proved to bond vigilantes that it will do whatever it ta to prevent inflation. For the future, the big question fa Greenspan is: What kind of monetary policy does the b run in such an economy? The answer should include targe 3% growth while maintaining an anti-inflation vigila

Congress can still kill this high-growth, low-inflation e omy. Critical deficit reduction is now threatened in W ington. Centrist conservatives want to shrink the gov ment and lower the budget deficit by cutting spending. T are represented by the President's Bipartisan Commissio Entitlement & Tax Reform, led by Senators Bob Kerrey Neb.) and John C. Danforth (R-Mo.). Within the Republ Party itself, Senators Robert Dole (Kan.) and Peter Dom ici (N. M.) are strict conservatives. Among the Democrats Democratic Leadership Council (DLC) has a 10-point prog to cut government spending.

The supply-side wing of the GOP, however, believes cutting taxes will automatically generate enough reve through higher growth, so that government spending w have to be cut much. The danger is that $1 worth of tax will not produce $1 worth of tax revenues. This risky st egy could backfire and produce huge deficits all over ag

For this economy to continue to prosper, all three inn tions—high productivity, a preemptive Fed monetary po and serious deficit reduction by Congress—must conti Washington policy should aim to bolster all three by f ioning tax and spending policies that work toward highe vestment, smaller government, bigger savings, and f trade. That translates into capital-gains tax cuts directe future investments, not past ones, cuts in entitlement grams that match middle-class tax cuts, and a foreign econ ic policy that opens markets for U.S. exports. Someth really good is happening to the American economy. I hope Washington doesn't screw it up.

NO FED BAILOUT FOR ORANGE COUNTY

It boggles the mind: Orange County, Calif., the bastion of wealthy conservatism, borrows billions to leverage tax dollars in the risky derivatives market, only to see its investment crash and burn on the inevitable turn in interest rates (page 28). Then it declares bankruptcy, scaring the stuffing out of the huge municipals market, another bastion of what once were conservative values. Whatever happened to fiduciary trust? What was the county's five-member board of supervisors thinking? Where were the rating agencies?

The sad fact is that the voters chose in an open election to throw prudence to the winds: In June, the county treasurer ran for reelection on a platform of using derivatives to boost returns on the region's $7.5 billion investment pool. His opponent warned that this was risky business. The people disagreed and voted for a strategy predicated on falling inte rates. Once the Fed began to tighten, it was all over.

So what to do now? If public officials are going to bor huge sums (Orange County borrowed $2 for every $1 it h and gamble on interest rates, they should be require market the value of their portfolios and calculate tota turns. That would make their tactics, including high-flying eraging, transparent to one and all. But then again, the f in Orange County weren't exactly hoodwinked.

That is why we hope they don't expect Uncle Sam to them out. This is a local problem that cries out for a l solution. Jitters in the muni market can be managed wit extensive federal money. Message to Orange Country: sponsible people must take responsibility for their acti

EAREND DOUBLE ISSUE

S WEEK
CEMBER 26 + JANUARY 2 1995

BusinessWeek

BURLINGAME PUBLIC LIBRARY
3 9042 02358130 6

ER 26, 1994 /JANUARY 2, 1995 A McGRAW-HILL PUBLICATION

WHERE TO INVEST 1995

BURLINGAME
DEC 16 1994
LIBRARY

TOCKS
tough year ahead–
t not for export,
alth-care, and
gh-tech companies

FUNDS
Look for new zip in small-cap-stock and short-term-bond mutual funds

BONDS
It may be time to nibble, especially in depressed

PLUS
- ▶Merger Stocks
- ▶Global Investing
- ▶Commodities
- ▶Earnings Estimates
- ▶Our Best Bets

***********5-DIGIT 94010
0602 10581160 DEC94 TIM 0320
BURLINGAME PUBLIC LIBRARY
480 PRIMROSE RD
BURLINGAME CA 94010-4010

Power Macintosh

Matt Ghourdjian
National Director of Technology
Howrey & Simon

With offices in Los Angeles and Washington, D.C., Howrey & Simon is considered one of the most technologically savvy law firms in the nation. "It's great," says Matt. "When the senior partner has a Power Macintosh 8100 with two 21" monitors, you know there's not much resistance to new technology."

e have about 400 Power Macintosh computers throughout the firm. And we'll be adding more next month. Why? Because ur goal is to add capability without dding complexity. And to focus omputing power where we'll get conomic results. The kind of results you get from increasing productivity. And from being the winner when the gavel falls."

Multimedia presentations to judges and juries are the rule rather than xception at Howrey & 1. "Power Macintosh QuickTime are a power- e team when it comes ltimedia. They win s for us. That's a fact."

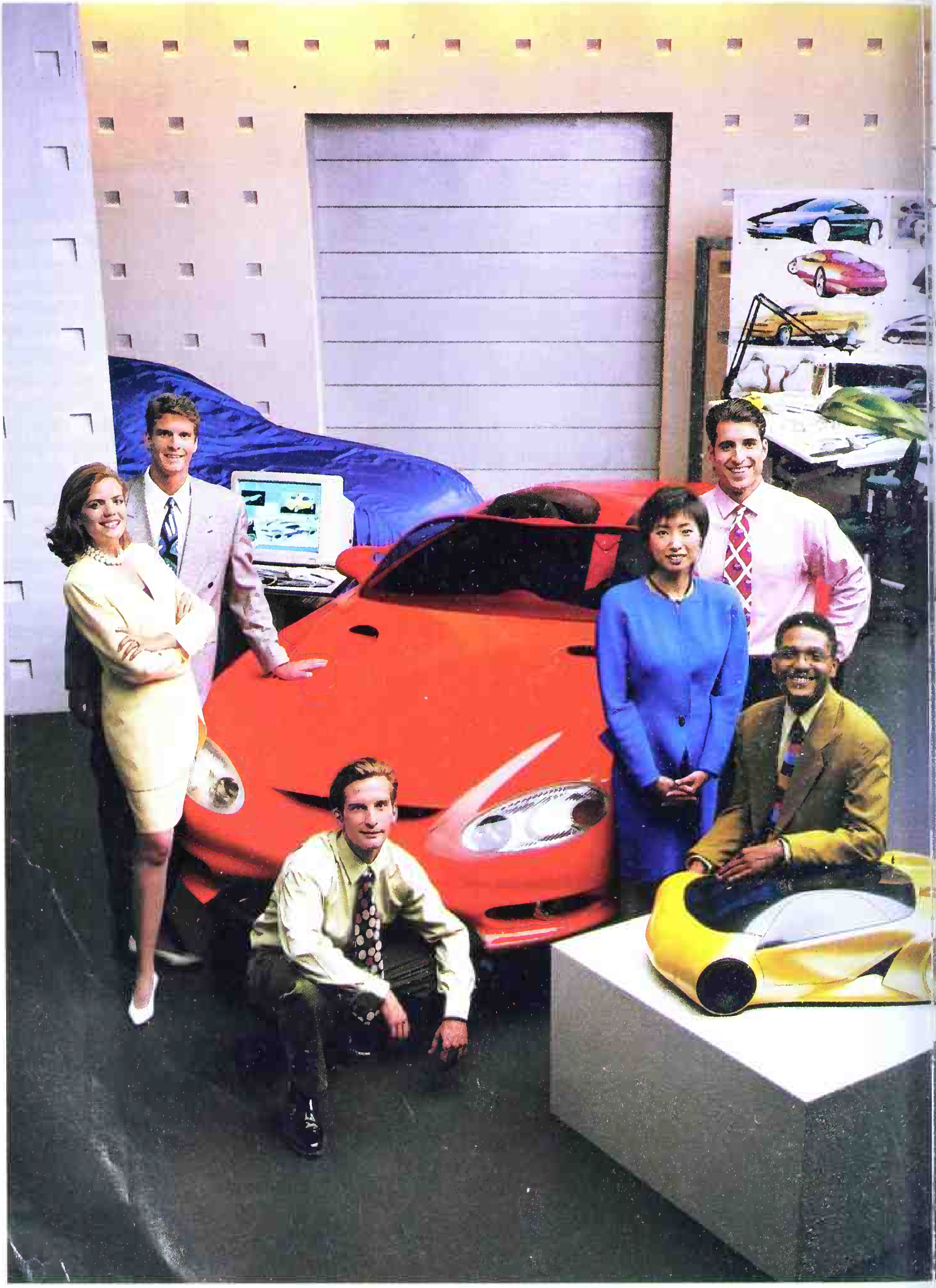
Powered by the RISC-based PowerPC™ microprocessor, Power Macintosh takes desktop computing to new levels of performance, compatibility and productivity. For the name of your nearest authorized Apple reseller, call us at 800-732-3131, ext. 650, today.

ses where we have thou- s of pages of documents, ften press our own CDs. 're portable, and attorneys do instant searches for a cular document or all occur- es of a phrase or word. It'd uts to do it any other way."

Power Macintosh™ The business Macintosh. Apple

pple Computer, Inc. All rights reserved. Apple, the Apple logo, Macintosh and QuickTime are registered trademarks and Power Macintosh and the QuickTime logo are trademarks of Apple Computer, Inc. PowerPC is a trademark of International Business Machines Corporation, used under license therefrom.

BUCKLE UP. TOGETHER WE CAN SAVE LIVES.



FORD DESIGNERS FROM LEFT TO RIGHT.
SUSAN K. WESTFALL, DAVID HILTON, GARY BRADDOCK, SOO KANG, PAUL ARNONE, AARON WALKER

F YOU WANT TO KNOW WHAT

CARS AND TRUCKS

WILL BE LIKE IN *2005*

ALK TO SOME OF THE PEOPLE WHO

LIVE THERE.

Ford Motor Company, our young designers help keep us in touch with the future, SHARING
EIR VIEWS *of the world they'll be inheriting and the vehicles they envision there.* ◆ *To*
en their horizons even further, we provide them with access to other Ford design studios
m Turin, Italy to Melbourne, Australia, all of which are linked electronically. In this
OBAL STUDIO" *environment, these men and women of the computer age use the latest*
ls and technologies to design vehicles for people living in a RAPIDLY CHANGING
ORLD. ◆ *At Ford, this is one way our young designers make sure that our customers get*
at they want, before they even know they want it. To us, that's what quality is all about.

FORD • FORD TRUCKS • Ford • LINCOLN • MERCURY •

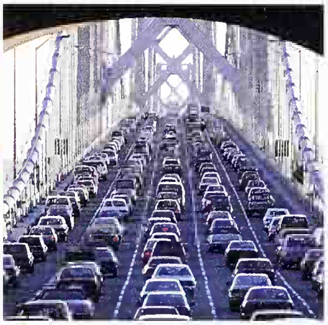
QUALITY IS JOB 1

BusinessWeek
DECEMBER 26, 1994

BIG (BAD) BLUE

Under Lou Gerstner, IBM is profitable, lean—and fighting back. And as IBM launches an all-out assault on the Pentium chip, Andrew Grove's Intel is suddenly on the defensive

page 60



AIR AMERICA

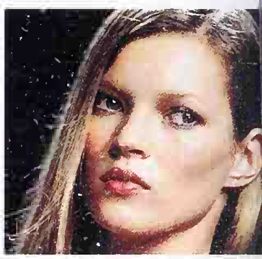
Across the country, states are asking for looser EPA rules page 64

GREEN CHRISTMAS

For retailers, it's jingle all the way page 62

FALLING WALLS

The Miami Summ gives a jolt to trad barriers page 78



WAIF BYE-BYE

On the zeitgeist's h list: Kate Moss, CB and rice cakes page

News: Analysis & Commentary

60 IBM GETS ORNERY
Remember the company that was above the fray? Now it has the gloves off

62 IT'S A WONDERFUL RETAIL LIFE
Shoppers are making this year bigger than 1993's strong holiday season

63 COMMENTARY
The focus is on tax cuts, but improving productivity is more to the point

64 AULD LUNG SYNE
As a New Year's deadline looms, the EPA faces a clean-air-law revolt

65 A MORGAN-WARBURG DEAL?
This tieup could bring a merger wave

66 ORANGE COUNTY BLUES
Cutbacks will crimp its lifestyle

67 STATE POOLS IN YOUR BACKYARD
The Orange County mess isn't unique

67 CALIFORNIA'S LATINO BACKLASH
A boycott threatens Wilson backers

68 NEW-PRODUCT PUSH AT NOVELL
Is it likely to outmarket Microsoft?

72 IT'S 10 P.M. ARE YOUR SHARES UP?
The new Seiko pager-watch can tell

73 WHAT'S IN AND WHAT'S OUT
So long Kevin Costner, hello John Travolta: BUSINESS WEEK calls the trends

75 IN BUSINESS THIS WEEK
FDIC, Southwest Air, commuter airlines, cigarette makers' woes, lending bias, Carl Lindner, Time Warner

International Business

78 LATIN AMERICA
As an Americas-wide free-trade scheme is mapped, U.S. companies rush south

79 FRANCE
Phone giant Alcatel is getting a lot of wrong numbers

82 HONG KONG
Educational-toymaker VTech wants to become a global multimedia giant

86 INTERNATIONAL OUTLOOK
World trade: Will China agree to pay its dues?

Economic Analysis

28 ECONOMIC VIEWPOINT
Roberts: GOP moderates could wreck Newt's revolution

32 ECONOMIC TRENDS
Developing nations snap up impor capacity figures rise, mobile home moving, foreign outfits' U.S. profit

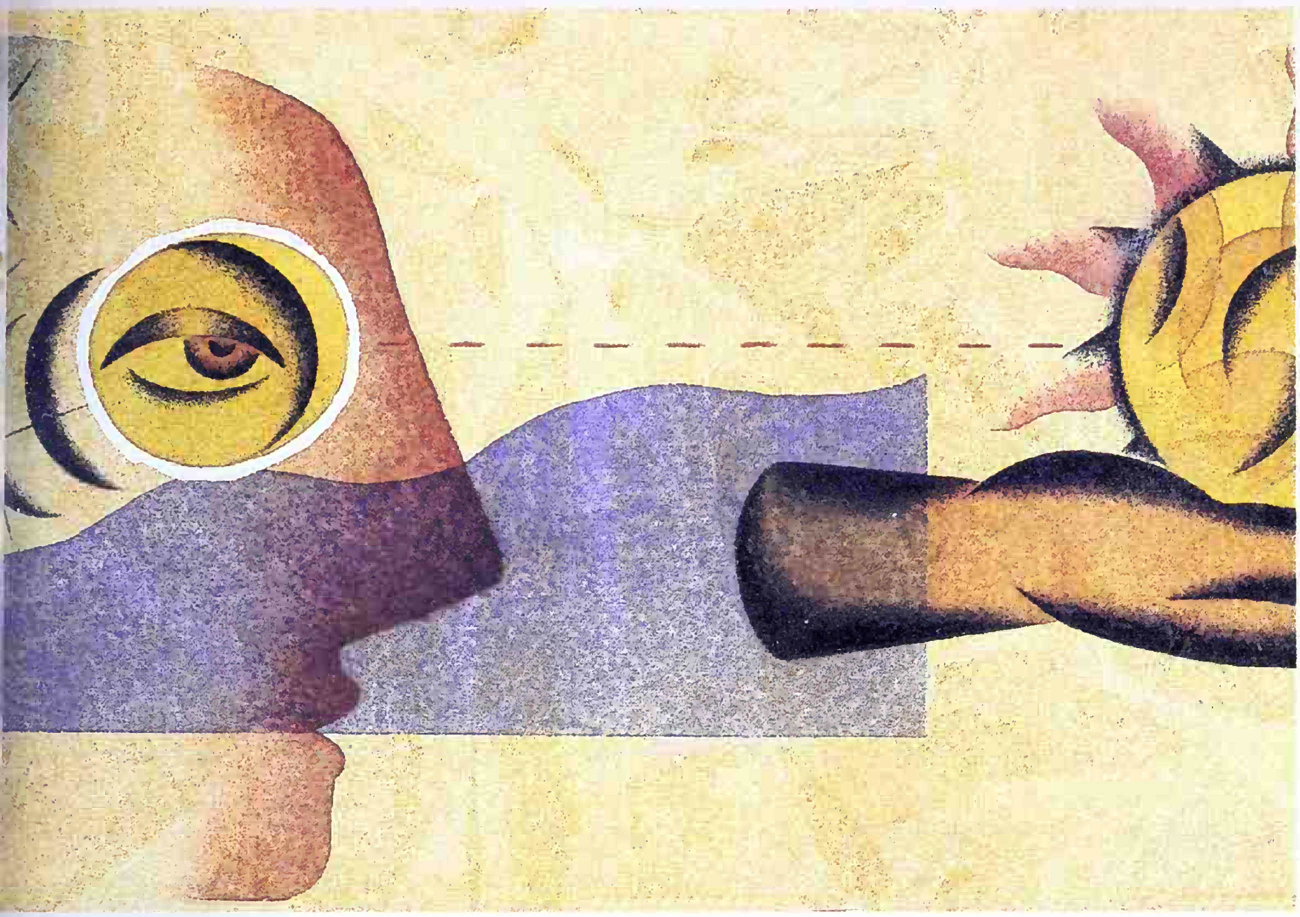
57 BUSINESS OUTLOOK
With a sparkling fourth quarter, a upbeat year ends on a high note

Government

77 WASHINGTON OUTLOOK
Lesson No. 1 for Newt's rebels: Tactical retreat

Features

6 UP FRONT
12 READERS REPORT
20 BOOKS
Kristof and WuDunn: *China Wakes*
24 TECHNOLOGY & YOU
For road warriors, portable printin with minimal stinting
203 BUSINESS WEEK INDEX
204 INDEX TO COMPANIES
205 INVESTMENT FIGURES OF THE WEEK
206 EDITORIALS
The big worry for 1995: Government
Celebrate—and expand—free trade



Where to Invest in 1995

ntroduction

EAR OF LIVING LESS DANGEROUSLY
rollercoaster ride is over. Here's
to reshape your portfolio

he Economic Framework

SINESS OUTLOOK
too hot, not too cold, but just right:
95 of modest growth and inflation

AT 1994'S TOP SOOTHSAYER SEES
eek into Joseph Carson's crystal ball

SHINGTON OUTLOOK
way or another, it looks like the
r of the tax cut

ST BETS
s our seers will (almost) guarantee

trategies for Stocks

SET ALLOCATION
bal investments can bring good
urns—and buffer against shocks

. STOCKS
runaway bull—or bear—in sight

CHNOLOGY STOCKS
of the market's few hot zones

114 MERGER STOCKS
There should be plenty of tasty morsels
as the feeding frenzy continues into '95

116 INVESTMENTS TO AVOID
With the bumpy times ahead, just say
"no" to risk

118 GLOBAL STOCKS
The gung-ho days for emerging markets
are gone—but not the good values

120 GLOBAL STOCKS
Should you simply steer clear of Japan?

124 THE PROS
Four experts' top 10 stock picks

128 INSIDE WALL STREET
Good buys in mail order
A springy floor under Sun Coast?
How Cooper may make tracks

The Investment Spectrum

132 MUTUAL FUNDS
They're still iffy. But junk, small-cap,
and bond funds could have their charms

138 BONDS
High yields make them look tempting

140 MUNICIPAL BONDS
Time to sift through the wreckage?

142 COMMODITIES
For swingers only: It will be a wild and
crazy market

146 PRECIOUS METALS
Silver is volatile, gold looks inert

148 REAL ESTATE
It's back—and set to outperform stocks
and bonds in the coming year

152 ART
Despite lingering market blahs, a good
eye and fast reflexes can land prizes

1994's Best and Worst

156 WINNERS & LOSERS
Here's where you should have plunked
down your dollars in '94—and where we
hope you didn't

The Investment Scoreboard

163 EARNINGS OUTLOOK
Data on 900 companies to help guide
your 1995 stock picks

Extra copies of the Investment Outlook 1994 issue are available. For information and prices call single-copy desk at 609 426-5348

ILLUSTRATION BY THOM SEVALRUD

Up Front

EDITED BY LARRY LIGHT & JULIE TILSNER

TALK SHOW "It's like running around with a rubber crutc You won't know if it will support you until you fall down."

—Alan Levine, customer at CompUSA in New York, on his fears about buying a computer system using the Pentium chip

HELMS: *Oh, THAT pork*

CAPITAL OFFENSES

FOREIGN INTRIGUE IN JESSELAND

JESSE HELMS (R-N.C.), THE incoming Senate Foreign Relations Committee chief, is an ardent foe of foreign aid. But not when it benefits his state.

He is urging the main U.S. foreign-aid agency to keep on writing checks for the next fiscal year—about $20 million yearly—to North Carolina State University agricultural research programs in soil management and peanuts. BUSINESS WEEK has obtained a copy of an Oct. 31 Helms letter to Brian Atwood, head of the Agency for International Development, that praises the AID-funded programs for benefiting countries "such as Rwanda and Haiti, who desperately need our help."

That's very odd, since Helms, an archconservative known for strident views, has called for the dismantling of AID. Too bad: Overall, North Carolina receives about $400 million annually in AID contracts for goods and services, making it one of the highest state beneficiaries of this federal largesse. Recently, Helms likened foreign aid to pouring money down a "rat hole." He has opposed aid to Haiti and Rwanda except for humanitarian purposes. A Helms aide questions whether the senator actually saw the letter. *Amy Borrus*

WHEELER-DEALERS

A STEALTH INVESTOR IN THE SPOTLIGHT

VALUE INVESTOR MICHAEL Price has long made his canny moves quietly. Yet now, he is entering a very public arena: the proxy battle. Price's Heine Securities, in Short Hills, N.J., recently warned embattled Michigan National that it might challenge the bank's board with its own slate next year. According to a Heine filing with the Securities & Exchange Commission, the Heine directors would likely sell the bank. Price won't comment, but the bank says it wants to stay independent.

PRICE: *A bank job next?*

Once one of the most aggressive and innovative banks in the Midwest, Michigan National saw operating income per share slump from $6 in 1989 to a 99¢ low in 1993; it was $3.96 for 1994's first three quarters. Price apparently is unimpressed by the bank's turnaround efforts thus far, which include cost-cutting, asset sales, and a stock buyback of 14% of the shares. During this fall's buyback, Price showed his appetite for the prey: Instead of selling his holdings to the bank, he bought more, raising his st from 5.5% 8.2%.

Price, wh Mutual Sha funds have h up well this y in a rocky m ket, favors be en-up compan with rebound tential. One of most celebrat scores is app ance maker S beam-Oster now-high-flyi outfit that he and fell dealmeister Michael Ste hardt brought out of bar ruptcy in 1990. His mov there were typically behi the scenes as he helped o chief executive Paul Kaz ian in 1992. *James B. Tre*

NEW WORLD ORDER

CORPORATE AMERICA'S MAN IN MOSCOW

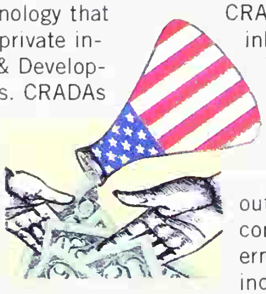
CAN BORIS YELTSIN'S CHIEF reformer ease the woes of Mars candy and other American investors in the chaotic Russian market? Red tape and high taxes are thwarting much-needed foreign investment. An 11-month-old import tax of up to 30%, along with the ruble's decline, has pushed the price of an imported Mars bar beyond many Russians' reach. The hassled company has cut back plans to build plants in Russia.

Yeltsin recently named Anatoly Chubais, the economist who once headed the country's privatization drive, to fix this. Chubais has worked fast, assembling a relief package that includes a 50% cut in tariffs for foreign companies investing more than $100 million. But he has a way to g Russia needs a more stab legal and financial infrastru ture to assuage investo wariness. *Patricia Kra*

TAX TARGET: *U.S. investors*

REALITY CHECK

U.S. COMPETITIVENESS gets a tremendous boost from the huge volume of technology that government labs are transferring to private industry under Cooperative Research & Development Agreements. Or so say the labs. CRADAs help companies develop government-funded research into a variety of products. The sheer number of CRADAs—the Energy Dept. alone has inked more than 1,000 since 1989—shows that the vast feder- al research empire is serving business, the government labs contend.



IN REALITY, volume alone is no way to measure the success of these transfers. While this program has produced some bona fide success stories, the frenzy to sign CRADAs has resulted in a number of bad deals. Hastily drawn projects have distracted lab scientists from their basic missions or resulted in handouts to favored companies. One controversial CRADA: Lawrence Livermore National Laboratories gave industrial laser technology to a unit of Germany's Siemens whose products will vie with American ones. The answer: closer scrutiny of new deals and stricter milestones for the progress of existing ones. *Peter Coy*

earning a language has ever been so entertaining.

troducing the Berlitz Live! Language Series on CD-ROM.

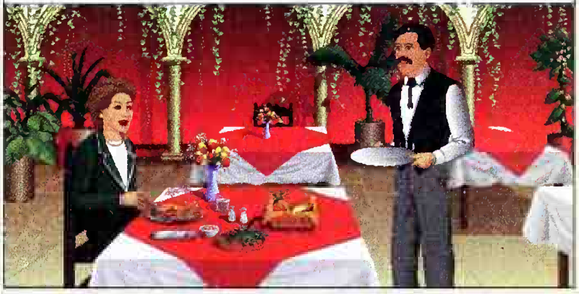
RLITZ® *Live!* SPANISH & JAPANESE

award-winning language series from Sierra On-Line, Inc., ining the 100-year reputation of the proven Berlitz training od with the superior sound and brilliant graphic quality CD-ROM technology can provide.

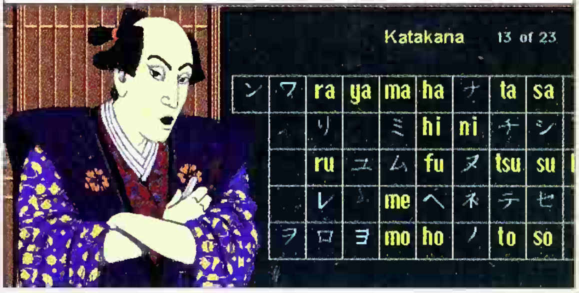
life situations like shopping, dining out, business or meetings, as well as travel facts and history give you paralleled understanding of the language as well as the re of 22 Spanish-speaking countries and Japan.

e only language series with on-screen talking tutors using 's patented "lip sync" technology, so you will SEE as s HEAR proper pronunciation. You can even record voice with a microphone (not included), play it back, ompare your pronunciation to your teacher's. Extensive e dictionaries offer help at any time.

Quickly master critical phrases by participating in real-life situations such as dining out, checking into a hotel, and using the telephone.



Test your skill with over 750 questions and use the on-line English-to-Japanese and Japanese-to-English dictionary anytime.



software presents the ess practices and ral elements... in the comprehensive and sible way of any ram I've seen."

Susan Bruce,
multimedia foreign language specialist

"I thought the language lessons were fantastic!... one of the most effective uses of multimedia for adults I've seen yet, and for business travelers, consider this an essential."

— Mike Madson,
Computer Bits

Berlitz Live!
SPANISH
SIERRA

Berlitz Live!
JAPANESE
SIERRA

Visit your local software retailer for your copy of Berlitz Live! Spanish and Japanese, or order directly for $139 each (suggested retail price $195 each) 24 hours a day, 7 days a week, by calling 1-800-757-7707.

Offer #B851

© 1994 Sierra On-Line, Inc. All rights reserved. ® designates registered trademark of Berlitz Publishing Company, Inc. or Sierra On-Line, Inc.

SIERRA®

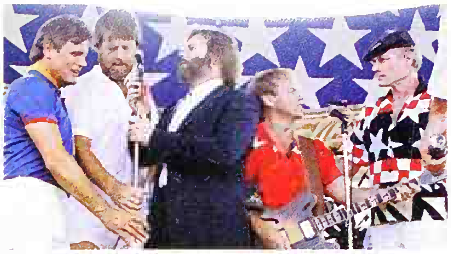
3380 146th Place S.E., Bellevue, Washington 98007

Up Front

SLUGFESTS

BEACH BOYS: SHORT ON GOOD VIBRATIONS

THE BEACH BOYS ARE NOT harmonizing this holiday season. Mike Love is fighting his cousin Brian Wilson in a Los Angeles court over a piece of the writer's royalty rights—worth millions—to *California Girls* and 44 other 1960s classics. The case has just gone to a jury. Songwriters receive half the royalties when a tune is used for ads or remakes. The publisher collects the rest.


HARMONY? *Wilson (second from left) and Love (far right) with the band in 1984*

The fun, fun, fun doesn't stop with the royalties tiff. Love also seeks a chunk of the $10 million Wilson got in a 1992 suit against Irving Music. Wilson claimed Irving snookered him when it bought the Beach Boys' 1962-69 music library for a lowball $700,000 in 1969. Wilson said he was on drugs then, and Irving took advantage of him. The company denied it. He also charged conflict of interest, saying the band's attorney, Abraham Somer, had links to Irving. Somer won't comment.

Love, who got $1.6 million in a separate settlement with Irving, says Wilson verbally promised him an additional one-third of his $10 million. Lawyers for Wilson, who doesn't perform with the band now, deny that. But there's not much left after taxes and legal bills of between $4 million and $6 million. *Nanette Byrnes*

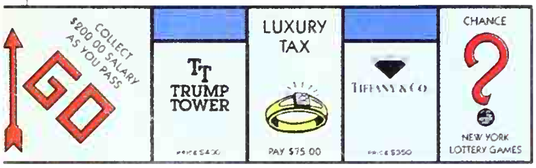
GAMESMANSHIP

MONOPOLY BUSTS UP A MONOPOLY

SINCE 1935, MONOPOLY HAS entranced millions of would-be real estate moguls, who gain and lose prime Atlantic City properties. Now, the perennial favorite (3 million copies of the board game are sold annually) has offshoots for four other cities: New York, Boston, San Francisco, and San Diego. In the New York version, the best property (Boardwalk in the original game) becomes Trump Tower. The railroads have turned into airports, such as LaGuardia.

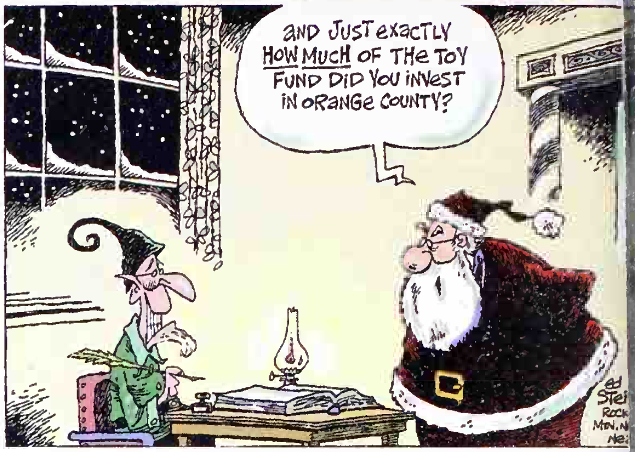
U.S.A.Opoly, a gamemaker based in Wellesley, Mass., is bringing out the localized editions under a licensing agreement with Parker Bros. U.S.A.Opoly wants to expand its list of cities in 1995 to Chicago and Los Angeles, among others. The new versions began earlier this year, and company President Jim Montalto says they are selling well. "People are buying them more as gifts than as games," he says.

And paying for it, too, at $25 a throw, vs. $15 for the Atlantic City variety. That's not all: Owners of many of the landmarks in U.S.A.Opoly games pay an undisclosed sum to be listed.



BEYOND BOARDWALK: *The New York version*

DRAWN & QUARTERED


AND JUST EXACTLY HOW MUCH OF THE TOY FUND DID YOU INVEST IN ORANGE COUNTY?
ed Stei
Rock
Mtn.N
Ne:

ON THE FUND FRONT

SIN DOES A NUMBER ON SAINTLINESS

IN THIS TROUBLED MARKET, which does the best, virtue or vice? Look at the new mutual fund for conservative Christians, called the Timothy Plan. It refuses to invest in anything sinful: alcohol, tobacco, casino gambling, or pornography. It even shuns Kmart, owner of Waldenbooks, because the chain sells *Penthouse*. Then look at Morgan Funshares, which does the opposite. The one that comes out best—or, in this climate, has lost least—doesn't wear a halo.

Funshares, a $4.2 million closed-end fund sponsored by Cleveland's Maxus Investment Group, had a 3.7% drop for the three months ended Nov. 30, about the same as the average for all funds (down 3.8%). Timothy (
sets: $1.9 million) dipp
4.2%. In fairness, Timot
which started in the spri
is off just 1.4% for the
months ended Nov. 30. F
shares opened in July, s
six-month comparison is
possible.

Why are the sinners o
pacing the saints? Funshar
philosophy is that, no mat
what the economic conditio
the "wicked" stuff it inve
in—tobacco, gamblin
booze—won't be hurt. Sa
fund head Jim Onorat
"They're always going
drink beer." *Michele Gal*

HOW THEY'VE FARED

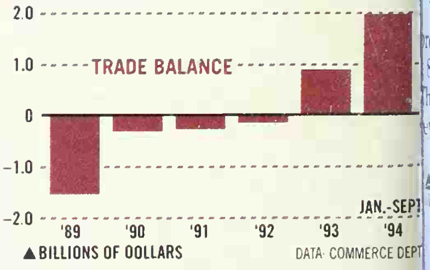
	3-MONTH TOTAL RETUR
THE TIMOTHY PLAN Conservative Christian	–4.2
MORGAN FUNSHARES Alcohol, tobacco, gambling	–3.7
AVERAGE FOR ALL FUNDS	–3.8

*Through Nov. 30, 1994 DATA: MORNINGSTAR

THE BIG PICTURE

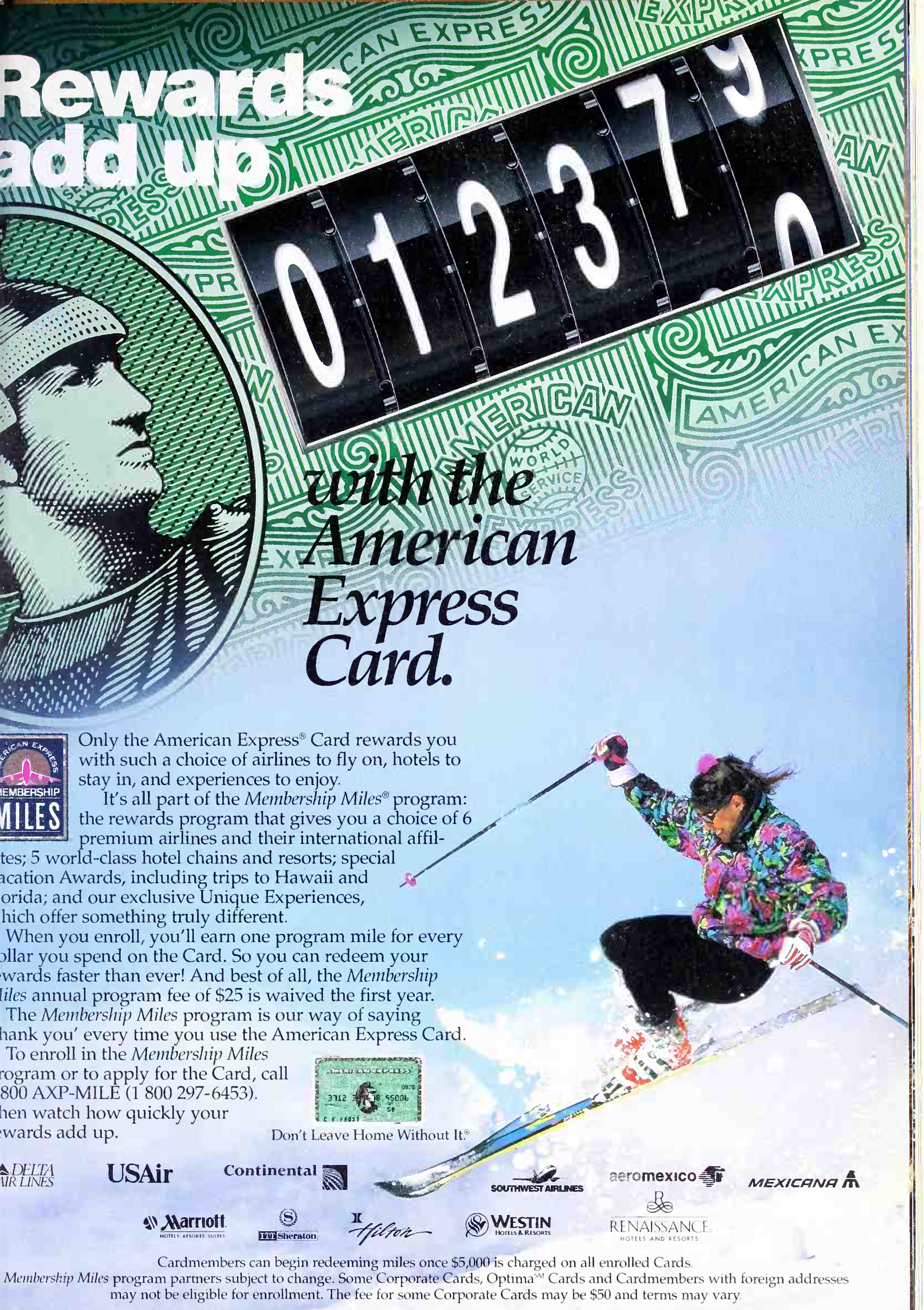
PHONE FLIP

The trade deficit for telecommunications gea
reversed itself last year. Why? More countrie
have opened to U.S. exports, while others are
updating infrastructure with U. S. equipment



DATA: COMMERCE DEPT

FOOTNOTES Price of one partridge in a pear tree, per PNC Bank, in 1992: **$27.50.** In 1993: **$34.99.** In 1994: **$34.99**



Only the American Express® Card rewards you with such a choice of airlines to fly on, hotels to stay in, and experiences to enjoy.

It's all part of the *Membership Miles*® program: the rewards program that gives you a choice of 6 premium airlines and their international affil-
tes; 5 world-class hotel chains and resorts; special
acation Awards, including trips to Hawaii and
orida; and our exclusive Unique Experiences,
hich offer something truly different.

When you enroll, you'll earn one program mile for every
ollar you spend on the Card. So you can redeem your
ewards faster than ever! And best of all, the *Membership*
iles annual program fee of $25 is waived the first year.

The *Membership Miles* program is our way of saying
hank you' every time you use the American Express Card.

To enroll in the *Membership Miles*
rogram or to apply for the Card, call
800 AXP-MILE (1 800 297-6453).
hen watch how quickly your
ewards add up.

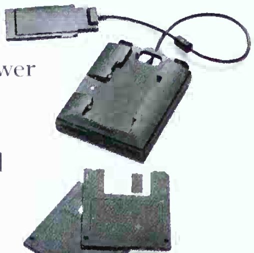
Don't Leave Home Without It.®

DELTA AIR LINES · USAir · Continental · SOUTHWEST AIRLINES · aeromexico · MEXICANA

Marriott HOTELS RESORTS SUITES · ITT Sheraton · Hilton · WESTIN HOTELS & RESORTS · RENAISSANCE HOTELS AND RESORTS

Cardmembers can begin redeeming miles once $5,000 is charged on all enrolled Cards.
Membership Miles program partners subject to change. Some Corporate Cards, Optima℠ Cards and Cardmembers with foreign addresses may not be eligible for enrollment. The fee for some Corporate Cards may be $50 and terms may vary.

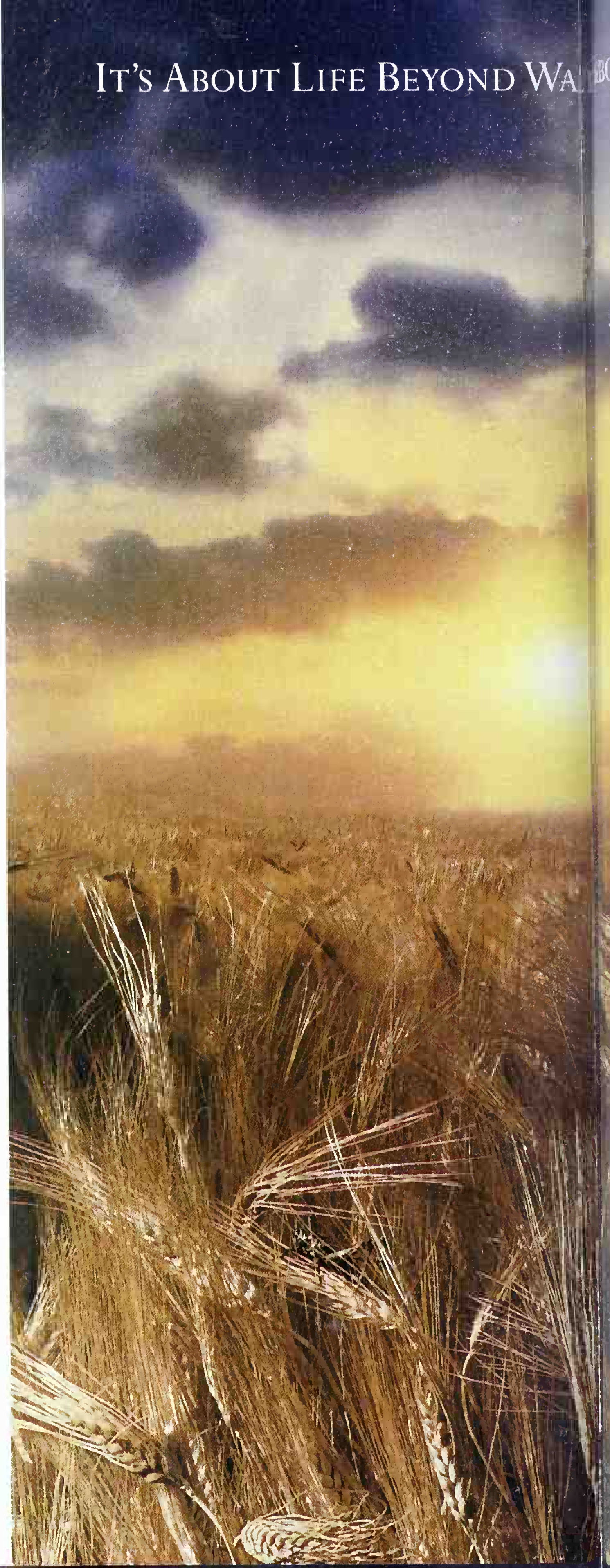
STARTING AT JUST $1199,* COMPAQ AERO presents a type of freedom you can't afford to live without. Imagine a 170MB hard drive and 486 processor – the power you get from a desktop – all packed into a sleek, 3.5-lb. package. You'll never be tempted to leave it behind. (The possibilities are quite staggering.) To enter this new world, visit your Compaq retailer or locate the nearest Compaq reseller by calling 1-800-345-1518. Or call Compaq DirectPlus at 1-800-888-8450. You'll find the price of freedom has never been so, well, reasonable.



Some models now include an external floppy drive. (Giving you the freedom to carry it – or not.)

An optional convenience base, $99, lets you plug in peripherals. (When it's time to go – unplug the Aero instead of everything else.)

COMPAQ



ABOUT A NEW WAY OF DOING THINGS. IT'S ABOUT $1,200.
GRSSHPPR.PCX
File Edit View Text Pick Options Help
SUBORDER CAELIFERA
– Acrididae –
fig 1734
fig 1735
fig 1736
COMPAQ
CONTURA AERO 4/25
intel inside

ompaq Computer Corporation. All [illegible] Compaq is a registered trademark. Contura Aero is a trademark and Compaq DirectPlus is a service
Compaq Computer Corporation. [illegible] Compaq DirectPlus catalog price. Reseller and Retailer pricing may vary. The Intel Inside logo is
ed trademark of the Intel Corporation.

BusinessWeek

EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
CHIEF ECONOMIST: William Wolman
ASSISTANT MANAGING EDITORS: Sarah Bartlett, Robert J. Dowling, G. David Wallace
ART DIRECTOR: Malcolm Frouman
CHIEF OF CORRESPONDENTS: Keith G. Felcyn
SENIOR EDITORS: Bob Arnold, Frank J. Comes, Deidre A. Depke, Judith H. Dobrzynski, James E. Ellis, Marc Frons, Geoff Lewis, Ciro Scotti, Mark N. Vamos, Lee Walczak (Washington), Elizabeth Weiner, Chris Welles, Seymour Zucker
EDITORIAL PAGE EDITOR: Bruce Nussbaum
INTERNATIONAL EDITION: William J. Holstein (Editor); John E. Pluenneke (Sr. Editor)
SENIOR WRITERS: John A. Byrne, William Glasgall, Jeffrey M. Laderman, Gene G. Marcial, John Pearson, Karen Pennar, Otis Port
ASSOCIATE EDITORS: Duane E. Anderson, Catherine Arnst, Amy Dunkin, William D. Marbach, John Meehan, Michael Oneal, Thane Peterson, Gary Weiss.
DIRECTOR, EDITORIAL OPERATIONS: Thomas J. Reed
PICTURE EDITOR: Lawrence Lippmann
ECONOMICS: James C. Cooper (Sr. Economist/Business Outlook editor), Kathleen Madigan (Assoc.). Christopher Farrell, Michael J. Mandel (Economics editors) Gene Koretz (Economic Trends editor).
DEPARTMENT EDITORS: Books: Denise Demong. **Computers:** Ira Sager. **Corporate Finance:** Phillip L. Zweig. **Corporate Strategies:** Jane A. Sasseen. **Information Management:** John W. Verity. **International Finance:** Joan Warner. **International News:** Christopher Power. **International Outlook:** Stanley Reed. **Investment Banking:** Leah Nathans Spiro. **Legal Affairs:** Linda Himelstein. **Media:** Mark Landler. **Money & Banking:** Kelley Holland. **News:** Keith H. Hammonds. **Personal Business:** Edward C. Baig. **Science:** Emily T. Smith. **Scoreboards:** Frederick F. Jespersen. **Social Issues:** Michele Galen. **Software:** Amy Cortese. **Technology:** Peter Coy, Neil Gross. **Up Front:** Larry Light. **The Workplace:** Aaron Bernstein.
STAFF EDITORS: Pam Black, Veronica Byrd, Bruce Einhorn, Paul M. Eng, Elizabeth Lesly, Ron Stodghill II, Amey Stone, Suzanne Woolley, Laura Zinn
ASSISTANT EDITORS: Lori Bongiorno, Julie Tilsner
COPY EDITORS: Harry Maurer, Michael Mercurio (Deputy chiefs); Prudence Crowther, Marc Miller (Asst. chiefs); Tim Belknap, Aleta Kaufman, Jack Robbins, Jim Taibi (Sr. copy editors); Carl Desens, Hardy Green, Cynthia McClean, Joseph Mandel, David Pengilly, Malka Percal, Doug Royalty, Maria Chapin, Gail Fowler, Jeneen Hobby, Aida Rosario (Researchers)
PRODUCTION COPY EDITORS: Donald Halsband (Chief), Lawrence Dark (Deputy), Hallberg Hallmundsson, Celine Keating, Robert S. Norman, Robert J. Rosenberg, Eva Stettner
ART: Francesca Messina, Steven Taylor (Deputy directors), Cynthia Friedman, Jay Petrow, Christine Silver (Assoc. directors), Alice Cheung (Asst. director) **Graphics:** Arthur Eves (Director), Joan Danaher (Deputy director), Rob Doyle (Sr. Illustrator), Lisa Knouse Braiman, Alberto Mena, Ray Vella (Illustrators), Jaime Beauchamp (Computer artist). **Production:** Stephen J. Romeo (Mgr.), Annette Kennedy (Asst. manager), Alan Bomzer (Coordinator)
PHOTOS: Scott Mlyn (Deputy Picture editor), Todd James (Senior Picture editor), Anne Murray, Ronnie Weil (Assoc. Picture editors); Bettina Baudoin (Paris), Kathleen Moore (Asst. Picture editors); M. Margarita Eiroa (Traffic manager), Lawrence Crowe (Librarian), Michael Hirsch (Researcher)
EDITORIAL OPERATIONS: Yvonne Rodriguez (Production chief) Richard Balestrino, A. Peter Clem, Nicholas M. White (Production managers). Karen Butcher, Thomas R. Dowd, Fidel Lee, Jose L. Martin, Jane M. Perkinson, Craig Sturgis, Edgardo Torres, Karen Turok, Ilse V. Walton (Makeup editors). Bruce M. Arnold, Stephen R. Lebron (Asst. Makeup editors) Donald C. Pearson (Traffic manager)
CORRESPONDENTS: Atlanta: David Greising (Mgr.), Maria Mallory **Boston:** Mark Maremont (Mgr.), Gary McWilliams, Geoffrey Smith **Chicago:** Richard A. Melcher (Mgr.), Greg Burns, Susan Chandler, Kevin Kelly. **Cleveland:** Zachary Schiller (Mgr.). **Connecticut:** Tim Smart (Mgr.) **Dallas:** Wendy Zellner (Mgr.), Peter Burrows, Stephanie Anderson Forest **Detroit:** Kathleen Kerwin (Mgr.), James B. Treece (Sr. Correspondent), David Woodruff **Los Angeles:** Ronald Grover (Mgr.), Larry Armstrong (Sr. Correspondent), Nanette Byrnes, Eric Schine **Miami:** Gail DeGeorge (Mgr.) **Philadelphia:** Joseph Weber (Mgr.) **Pittsburgh:** Stephen Baker (Mgr.), Keith L. Alexander **San Francisco:** Russell Mitchell (Mgr.), Richard Brandt, Joan O'C. Hamilton, Robert Hof, Kathy Rebello **Seattle:** Dori Jones Yang (Mgr.) **Washington:** Stan Crock, Owen Ullmann (News Editors), Amy Barrett, Amy Borrus, John Carey (Sr. correspondent), Christina Del Valle, Richard S. Dunham, Dean Foust, Susan B. Garland, Howard Gleckman (Sr. correspondent), Douglas Harbrecht, Mark Lewyn, Paul Magnusson, Mike McNamee, Mary Beth Regan, Michael Schroeder, Stephen H. Wildstrom (Technology & You), Catherine Yang **Bonn:** John Templeman (Mgr.), Karen Lowry Miller **Hong Kong:** Joyce Barnathan (Mgr.), Pete Engardio **London:** Paula Dwyer (Mgr.), Julia Flynn **Mexico City:** Geri Smith (Mgr.) **Moscow:** Peter Galuszka (Mgr.) **Paris:** Stewart Toy (Mgr.), Gail Edmondson, Bill Javetski **Rome:** John Rossant (Mgr.) **Tokyo:** Robert Neff (Mgr.), Larry Holyoke **Toronto:** William C. Symonds (Mgr.)
EDITORIAL SERVICES: Broadcasting: Ray Hoffman **Business Manager:** Barbara Boynton **Information Services:** Jamie B. Russell (Director), Judi Crowe (Asst. editor) Heather Hartley, Fred Katzenberg, Maria Maronak, Karen Stevens. **Office Manager:** Roselyn Kopit **Public Relations:** Christine Summerson, Josephine Coppola. **Readers Report:** Yvette Hernandez **Reprint Permission:** Janet Gonzalez. **Systems:** Ina L. Kichen (Mgr.), Andrew Bernardo, Marie Brown-Bryant, Marta Skrelja

PRESIDENT: John W. Patten
PUBLISHER: David G. Ferm
SR. VP, OPERATIONS: Gary B. Hopkins
VP, CONSUMER MARKETING/CIRCULATION: Robert Montemayor
VP, INTERNATIONAL: Gerd Hinske
VP, STRATEGIC PLANNING & DEVELOPMENT: Cara Erickson
VP, MARKETING: Harold K. Somerdyk
VPs, SALES: Constance E. Bennett (Eastern Region), Dan Dunn (Midwestern Region), Louis R. Mohn (Western Region)
VP, STRATEGIC PROGRAMS: James H. McGraw IV
CONTROLLER: Gary M. Singer
DIRECTOR, ADVERTISING BUSINESS: Linda F. Carvalho
DIRECTOR, PRODUCTION: Mario J. Talluto

Readers Report

A LOVE AFFAIR WITH TRUCKS: CAN WE TALK?

"Why we love trucks" (Cover Story, Dec. 5) had a special meaning for me. When the redesigned 1949 Ford panel truck was introduced, my husband decided to buy one for pleasure. The idea of driving around in a truck was such a radical one back then that the salesman in Wilkes-Barre, Pa., tried to talk him into a car.

My husband maintained that there was a huge market for an Explorer-type vehicle—if properly exploited. The salesman was not impressed. My husband bought the panel truck, becoming one of the first in the U.S. to buy a truck for pleasure. And the fellow who tried to talk my husband out of it was none other than supersalesman Lee Iacocca.

Ruth Chamberlain
Point Loma, Calif.

I have been driving my Ford F-series pickup for 15 years. After outgrowing a small Japanese car and a small American station wagon, our family needed room. So nine years ago, we ordered a Chevy Suburban from the factory. We have been very happy with both trucks.

When the kids start driving, they will share the Ford, and I will get . . . guess what . . . a new Ford F-series pickup. What will happen to the Suburban when we have gotten our last mile from it? Well, we could always furnish it and use it as a spare bedroom.

Michael Garrett
Albuquerque

I was dismayed at the assumptions built into your story. It's true that the best-selling vehicles in America are full-size pickups from GM and Ford. But past that point, I think a more realistic story would be why anything with se s
and carpet—and no cargo space— s
any business being called a truck I
understand the government classifi-
tions and that most of the featured -
hicles have a true cargo cousin or ev
near-identical twin. I think, howev
that the whole classification is due
lobbying efforts by manufacturers
avoid the stringent requirements th
apply to cars.

As far as the longevity of the tren,
I suspect it will be closely linked to fu
prices. How long are you interested
commuting in a 15-mile-per-gallon
you're lucky) vehicle with gasoline a
$2 a gallon?

Michael Hawkin
Camarillo, Cali

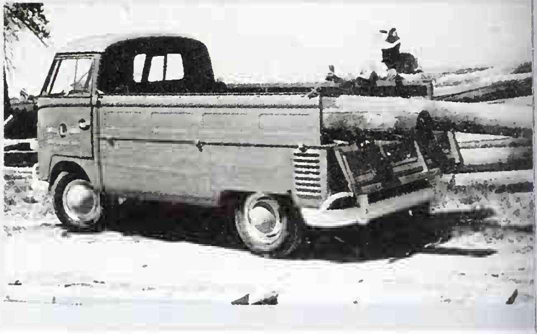
Present-day pickup trucks, minivan
and sport utilities are poorly designe
gas guzzlers—and unsafe to drive. I be-
lieve that the future holds a place fo
the entrepreneur who can produce
small, safe, fuel-efficient vehicle on
modular, high-strength frame that ca

A TRUCK OF HISTORIC IMPORT

In your trucks story, a photograph of a Volkswagen pickup truck appears above a captio
about its 1961 introduction to the United States.
The truck in the photo, however, appears to be a
great deal younger. I remain a little curious as t
what the 1961 vintage truck actually looked like.

Jay S. Cherrie
Pleasant Hill, Calif.

Editor's note: The truck in the picture was a 1980 Volkswagen compact pickup. Here is the 1961 version.



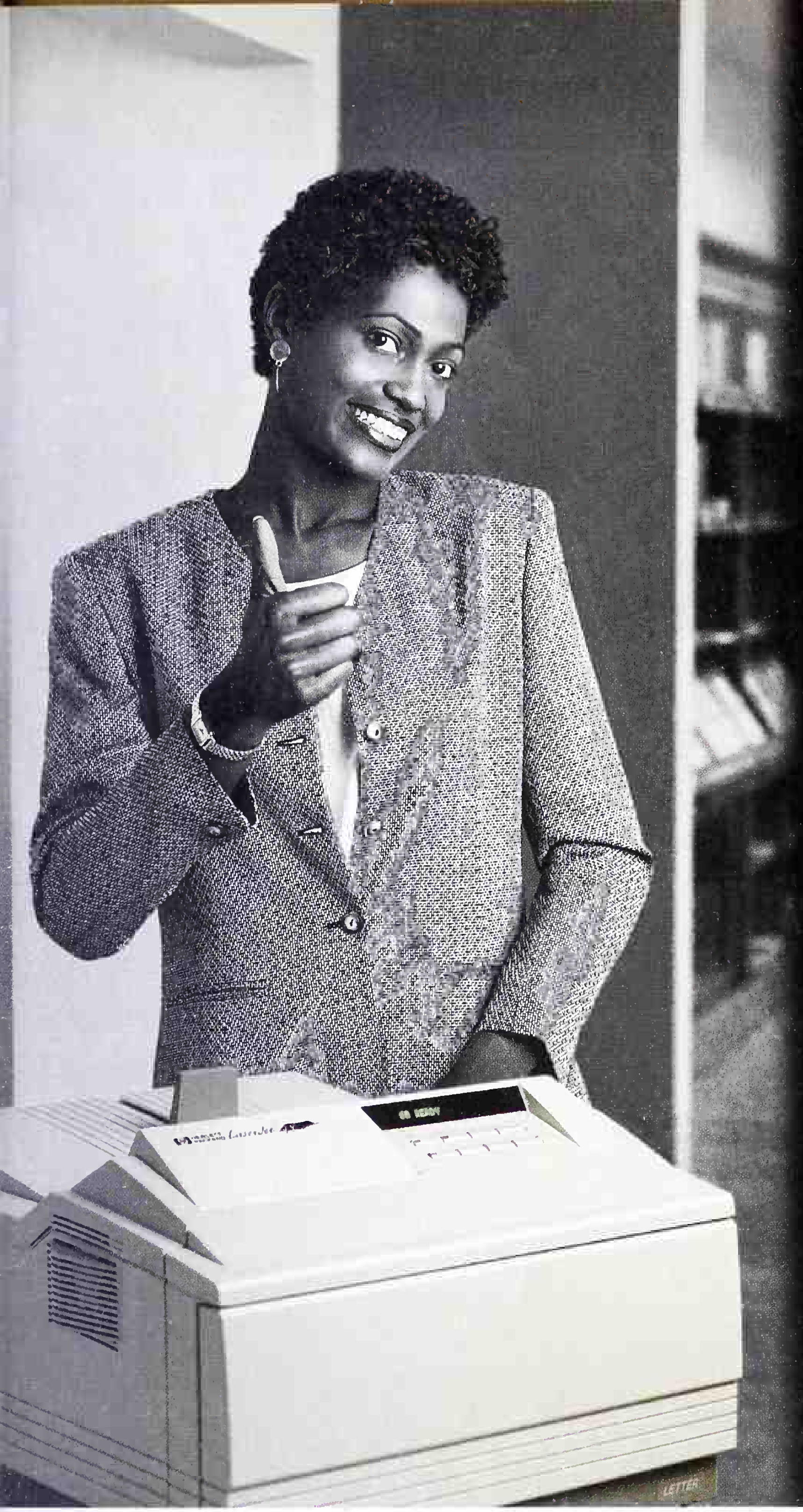
BUSINESS WEEK
DECEMBER 26, 1994 3405
ISSN 0007-7135 * * *

Published weekly, except for one issue in January, by McGraw-Hill, Inc. Founder: James H. McGraw (1860-1948)

Executive, Editorial, Circulation, and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127039; Intl. 2360127039. U.S. subscription rate $46.95 per year; 2 years, $78.95; 3 years, $104.95. Single copies, $2.75; back issues, $5. Write for rates in other countries. Subscriber Services: 1-800-635-1200. TDD: 1-800-554-1579

Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 4
Hightstown, N.J. 08520. Second-class postage paid at New York, N.Y., a
at additional mailing offices. Postage paid at Montreal, P.Q. Canada Po
International Publications Mail Product Sales Agreement No. 2464
Registered for GST as McGraw-Hill, Inc. GST #R123075673. Copyright 19
by McGraw-Hill Inc. All rights reserved. Title registered in U.S. Pate
Office. European Circulation Center, McGraw-Hill House, Maidenhea
Berks, England. Telephone: 0628-23431; Telex: 848640.
Officers of McGraw-Hill, Inc.: Joseph L. Dionne, Chairman and Chief E
ecutive Officer; Harold W. McGraw, III, President and Chief Operating
ficer; Robert N. Landes, Executive Vice President, General Counsel, a
Secretary; Robert J. Bahash, Executive Vice President and Chief Fina
cial Officer; Frank D. Penglase, Senior Vice President, Treasury Operatio

PHOTOCOPY PERMISSION: Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Ce
ter (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy any article herein for the flat fee of $1.50 per copy of each article. Send payment
the CCC. Copying for other than personal or internal reference use without express permission of McGraw-Hill is prohibited. Address requests for c
tomized bulk reprints to Business Week Reprints, P.O. Box 457, Hightstown, N.J. 08520, or call 609-426-5494. ISSN 0007-7135/94/$2.75
PRINTED IN THE U.S.A.



Double time.

HP LaserJet 4V Documents in half the time.

If your printer keeps you waiting too often, you're ready for the new HP LaserJet 4V printer. The one that can give you 16 pages per minute instead of the usual eight.

The LaserJet 4V handles a variety of paper sizes, including 11″ x 17″. It's got more memory. And it fits on a desktop. When you hit print, you get HP's true 600-dot-per-inch resolution. It's sharper. Crisper. Blacker. And only $2,449 U.S. list.

If you need to turn up the speed on your network, choose the LaserJet 4MV. Get your work in half the time it ordinarily takes. Just look in the Yellow Pages for the HP dealer nearest you.

You do your job. We'll do ours.

HP LaserJet Printers

HEWLETT® PACKARD

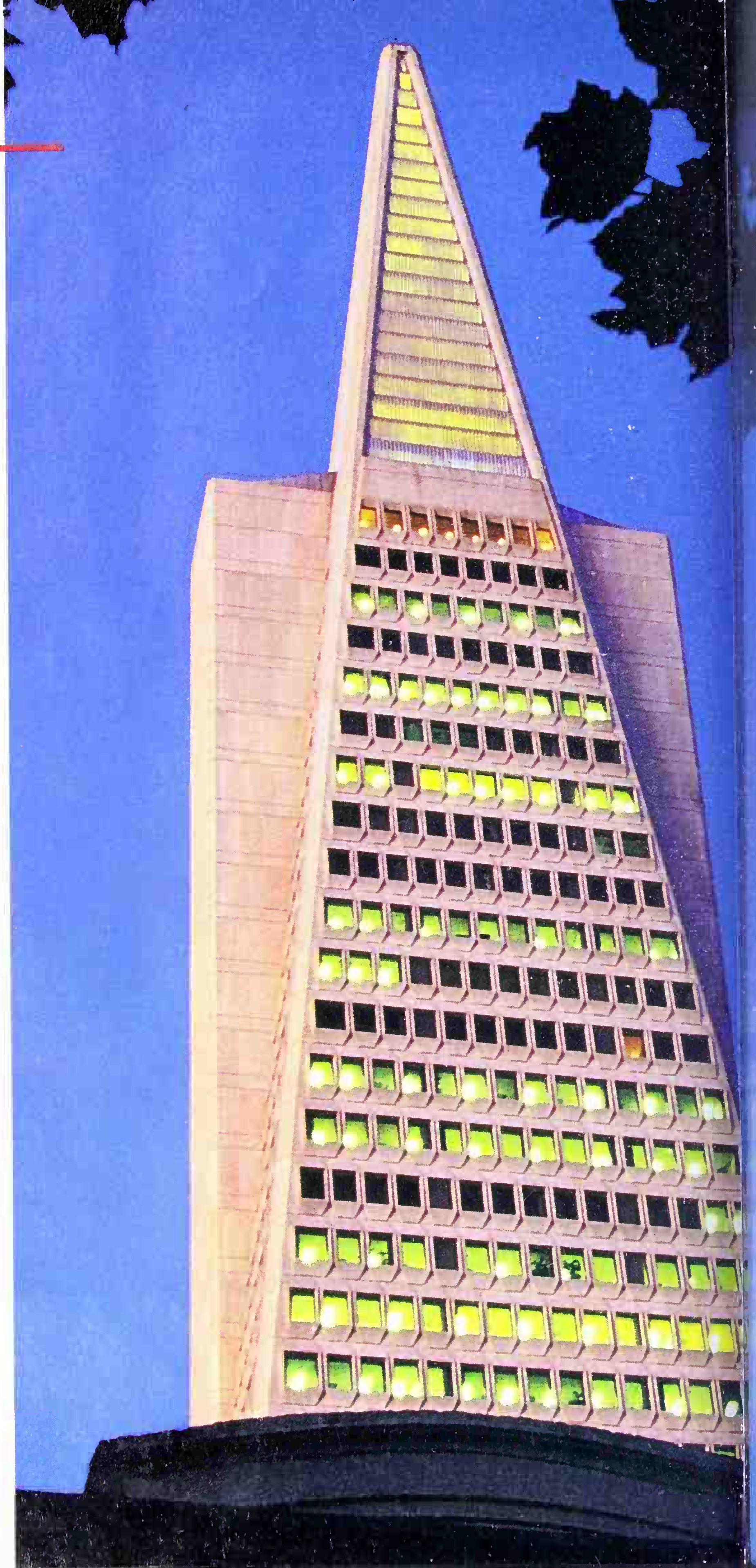
ore information, call 1-800-LASERJET, Ext. 8572. In Canada call 1-800-387-3867, Ext. 8572. ©1994 Hewlett-Packard Company PE12460

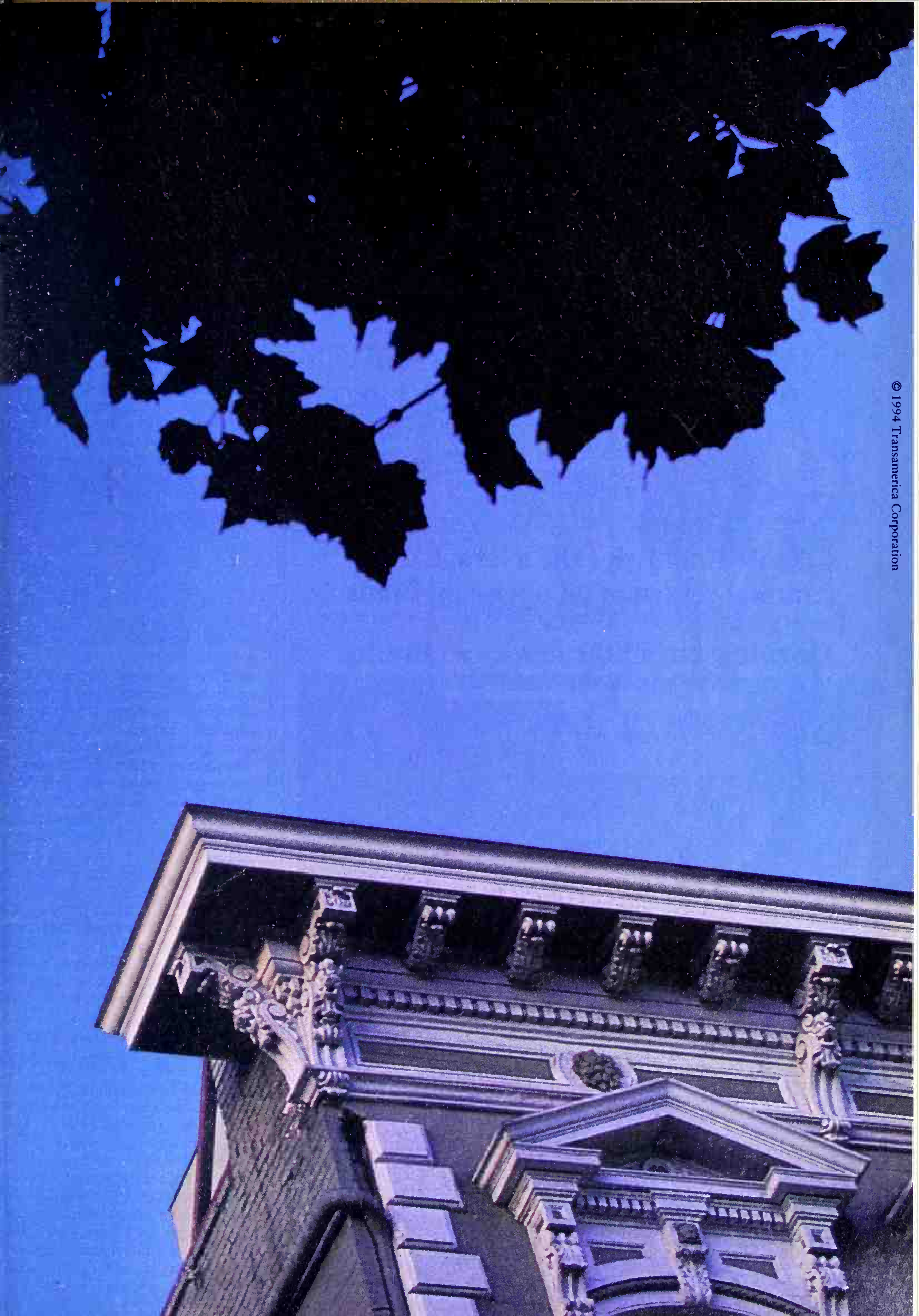
Financial Services
from Transamerica

IN THIS CHANGING WORLD, WE MAKE IT A POINT TO OFFER SOLUTIONS.

We're Transamerica, the people in the Pyramid. We offer life insurance, annuities, retirement plans, mutual funds and other products to help people plan and invest for the future. We offer consumer and commercial loans to help families and businesses grow. We're also one of the world's biggest leasing companies. In all of our businesses, we believe in providing our customers with real solutions to their financial needs, at reasonable prices. That's a philosophy you can count on when you deal with any Transamerica company. Remember us for the best in financial services.

TRANSAMERICA
Life Insurance • Investments • Lending • Leasing





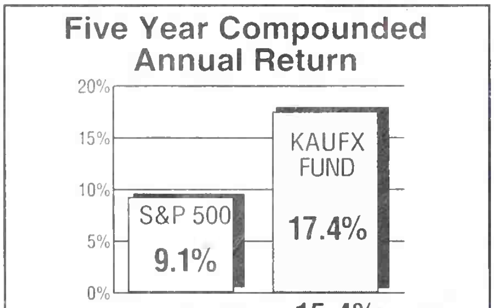
© 1994 Transamerica Corporation

#1 Performing Fund Since the Market Low of 1987

*—per Mutual Fund Forecaster**

The Kaufmann Fund

A Small Company Growth Fund



Kaufx	Inception (2/86)	15.4% Annual
Returns:	1 Year	8.9% Annual

Period ending 9/30/94 per Lipper Analytical Services

IRA

NO 1994 CAPITAL GAINS DISTRIBUTION!

More than twice the average total annual return of all open-end funds

(5-year period ending 9/30/94. Out of 2,326 equity funds, per Lipper Analytical Services)

Morningstar 5 Star (★★★★★) Rating**

(Out of 1,877 equity funds as of 9/30/94)

The Kaufmann Fund is an aggressive growth fund dedicated to the objective of capital appreciation through investment in small growth companies. The Fund invests primarily in companies beyond the venture stage that are profitable and have substantial growth prospects.

Lawrence Auriana and Hans Utsch, Portfolio co-managers with over 60 years of combined Wall Street experience

For information call:

1-800-562-9210

* *Out of 637 open-end equity funds, for the period of 12/4/87-9/30/94.*

** *Morningstar ratings are subject to change every month and are calculated from the funds' three- and five-year average annual returns with appropriate sales charge adjustments and a risk factor that reflects performance relative to three-month Treasury bill monthly returns. Ten percent of the funds in an asset class receive five stars.*

Total returns for periods ending September 30, 1994 are historical and include change in share price, reinvestment of dividends and capital gains. There is a 0.2% redemption fee and a 12b-1 fee in excess of 0.25%. The S&P is an unmanaged index consisting of the common stock of 500 publicly traded U.S. companies. For more information including charges and expenses, please read the prospectus carefully before you invest. The performance cited represents past performance which is not indicative of future results; investment performance fluctuates; fund shares when redeemed may be worth more or less than original cost.

THE KAUFMANN FUND, INC.
140 East 45th Street, New York, NY 10017 • Fax (212) 661-2266

be tailored to the tastes and needs of the general public. This vehicle could fulfill the needs of off-road adventurers (four-wheel drive) or appeal to a small family's needs. The vehicle could be expanded to haul cargo or as a people carrier.

Michael Tinnir
Vernon, Co

You overlooked an important issue: traffic. Drivers sit higher in trucks, thereby improving their field of vision and helping them maneuver through congestion.

Drivers of trailing sedans, however, have to cope with reduced vision. To see what's up ahead, cars change lanes or maintain longer distances between themselves and the truck in front. Both tactics reduce the rate of traffic flow, leading to worsened congestion—and probably more sales of light trucks as a coping strategy. (If you can't beat 'em, join 'em.)

John H. Morl
Arlington,

Apparently, those without a valid need for a "hulking Chevy Suburban" or a four-wheel drive have forgotten (or didn't learn) the lessons of the 1973 and 1979 gas shortages—not to mention our balance-of-payment problems with oil-rich countries. Since there are vehicles available that get more than 50 mpg, I feel extravagant even driving a sedan that does 28 to 33 mpg. But many trucks get mileage that is only half this good. Think again, folks!

Thomas Cunningha
Topeka, Ka

ACER ISN'T FAMILY-RUN

I appreciate very much the mention of Acer Inc. in "A democratic model made in Taiwan" (Editorials, Nov. 2). The story had a lot of insight into Taiwan's efforts to implement Western-style democracy.

I'm afraid, however, that the description "family-run companies such as Acer" is inaccurate. While you are certainly right in describing the vast majority of Taiwanese companies as family-run, I can assure you that Acer has never operated that way.

From the time I co-founded the company in 1976 until our public listing on the Taiwan stock exchange in 1988, at least 70% of Acer's stock was held by employees. Employee ownership and decentralized management have always been important principles at Acer a

among many factors that distin-
sh Acer from traditional Taiwanese
inesses.

Stan Shih
Chairman and CEO
Acer Inc.
Taipei

ALK UP ONE
VT NEWBIE

Iy response to "Will America log on he Internewt?" (News: Analysis & nmentary, Dec. 5) is yes! I think the as proposed in the article have ched a nerve. That nerve is the abil- o review and offer opinions on pend- legislation and issues. And people do it at their leisure, thus having e to mull over issues and offer di- opinions—not those filtered by pol- ans or analysts.

Scott C. Pollard
Utica, N.Y.

HAT THE INTERNEWT OFFERS

he ability to review and fer opinions on pending gislation and issues . . . not ose filtered by politicians analysts."

he article overlooked a major fac- in its conjecture that the on-line na- may be predominantly Republican. main piece of evidence cited was a vey of Prodigy subscribers, in which publicans far outnumbered Demo- s (about 2 to 1). The number of digy users is easily dwarfed, how- r, by the number of university and ernment research users on the Inter- And I would be extremely sur- ed—given the generally more liber- ent of universities—if anything roaching a similar split were to be nd among these users.

Michael C. Fu
Associate Professor
Management Science & Statistics
University of Maryland
College Park

'T TRUST
RUST COMPANY TOO FAR

erhaps some people need help with r trusts, but your suggestion to use k trust departments is a very bad ("Time to trust your trust fund to a ?" Personal Business, Dec. 5). My nts did just that, and the results e Mom's passing in 1986 have been average annual principal apprecia- of 1.6% a year and a taxable income am of less than 4%.

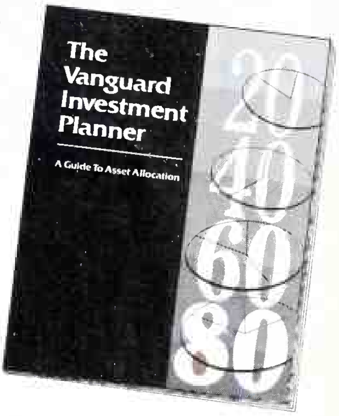
our best investment adviser will al-

DO YOU HAVE THE RIGHT MIX OF STOCKS, BONDS, AND CASH RESERVES?

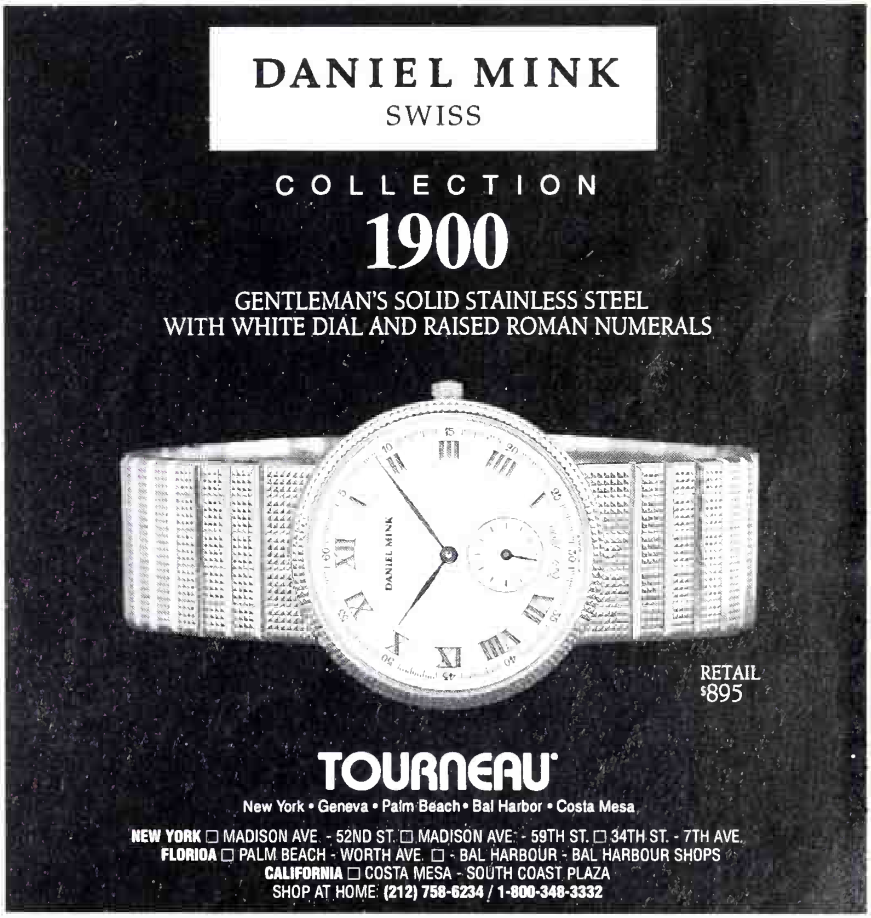
Find out through our four-step investing plan. Discover how your objectives, time horizon, risk tolerance, and financial situation help to determine how your assets should be divided among stocks, bonds, and cash reserves. Then learn how to carry out your strategy. *The Vanguard Investment Planner* is a valuable, practical guide to investing.

Call 1-800-523-3574
Any Hour, Any Day
For Your FREE Copy

Vanguard Funds are offered only by prospectus, which includes complete information on advisory fees, distribution charges and other expenses. Please read it carefully before investing.
© 1994 Vanguard Marketing Corp., Distributor



THE Vanguard GROUP OF INVESTMENT COMPANIES®


DANIEL MINK
SWISS
COLLECTION
1900
GENTLEMAN'S SOLID STAINLESS STEEL
WITH WHITE DIAL AND RAISED ROMAN NUMERALS
RETAIL
$895
TOURNEAU
New York • Geneva • Palm Beach • Bal Harbor • Costa Mesa
NEW YORK ☐ MADISON AVE. - 52ND ST. ☐ MADISON AVE. - 59TH ST. ☐ 34TH ST. - 7TH AVE.
FLORIDA ☐ PALM BEACH - WORTH AVE. ☐ - BAL HARBOUR - BAL HARBOUR SHOPS
CALIFORNIA ☐ COSTA MESA - SOUTH COAST PLAZA
SHOP AT HOME: (212) 758-6234 / 1-800-348-3332

NO federal taxes.
NO load.
NO fees.
NO kidding.

Twentieth Century
Tax-Exempt Short-Term

30-Day Current Yield
4.06%*
as of 10/31/94

Tax-Equivalent Yields
6.34%
36% Tax Bracket

6.72%
39.6% Tax Bracket

With Twentieth Century's newest tax-exempt fund, you pay less in federal income tax*— while earning competitive yields. This **no-load** fund invests in short-term tax-exempt securities, so you'll enjoy more price stability than in longer-term bond funds. On top of that, *all* of your investment works for you, because **the fund manager is extending the waiver of the entire management fee for an additional year—until January 1, 1996.**

To learn more about our full range of **no-load** tax-exempt funds, call or write for a **FREE** Fixed Income information kit. The kit contains a prospectus with more complete information, including charges, expenses and minimums, which you should, of course, read carefully before investing.

Call today, toll-free:
1-800-345-2021
P.O. Box 419200, Kansas City, MO 64141-6200

TWENTIETH CENTURY®
MUTUAL FUNDS

© 1994 Twentieth Century Services, Inc.
BSW

Investments That Work™

* Investment income may be subject to state and local taxes and the federal alternative minimum tax. Capital gains, if any, are taxable ■ The fund manager has waived its fee until January 1, 1996. In the absence of this waiver, the total return would have been lower. In addition, the current yield would have been 3.46%, and the tax-equivalent yields would have been approximately 5.41% and 5.73% based on the 36% and 39.6% tax brackets, respectively. ■ **2.91**% and **3.28**% are the 1-year and since inception (3/1/93) average annual total returns as of 9/30/94 for Tax-Exempt Short-Term. ■ Data quoted represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate, and redemption value may be more or less than original cost.

GREAT NEWS: FEE WAIVER EXTENDED UNTIL 1996.

Readers Report

ways be the person you see in the m-
ror every morning. But if you insist
getting help from a trust company,
heaven's sake give a relative the auth-
ity to intervene when the trust comp-
ny goes dumb.

Timothy F. Merk
Cedar Rapids, Io

THOUGHTS ON THROWING THE BUMS OUT

In "Needed: A few well-placed i
peachments" (Economic Viewpoi
Nov. 28), Paul Craig Roberts has d
covered the solution that somehow el
ed Democratic Congresses chafing u
der Nixon, Reagan, and Bush. No ne
to suffer a confused electorate's havi
granted the Presidency to the opp
ing party. No need to wait for an ele
tion to rectify the mistake. Simp
purge the executive branch throu
wholesale impeachments.

Roberts falls right in with the trend
demonize the 47% plus of voters w
dared not worship at the shrine of ma
ket infallibility and the divinity of capi
over labor. For many of the new maj
ity, conquest without vengeance is
empty victory, and their eagerness to
form pales before the compulsion to cri
inalize the beliefs of their opponents.

Lynn Beck
Chica

Craig Roberts is right on target.

Don De F
Geneva, I

Paul Craig Roberts' article was ou
standing. The average citizen has
idea of the impact of these unqualifie
overzealous, power-hungry bureaucra
on the cost of goods and the eliminati
of jobs.

O. A. Live
Preside
Oil Spill Eater International Cor
Dall

HOW TO REACH BUSINESS WEEK

LETTERS FOR READERS REPORT
All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space.
Mail: Business Week, 1221 Avenue of the Americas,
39th floor, New York, NY 10020
Fax: (212) 512-4721
Internet: bwreader@mgh.com

SUBSCRIBER SERVICES
For individual subscriptions, corporate subscriptions, renewals, changes or problems, and single copies.
Phone: (800) 635-1200 or (609) 426-7500

COPYRIGHT PERMISSIONS
Before quoting or reproducing editorial material.
Phone: (212) 512-3396
Fax: (212) 512-4938

THE WORLD OF BUSINESS NEVER STOPS. NOW, NEITHER WILL BUSINESS WEEK.

Introducing Business Week Online, a new interactive service that lets you stay constantly in touch with the world of business. Timely, global and user-friendly, Business Week Online enables you to access business information and interact with Business Week editors.

BusinessWeek

Beyond news. Intelligence.

With Business Week Online you can:

- Speak directly to Business Week editors!
- Read the current issue before it hits the newsstands!
- Get immediate access to global news and analysis!
- Participate in live weekly online conferences!
- Purchase popular business books!
- Browse archives of past issues!
- Share insights with other Business Week Online users!
- Access exclusive online features from the editors including:
  - — Best Business Schools
  - — Business Bookshelf
  - — and more

Business Week Online. Available Exclusively on America Online.

Call 1-800-641-4848 for a trial diskette including 10 free hours on America Online.

AMERICA Online

BusinessWeek ONLINE

CHINA WAKES:
The Struggle for the Soul of a Rising Power
By Nicholas D. Kristof and Sheryl WuDunn
Times • 501pp • $25

CRUMBLING DYNASTY OR AWAKENING GIANT?

Read the first part of *China Wakes: The Struggle for the Soul of a Rising Power*, and you'll confront the darkest side of the People's Republic. Authors Nicholas D. Kristof and Sheryl WuDunn explore every evil—from 1989's bloody crackdown at Tiananmen Square to rampant corruption among Communist officials to the sale of women into slavery.

Read the concluding chapters, and you come away with a rather upbeat assessment of the future, in which an economically powerful China gives rise to an embryonic civil society. "Should we be portraying China as the evil empire, a disintegrating dynasty, the last bastion of Communism?" asks Kristof at one point. "Or as an awakening giant, one that is raising the living standards of its citizens more quickly than any other major country in the world?"

This tension forms the core of *China Wakes*. The authors, husband and wife, take turns analyzing key events that are remaking China—for better or worse. To do so, they draw on contacts cultivated during their 1988-93 stint as Beijing correspondents for *The New York Times*. WuDunn, a third-generation Chinese American, tries her best to "go native," and both venture around China on their own as much as they can. But *China Wakes* is not a string of anecdotes or an anthology of rehashed *Times* stories. Probing deeply into Chinese society, the authors have produced a lively, thoughtful book, albeit one that doesn't break conceptual grou

Although Kristof and WuDunn c
clude that China is on the way up, t
do a far better job of explaining
trends that continue to drag it dow
chapter by WuDunn called "Red E
perors," for example, offers a hea
wrenching look at how lawlessness
arbitrary power can crush individu
She tells of Wang Chaoru, a 41-year-
mildly retarded man who is dragged
terrified, by the authorities befor
1993 visit by the International Olym
Committee. Officials bidding for Ch
to host the 2000 Olympics fear he mi
prove an embarrassment should
"stray to a major street and gawk
the Olympics inspectors whizzed by
their Mercedes-Benzes." And as W
Dunn points out, he has no *guanxi*,
connections, to bail him out.

After the inspection, the police
Wang's frantic parents he is dead
look at his body shows he has been b
tally beaten. WuDunn goes so far as
track down the person who led the
lice to Wang's house. She is Zhang G
ying, an "absolutely ordinary" old wo
an who heads the local Neighborho
Committee. Clearly shaken, Zhang
nies everything. "There's no such mat

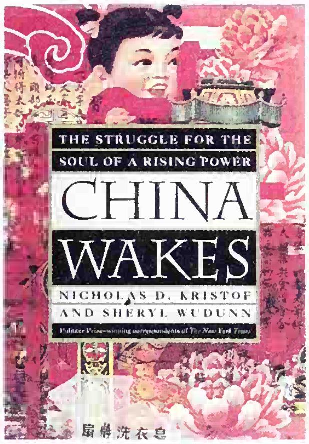
HAPP

(What else would you expect from a com

You know what you're doing next quarter. But next year? Or the year after? Or the year afte
and use information to see where they need to go, and to get there. With that in mind, we

THE AUTHORS ARE AT THEIR BEST DETAILING CHINA'S CRUSHING HUMAN-RIGHTS ABUSES

his," she says, imploring WuDunn
ave. "This never happened."
uDunn also does an excellent job of
ng out the plight of women in China,
oring ordeals from forced abortions
he slave trade. And Kristof, in a
pter called "Ghosts,"
s penetratingly at
ther communism has
tributed anything
l. After decades of
ipulation and abuse,
oncludes, the party is
ng its grip.
n the positive side,
authors try to show
China is evolving into
ore modern, more plu-
tic society. They point
he proliferation of
rtwave radios, satel-
dishes, and fax ma-
es as signs that the
rmation Revolution is wending its
into China. To highlight the new
ness, WuDunn profiles Wang Shuo,
-year-old author whom she calls "the
t subversive person I know." The reason: "He turns hoodlums into heroes, he colors his dialogue with curses, and he writes about sex, alienation, and failure as perfectly normal things." To spotlight the massive economic changes under way, Kristof introduces Zhang Guoxi, a freewheeling 39-year-old tycoon "who may be the richest man in China." Having made a fortune exporting wooden chests and Buddhist altars, primarily to Japan, Zhang now runs an international trading company involved in everything from hotels to restaurants to stock trading.


THE STRUGGLE FOR THE SOUL OF A RISING POWER
CHINA WAKES
NICHOLAS D. KRISTOF AND SHERYL WUDUNN
Pulitzer Prize-winning correspondents of The New York Times

While the book's downbeat parts are richly supported by anecdotes, however, the authors come up a bit short in documenting China's rise. They're not persuasive about the favorable impact of China's economic boom, though they cite all the positive indicators, from foreign investment to growth in gross domestic product. One reason could be their disdain for Chinese officialdom. Witnessing the Tiananmen Square bloodbath just months after they got to China, the authors were devastated. Writes Kristof: "We thought that China had changed, had become more humane as it opened to the West.... We were proven wrong and we were angry.... I felt that sense of betrayal, like bile, almost every day for several years."

The pair avoid officially sponsored trips, which they deem "counterproductive." The authorities don't "just manipulate the truth," WuDunn asserts. "They lie. They invent. So you don't just get a distorted view of reality. You get absolute falsehood."

Trouble is, China's economic miracle is largely orchestrated by the government. So *China Wakes* is missing valuable insights from the advisers and officials who helped propel such breakthroughs as the creation of local stock markets, the advent of modern conglomerates, and the rise of a new technocratic elite. There's no mention of economic czar Zhu Rongji, who, Kristof has often noted in

Y 1998

n help you realize your long-range vision?)

r 30 years, we've been helping companies work with technology to create
ish you a happy 1999. 2000. 2001. 2002. You get the idea. (800)566-9337, x1800.

EDS

"GEE, I'VE NEVER SEEN A CHECK THIS BIG. NOW WHAT DO I DO?"

Just received your 401(k) or retirement plan check? Ready to rollover your IRAs or CDs? Few investments offer the freedom of choice of an **American Life Individual Retirement Annuity.***

The freedom to move your money among 14 interest and investment alternatives that fulfill your investment goals when you want to. Including a competitive fixed interest account. No commission, transfer, or withdrawal fees.

Add American Life's high General Account ratings, and you know what to do...

THE AMERICAN WAY OF LIFE.

1-800-872-5963

AMERICAN LIFE

Mutual of America Life Insurance Company is a Registered Broker Dealer. It distributes the products of Mutual of America and The American Life Insurance Company of New York. For more complete information on applicable charges and expenses obtain a prospectus by calling 1-800-872-5963. Read it carefully before you invest. This product may not be available in all states. The IRS may apply tax penalties on withdrawals made prior to age 59-1/2.

* CD's are federally insured and offer a fixed rate of return.

Value!

That's what you can expect from The University of Arizona's Eller School...distinguished faculty...innovative curriculum... a blend of theory and practice...world-class facilities...

The MBA Program...small classes...supportive, interactive environment...enhanced leadership skills...

The Executive Development Course...comprehensive management curriculum...resort-based, nine-day intensive program...interactive methodology...(Next class: April, 1995)

Custom Executive Programs...effective business/academic partnerships...responsive, tailor-made programs...dynamic mechanisms for organizational change...

Prepare for the Future - Invest in Management Education

MBA Admissions: (602) 621-2169
Executive Education: (602) 621-2930

Karl Eller Graduate School of Management
College of Business and Public Administration
McClelland Hall 204-F · The University of Arizona · Tucson, AZ 85721

THE UNIVERSITY OF
ARIZONA
TUCSON ARIZONA

Books

articles, is called "China's Gorbach
because of his openness to chan
Granted, foreign journalists in Beij
get worn down by relentless surv
lance and mind-numbing bureaucra
but Kristof and WuDunn seem to tak
personally. Of course Chinese auth
ities try to use foreign corresponde
So why shouldn't foreign correspond
use officials to get information?

Two aspects of *China Wakes* are e
cially disquieting. One is Kristof's sh
at the pervasive corruption of the c
munist system. "I had expected a
pressive state, maybe a stupid st
but not a rotten one," he writes. Bu
1988, there was ample evidence t
communist leaders in China, Russia,
elsewhere had long milked the syste
for special stores, special perks, or s
cial treatment for their children. Ind
disgust with official corruption hel
drive the Tiananmen Square prote
as the authors note. That said, Krist
chapter on corruption, which graphi
ly depicts the rot eating at the Chin
system, is well worth reading.

More disturbing is the authors' ca
lier treatment of some sources. A
learned as a correspondent in the Sov
Union, some people innocently pass
valuable information that could get th
in deep trouble. Although Kristof a
WuDunn agonize about protecting th
Chinese contacts and shield some, th
needlessly expose others to dang
Even if such sources don't land in jail,
wrong to gamble with their lives.

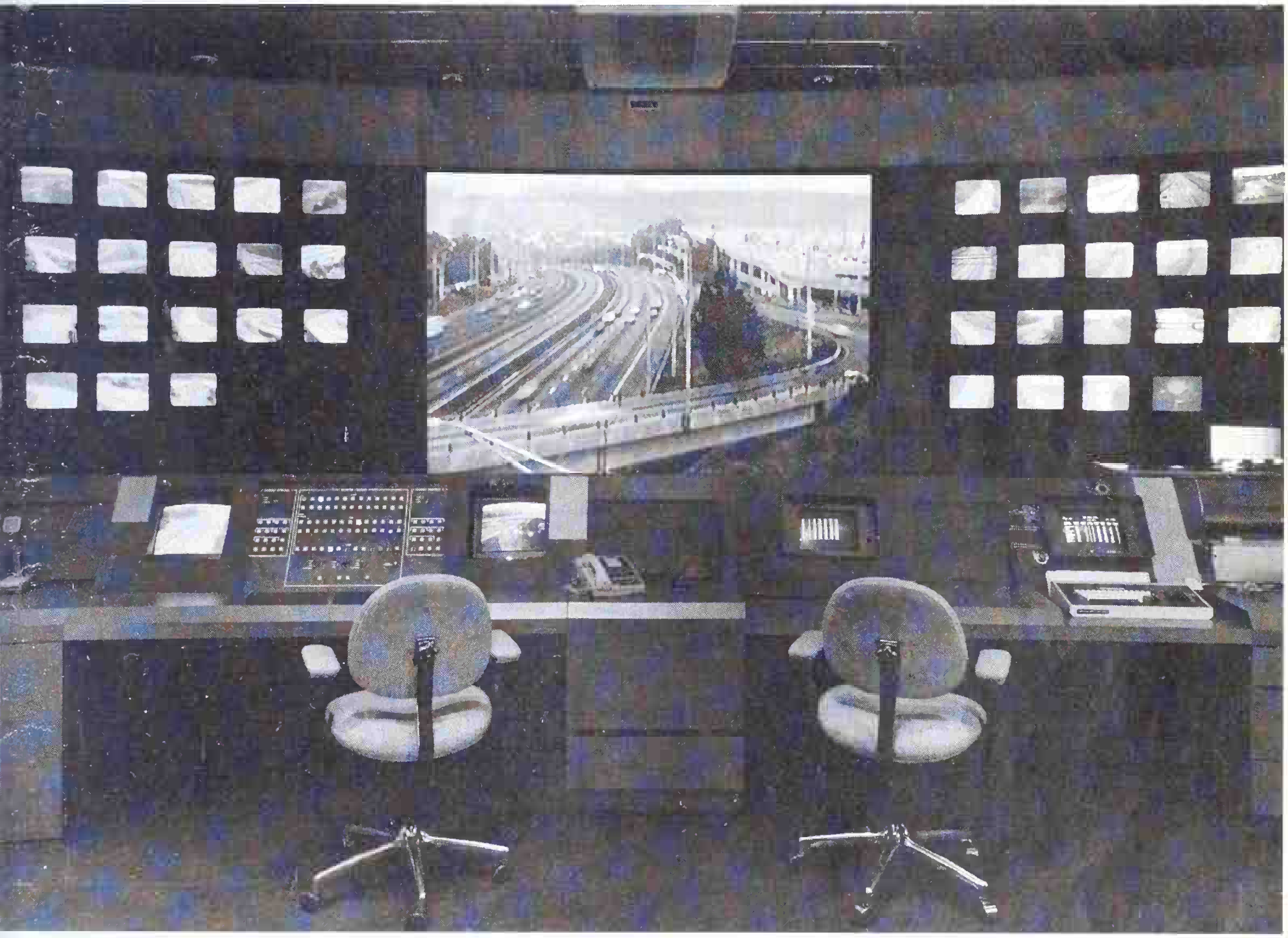
One example: Han Dongfang, a lab
leader later expelled from China, t
Kristof that, to protect his wife,
didn't want her interviewed for a
stories. Kristof, in fact, praises Han
being such a decent "family man." Ho
ever, when Han's wife tells Kristof th
she's pregnant without official perm
sion, Kristof decides to say so in h
story. It might protect her, he re
sons—but he also worries that the
sult could be a forced abortion. Luc
ly, the couple is allowed to go to t
U. S. before the birth.

Despite such shortcomings, *Chi
Wakes* does a good job of analyzing t
problems plaguing China during the l
years of Deng Xiaoping's rule. And t
authors' highly personal style lets rea
ers experience China down and dir
The book is more pessimistic than t
authors profess to be. But a sober look
China during this time of business ferv
is a useful reminder of the unpredi
able nature of the Middle Kingdom.

BY JOYCE BARNATH

Barnathan heads BUSINESS WEE
Hong Kong bureau.

Where will all the smart roads and smart cars get their intelligence?



By the early 21st century, your r will be equipped with an ectronic map that will navigate u through traffic. A computerized ice will direct you as you ive. Electronic road signs will arn you of traffic congestion and ggest alternate routes. Traffic gnals will automatically adjust the ebb and flow of cars.

This is no passing fancy. The chnology is already here. And uch of it is coming from com- nies located in Fairfax County.

The network of satellites, sensors, onboard computers and guidance systems that will make intelligent highways and vehicles work are by-products of technologies that these companies developed for the national defense.

Further, the policies that will be used to deploy this technology are being developed at Fairfax County's George Mason University.

Smart ideas like smart cars and smart roads are why smart companies move to Fairfax County.

If you want to compete in the 21st century, it's the best route you can take.

Please send me more information on the business advantages of Fairfax County.

*Name*________________
*Title*________________
*Company*________________
*Address*________________
*City*________ *State*______
*Zip*______ *Phone*________

Fairfax County Economic Development Authority
8300 Boone Boulevard, Suite 450, Vienna, Virginia 22182
Telephone 703-790-0600, Fax 703-893-1269
BW10

airfax County, Virginia. The 21st Century Is Here.

EDITED BY STEPHEN H. WILDSTROM

POCKET PRINTING, MINIMUM STINTING

My first "laptop," a Texas Instruments Silent 700, had a built-in printer. Well, it was really a portable teletype machine, not a computer. It had to be plugged in to work and it had no display. But it did give me printed copy.

With the development of liquid-crystal displays a decade ago, paper all but disappeared from the road warrior's kit. There were a handful of portable printers on the market, but they tended to be heavy and clunky, produced lousy copies, and were generally not worth the trouble. A new breed of portable printers, however, deserves a fresh look.

SALES FORECAST
PN60

Be prepared for compromises. Like laptops, ultralight printers cost more—even for lower performance—than their desktop kin. Ultralights are slow, typically producing about two text pages per minute, with graphics output quite a bit slower. You generally have to feed in paper one sheet at a time. But you no longer have to sacrifice print quality.

SMALL WONDER. If getting the smallest and lightest printer is your paramount goal, the Citizen PN60, available in Windows and Macintosh versions, is your choice. Smaller than a cigarette carton and weighing just 1½ pounds with an optional $79 battery pack installed, the PN60 is a very cool piece of industrial design. Using a thermal printing element and a miniature film ribbon cassette, it produces near-laser-quality text as well as color.

The disadvantages? The printer's supercompact design makes loading paper tricky. If you're not careful to keep the paper absolutely straight, the sheet will skew during printing. Speed and cost may be bigger drawbacks. Black ribbon cartridges, about the size of a microcassette recording tape, cost $9 for two, and each is good for 15 to 30 pages—15¢ a page in the best case. Color ribbons cost $14 a pair and print only three to five pages. Printing a full page of color takes a good 15 to 20 minutes.

TWO FOR THE ROAD

PRINTER	WEIGHT	PRICE
CITIZEN PN60 Citizen America *(800) 477-4683*	1.5 lbs.	$349
CANON BJ-10SX Canon Computer Systems *(800) 848-4123*	3.7 lbs.	$239

DATA: BUSINESS WEEK

The likely uses of such printers should minimize the pain. These units aren't designed for long production runs. Instead, you'll use them to knock out a letter or a memo in your hotel room or to print out an amended page of a long document. The color feature is especially handy if you have to add or change a slide for a presentation on the road.

If you are looking for something less expensive and more conventional, albeit bigger and heavier, you may be able to fill the bill with the Canon BJ-10sx. (A similar unit is available for the Mac as the $429 Apple Portable StyleWriter.) The BJ-10sx, the smallest member of Canon's BubbleJet family, is about the size and shape of a small subnotebook computer. The top opens to form a support tray for paper, which you load much as you feed sheets into a typewriter. An optional $90 feed tray will supply paper automatically, but the extra weight and bulk may be more trouble than they're worth.

CANON FODDER. If you prefer your printer inseparable from your laptop, consider the Canon NoteJet. Starting at about $2,000, it's a notebook computer incorporating the guts of the BJ-10sx. You feed a sheet into a slot at the bottom front of the computer, and the printed copy comes out the back.

Unfortunately, it's the marriage of a good printer with a so-so laptop. And the 8.6-pound, 2.5-inch-thick unit tests the limits of portability.

Assuming you have to print on the road only rarely, you can use a modem to send a page to a hotel fax machine or borrow a colleague's or customer's printer. But if confidentiality is a concern or if you would rather not have to depend on the kindness of strangers, a lightweight printer may be just the ticket. S.W.

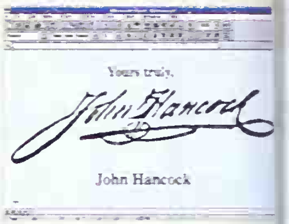
BULLETIN BOARD

SOFTWARE

HIGH-TECH JOHN HANCOCKS

It's a snap to type a letter using your word processor and zip it to its destination using fax software and a modem. You can even simulate a lett head. But how do you add yo signature?

One way is to turn your signature into a graphic b scanning it. Problem: It's hard to get a good-quality signature that way, and "pasting" it in place electronically can be a pain. Sc lution: Send your signature to Rhode Island Soft Systems Inc. (800 959-7477), which, for $75, will convert your John Hancock into a TrueType font for Windows c Macintosh. Then, with a couple of mouse clicks and key strokes, you can put a signature on a fax, a form letter, even personal correspondence prepared by an assistant.



Yours truly,

John Hancock

John Hancock

MONITORS

GREEN SCREENS

If you've been shopping for a monitor, you may be wonderin what manufacturers mean when they say that their displays comply with Energy Star and MPR-2 standards. Energy Star is a voluntary federal standard for reduced power consumption in computer equipment. MPR-2 is a Swedish government rule, adopted by many U.S. corporations, for lowered electromagnetic emissions from monitors. Both features are worth looking for.

QUESTIONS? COMMENTS? techandu@mgh.com on Internet or fax (202) 383-2125

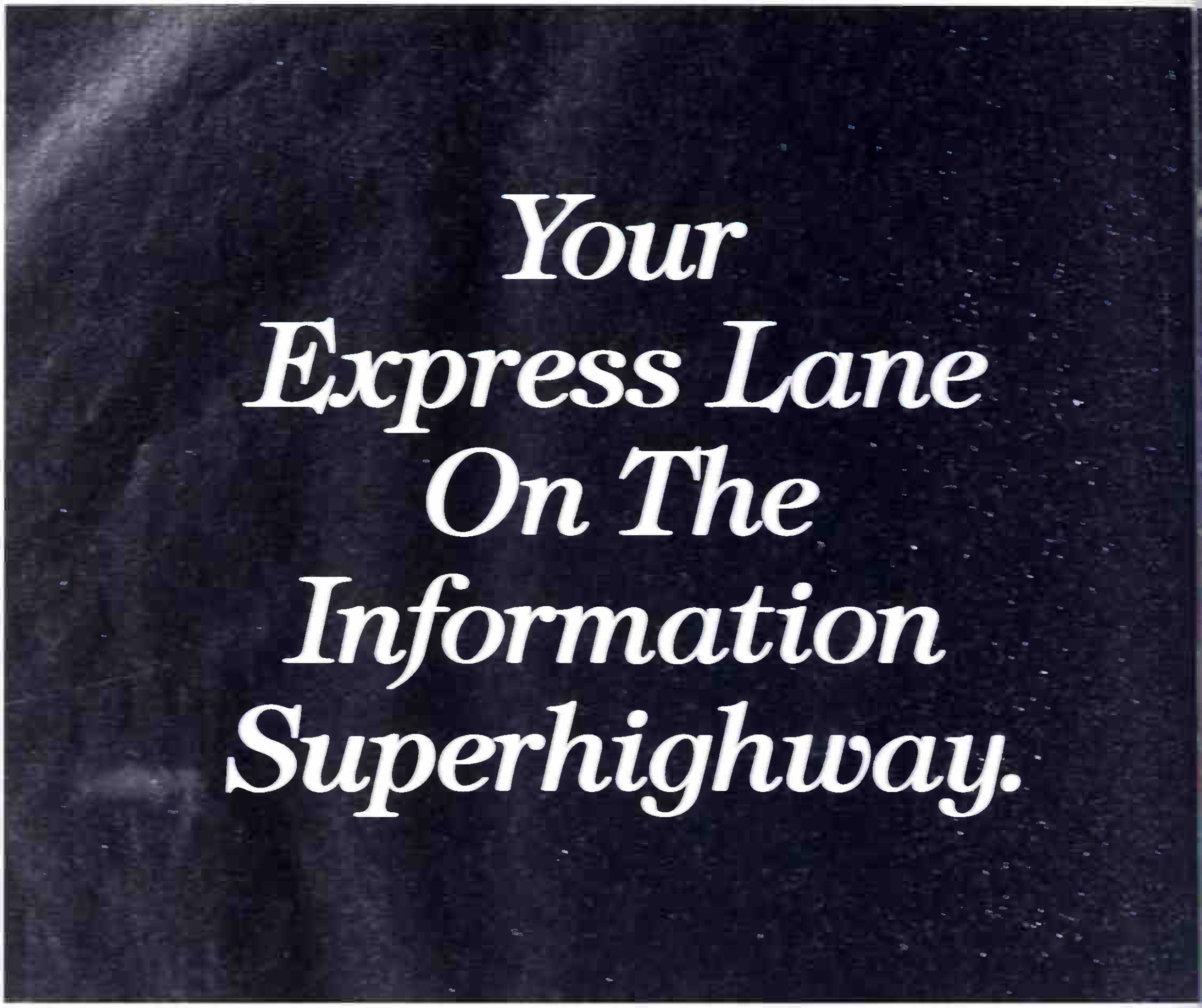
DEVOTES INCREDIBLE ATTENTION TO DETAIL

JUST LIKE A PARKER

PARKER
INSIGNIA

The PARKER INSIGNIA Laque Black shows our dedication to detail. The durable, deep gloss finish is highlighted by 14kt. Dimonite G trim, a gold-plating process we have patented. The refill in the Ball Pen is specially designed to be long-lasting and write cleanly and smoothly. Like all PARKER writing instruments it has a lifetime guarantee.

Ball Pen shown, $32.* PARKER INSIGNIA collection includes a wide range of other finishes. Ball Pens and Pencils available from $16 to $100.*
*Suggested retail price. For the store nearest you, call 1-800-BEST PEN. ©1994 Parker Pen USA Limited

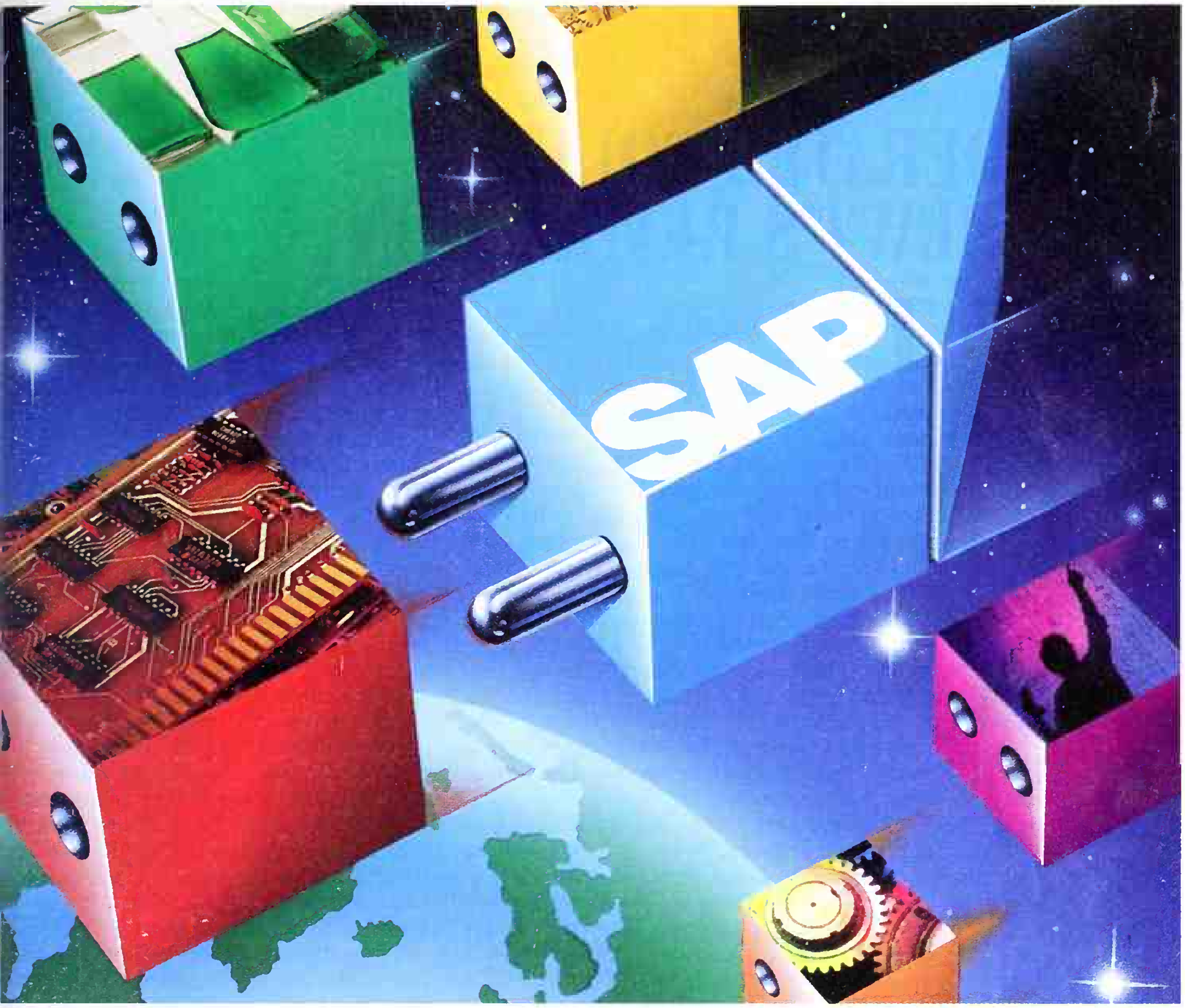


Your Express Lane On The Information Superhighway.

Turn right at R/3. Today. And SAP will help you accelerate the interconnectivity of your enterpri
on a global basis. SAP is ranked number one worldwide in client/server applications.* Powered b
the superior performance of R/3 — the first fully integrated client/server software. From sales
manufacturing, finance to human resources, R/3 already helps manage and streamline b

SOFTWARE THAT RUN

*Based on total worldwide client/server application software and maintenance revenues as reported by International Data Corporation, April 1994. ©1994 SAP America, Inc.



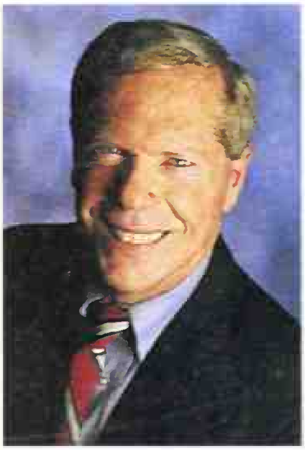
siness operations for over 1800 major corporations around the world. In fact, 9 of the top 10
rtune 500 companies count on SAP to put more people in the driver's seat with greater access to
information they need, enterprise-wide. So to find out just how our integrated client/server
utions can help you speed past your competition, call SAP ASAP at ***1-800-USA-1SAP, ext. 500.***

SAP

REAT ENTERPRISES.™

BY PAUL CRAIG ROBERTS

GOP MODERATES COULD WRECK NEWT'S REVOLUTION



THE RISK:
If Gingrich is allowed to pursue his assault on Big Government, voters will send more troops. If not, a golden opportunity will be lost

The Newt Gingrich era is destined to be one of more profound change than occurred under Ronald Reagan—if the new Speaker of the House can surmount the obstacles that would mute and devour his leadership.

Make no mistake. Gingrich is a leader who intends to end Washington's tyranny. When elected Speaker-to-be by his House GOP colleagues on Dec. 5, he expressed sentiments unheard of in contemporary American political discourse: "Power does not come from Washington. Power comes from God to the people, and from the people to their government as they see fit to loan it." The political implication of such a statement is the threat of the guillotine for federal regulators, who have had a free rein in the postwar period to usurp the power of the people and pursue their own agendas.

Gingrich's goal of downsizing the U.S. government and making it again accountable to the electorate faces formidable obstacles. Principal among these is the vehemence of a fed-up people. If the new Republicans are aggressive in their assault, the electorate will send Gingrich more troops in two years. But if the assault falters and mires down in moderation, Gingrich could lose his opportunity as mounting impatience produces third-party candidates.

To mount an assault, Gingrich needs an army, but his force has at least two weaknesses: the moderates in the GOP and the lack of committed human resources with which to staff the congressional committees. The U.S. Intellectual Establishment has long been hostile to everyone of conservative sentiment. This has denied Republicans support systems and career paths for their policy people. It has been difficult to swim upstream against the liberal ideological current, and very few have tried.

GET-ALONG GANG. Consequently, the new Republican-controlled Congress is going to be relying on inexperienced people and on Democratic staffers whose careers and emotions are tied to advancing big government. Even Bob Livingston (R-La.), whom Gingrich selected to head the Appropriations Committee, has had to hire a former aide to Democrats David R. Obey and Jamie L. Whitten in order to get the appropriations bill out on schedule. And it took a fax blitz to ensure that Democratic staffer Kathleen Johnson—the nemesis of Western land interests—would not be ke
on by the subcommittee on Interior and rel
ed agencies.

That Gingrich had to pass over four mo
senior Republicans to secure an Appropr
tions Committee chairman whom he regar
ed as suitable illustrates the other weakne
of his army. His best troops are the relativ
ly junior members who were energized
Reagan and Jack Kemp. The more seni
members were brought up on former Min
ity Leader Robert H. Michel's go-along-t
get-along strategy. Many of these membe
are Republicans only in a social sense. Th
share the Democrats' belief in the effica
of government but are uncomfortable soci
izing with radical feminists, movie sta
shrill academics, and union leaders.

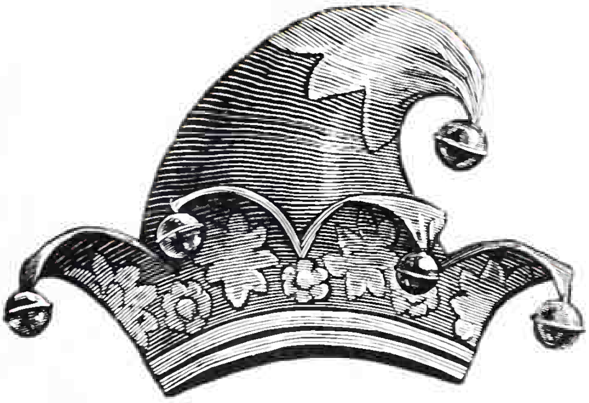
DEMONIZATION. The media have alrea
shown that their approach to Gingrich will
to demonize him. The GOP's moderates w
feed this antagonism and use it to undermi
Gingrich's leadership. His challenge is
make a good enough showing with his motl
force that voters give him a better one.

Two other major obstacles confront hi
One of the reasons regulators have run aw
with the law is that Congress cannot pr
vide effective oversight. Laws have becor
media events achieved through compromis
Every member who hangs an ornament
the Christmas tree thinks his ornament
what the bill is about. The amorphous n
ture of legislation deprives it of any clarity
purpose. In its place is a murkiness th
leaves the bureaucrats to make the law
Congress moves on to the next media even
Reclaiming Congress' responsibility to ma
law will require a different approach
legislating.

Lurking in the background is anxie
about the relative economic decline of t
U.S. The nation does not owe its postw
economic supremacy to its own economic p
icies, which have been dismal, but to the s
cialism and communism that left the rest
the world enervated. Today, capitalism
erupting around the world. If the U.S. tru
abandons merit for diversity, its econor
has no prospects for success in the emer
ing global capitalist order. To be a glob
competitor, the U.S. must make far mo
radical adjustments to entitlements and we
fare than the House GOP Contract Wi
America envisions.

Paul Craig Roberts is John M. Olin Fellow at the Institute for Political Economy and Distinguished Fellow of the Cato Institute in Washington, D.C.

©1994 J.P. Morgan & Co. Incorporated



April 1 is April Fools' Day.

April 15 is tax day.

For too many investors,

there's not much difference.

As the proverb says, "A fool and his money are soon parted." An obvious reference to those who make investment decisions without considering today's tax consequences. And precisely why Morgan has created a unique, customized way of managing assets to help you reap higher *after-tax* returns. Using Morgan's proven equity research and a proprietary technology, we ferret out tax-efficient trades. Then based on your investment goals and tax profile, we build the portfolio that'll be most continuously profitable after taxes for you. The tax man will still cometh. He just won't taketh so much away. If you have assets of $5 million or more, call Richard B. Jones at (213) 489-9339 or call George W. Rowe at (415) 954-3200, J.P. Morgan California. **Private Banking** **JPMorgan**

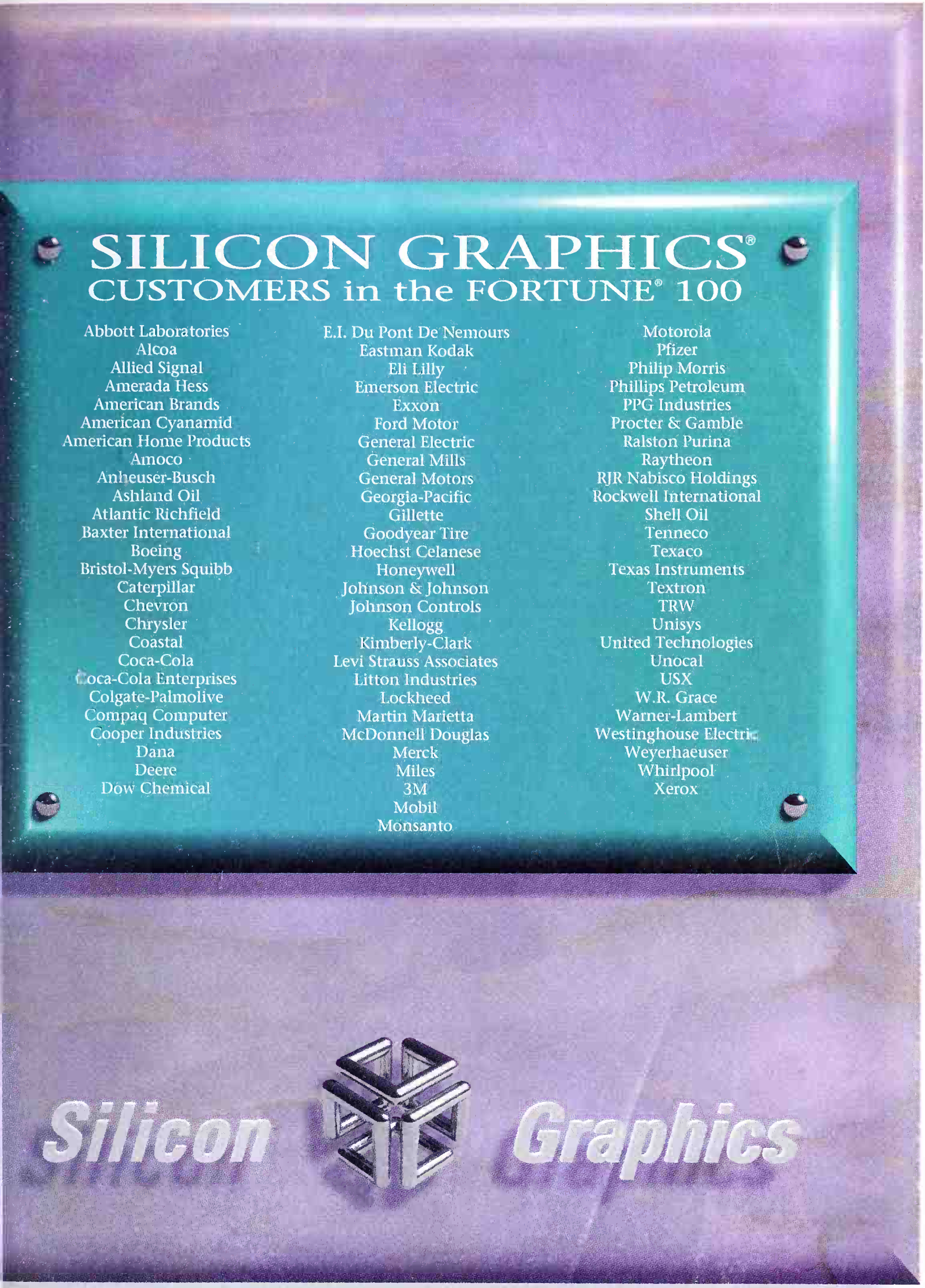
New York, Wilmington, Del., Palm Beach, Los Angeles, San Francisco, Brussels, Frankfurt, London, Madrid, Milan, Nassau, Paris, Geneva, Hong Kong, Singapore, Tokyo

THE FORCE MAY ALREADY BE WITH YOU.

Many of the world's most important companies are using a new force to drive their success. At a time when innovation is the key to increased profitability, Silicon Graphics systems - from desktop workstations to supercomputers - are helping companies take advantage of their competition. This force not only helps them invent their products, but helps them invent their future. If you would like to see your company have the force, please call us at 800-800-7441*, dept. D290.

THE NEW FORCE IN COMPUTING

*Outside the U.S., call (415) 390-2710. Visit us on the World Wide Web at http://www.sgi.com



SILICON GRAPHICS®
CUSTOMERS in the FORTUNE® 100

Abbott Laboratories
Alcoa
Allied Signal
Amerada Hess
American Brands
American Cyanamid
American Home Products
Amoco
Anheuser-Busch
Ashland Oil
Atlantic Richfield
Baxter International
Boeing
Bristol-Myers Squibb
Caterpillar
Chevron
Chrysler
Coastal
Coca-Cola
Coca-Cola Enterprises
Colgate-Palmolive
Compaq Computer
Cooper Industries
Dana
Deere
Dow Chemical
E.I. Du Pont De Nemours
Eastman Kodak
Eli Lilly
Emerson Electric
Exxon
Ford Motor
General Electric
General Mills
General Motors
Georgia-Pacific
Gillette
Goodyear Tire
Hoechst Celanese
Honeywell
Johnson & Johnson
Johnson Controls
Kellogg
Kimberly-Clark
Levi Strauss Associates
Litton Industries
Lockheed
Martin Marietta
McDonnell Douglas
Merck
Miles
3M
Mobil
Monsanto
Motorola
Pfizer
Philip Morris
Phillips Petroleum
PPG Industries
Procter & Gamble
Ralston Purina
Raytheon
RJR Nabisco Holdings
Rockwell International
Shell Oil
Tenneco
Texaco
Texas Instruments
Textron
TRW
Unisys
United Technologies
Unocal
USX
W.R. Grace
Warner-Lambert
Westinghouse Electric
Weyerhaeuser
Whirlpool
Xerox

Silicon Graphics

Silicon Graphics, Inc. All rights reserved. Silicon Graphics and the Silicon Graphics logo are registered trademarks of Silicon Graphics, Inc. Fortune is a registered trademark of Time, Inc.

BY GENE KORETZ

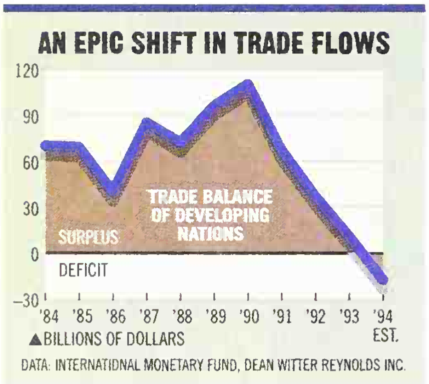
A FIERCE HUNGER FOR IMPORTS

Developing nations snap up goods

The caboose of the world economy is fast turning into a locomotive. This year, the developing world—encompassing the Asian newly industrialized countries and their neighbors, Eastern Europe, Russia, and Latin America—is likely to post its first trade deficit since 1971, predicts economist Joseph Quinlan of Dean Witter Reynolds Inc.

The turnaround is startling. With imports growing faster than exports, the developing nations' collective trade surplus shrank from $111 billion in 1990 to $12 billion in 1993 This year's deficit could approach $16 billion, says Quinlan.

AN EPIC SHIFT IN TRADE FLOWS



DATA: INTERNATIONAL MONETARY FUND, DEAN WITTER REYNOLDS INC.

Imports from the industrial world include capital goods for the development of infrastructure and new plants as well as intermediate goods for production facilities set up by foreign multinationals. And an emerging middle class craves Western items from cigarettes to cars.

GATT will accelerate these trends, as tariff walls start tumbling down. Developing nations, notes Quinlan, already account for about 40% of world output—and 45% of U.S. goods shipped abroad. "For many American companies," he says, "the best is yet to come."

HOW MUCH HAS CAPACITY GROWN?

Enough to keep inflation at bay

Economists had expected that new data revisions by the Federal Reserve would show that U.S. industry has been adding to capacity in recent years at a far greater rate than originally reported. Such a change would presumably result in a significant downward adjustment in the percent of capacity being utilized and thus allay fears that operating rates were close to an inflationary threshold.

Instead, the latest revisions lowered total capacity utilization only marginally, from 84.9% to 84.6% in October. Before hitting the inflation panic button, however, economist Richard F. Hokenson of Donaldson, Lufkin & Jenrette Securities Corp. suggests that observers take a second look at the data.

Much of the impression of sluggish capacity growth, notes Hokenson, results from the changing treatment of computers and office equipment in the measure—a perennial thorny problem for economic statisticians. Ignoring the impact of this sector, capacity expansion has indeed speeded up.

While overall industrial capacity growth of 2.5% thus far in 1994 was unchanged by the revision, for example, the growth rate for primary processing industries was raised from 1.1% to 1.8%. Excluding computers and office equipment, the annual growth rate of total manufacturing capacity in 1992, 1993, and 1994 is now reported to have been 0.7% higher than previously estimated.

The upshot of the latest data revisions, says Hokenson, is that the definition of "full capacity" for the industrial sector as a whole is now probably closer to 87% than the traditional 85%.

MOBILE HOMES ARE ON A ROLL

They look good, and prices are low

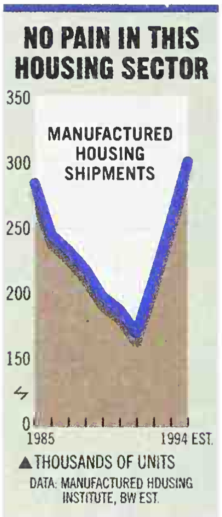
One sector of the housing market seems unfazed by rising interest rates. Manufactured housing shipments are up 20% this year and should hit 300,000 units, the most in two decades.

Affordability and improved product quality are driving demand, says Nicholas St. George, president of Oakwood Homes Corp. and former chairman of the Manufactured Housing Institute. With low prices, starting at about $25,000 for a basic single unit, monthly mortgage payments average as little as $350 to $400 for 1,200 square feet of space, plus around $100 for ground rent—far less than the rent for an apartment. And today's manufactured homes often sport features such as fancy kitchens, bay windows, and whirlpool baths.

In the 1980s, half of industry capacity closed down after the oil bust hit ener
rich states, and tax-induced apartm
construction pushed down apartm
rents. Now, however, the economic
surgence of the South and Midwest
bolstering demand from younger low
paid working families, and apartm
rents are rising in the face of falling
cancy rates.

Manufacturers are also catering
the nation's growing crop of retire

NO PAIN IN THIS HOUSING SECTOR



DATA: MANUFACTURED HOUSING INSTITUTE, BW EST.

The latest tren
to place manuf
tured homes
planned comm
nities that m
strict zoning
quirements a
offer such am
ities as clubho
es, pools, and t
nis courts. Wi
the industry r
ning flat out a
adding to capaci
analyst Barba
Allen of Donal
son, Lufkin & J
rette says shi
ments could
400,000 by 1996

FOREIGN OUTFITS SLIM U.S. PROFITS

Tax avoidance may not be the caus

Are foreign companies that opera
in the U.S. understating their ear
ings to cut their U.S. tax bills? You mig
think so in light of their scant prof
compared to their U.S. counterparts.
new Federal Reserve Bank of New Yo
study, however, blames the profit droug
mainly on the foreigners' $316 billion
quisition binge over the past decade.

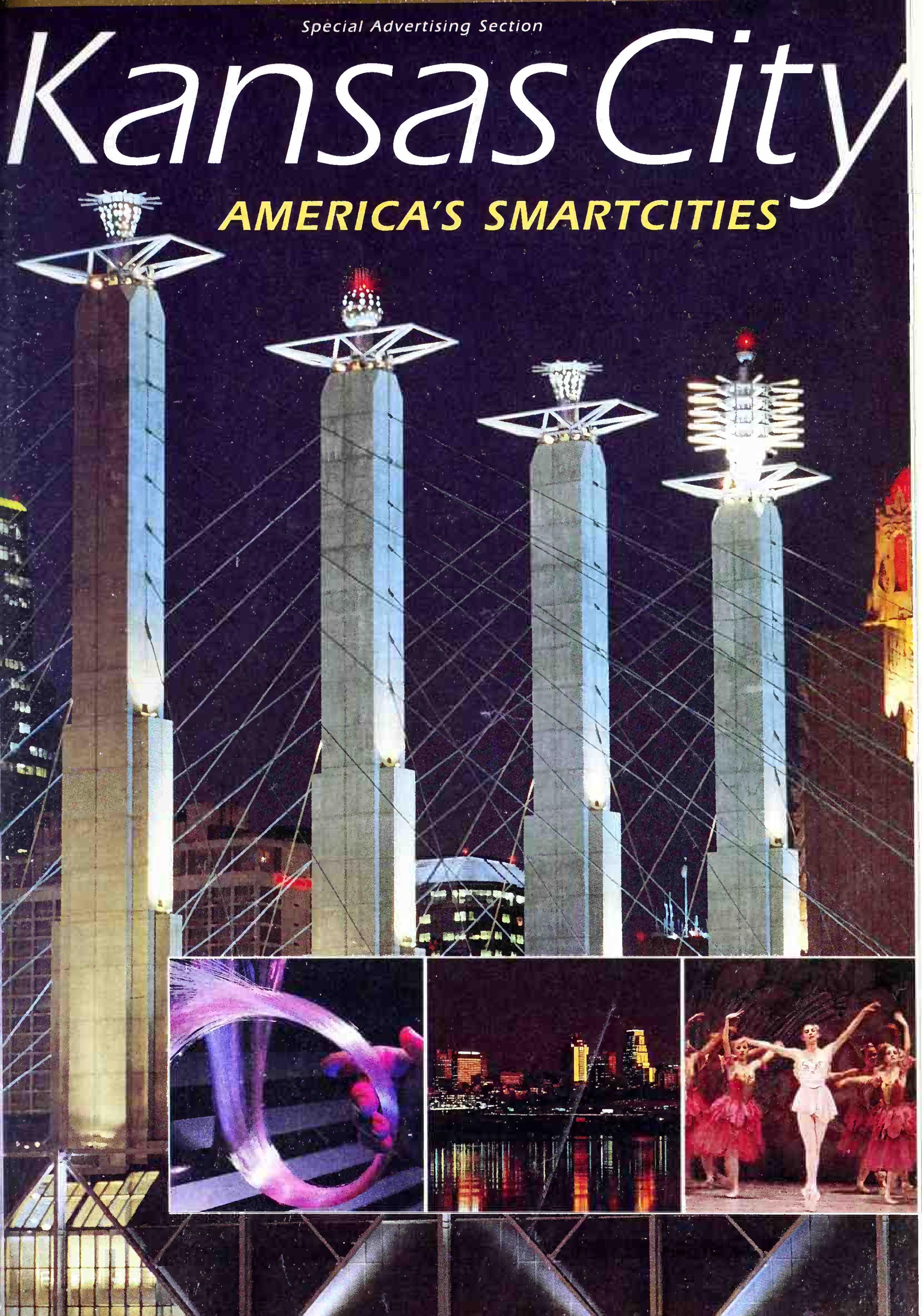
Economists David S. Laster and Ro
ert N. McCauley report that forei
companies not only shelled out som
what more than the hefty takeover pr
miums paid by U.S. companies but oft
bought far less profitable operation
Moreover, the foreign companies tend
to boost investment outlays of their a
quired operations, whereas domestic a
quirers focused more on cutting aw
fat. And the heavy debt incurred in a
quisitions also depressed profits.

Because the performance of foreig
owned operations has a tendency to i
prove over time, the researchers thi
the U.S. tax take will rise in the f
ture—as well as the profits that foreig
ers send home.

Special Advertising Section

Kansas City

AMERICA'S SMARTCITIES



AMERICA'S
SMARTCITIES™
The Kansas City Area

KANSAS CITY METRO EMERGES AS A GLOBAL CENTER FOR COMMUNICATION TECHNOLOGY

Gateway 2000 was bursting at the seams. Since its beginning in 1985, the high-tech company had been a runaway success. Last year, Gateway 2000, the largest direct-marketer of personal computers in the nation, logged an enviable $1.7 billion in revenues. What's more, all signs indicated that Gateway 2000's revenues would continue their staggering climb.

To service this jaw-dropping growth, Gateway 2000 needed a new technical center – one that would house 1,600 new customer service employees.

Company officials went shopping for a place to build. But not just any place. Gateway 2000 had an ambitious wish list for its new location. Naturally, the company wanted a city with a strong pro-business climate. And, to further its corporate philosophy of providing grade A quality and service, it needed a place with a highly skilled labor force.

SMART MOVE

But there was more. In the past, Gateway 2000 had run into problems adding new phone lines – real trouble when record-breaking orders are surging through the wires – so first-rate telecommunications were a must. Occasionally, product deliveries had trailed company standards, so executives looked for a city where distribution could be handled quickly and efficiently.

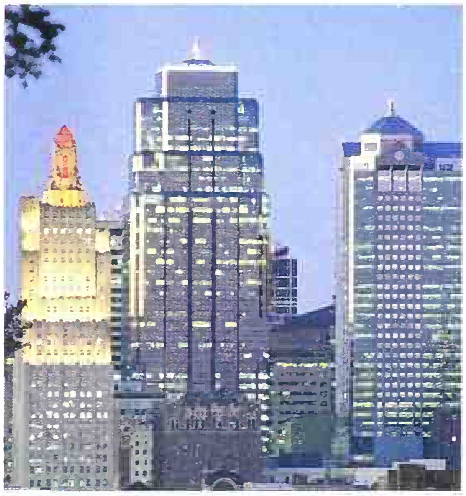
Because Gateway 2000 has built its reputation – indeed, its very business – on offering value to its customers, finding a place with a low cost of doing business was essential to the company's continued success.

In September after rigorously researching 16 cities, Gateway 2000 officials announced that they had found that place: They would open their new technical center in Kansas City, Missouri. *Smart move.*

More and more companies like Gateway 2000 are finding the Kansas City area the smart place to set up shop, thanks to its educated, productive work force, right-in-the-middle-of-things location, and affordable, sophisticated technology.

SMART CHOICE FOR INFO-TECH SUPPORT

As a result of these attributes, Kansas City has become the darling of the business press, topping the "best places to do business" lists published in *Inc.*, *Entrepreneur*, and other major business magazines.



Kansas City has consistently ranked as one of America's best places for business, according to the nation's leading business press.

Kansas City is "an entrepreneur's dream," says *Inc.* And, gushes *United Press International*: "The city's Mid-American location, office and housing costs that undercut the national average, and convenient access to air, rail, and highway transportation are magnets drawing firms to Kansas City."

And magnets for booming businesses like Gateway 2000. "Kansas City makes sense for Gateway 2000," says Ted Waitt, company founder, chief executive officer and chairman. "The area provides everything we've identified as key to our future growth."

"Access to fiber is a ma
for businesses relocati
expanding to Kansas C

WORKING HARDER & SMARTER

Few companies can boast the success
Citicorp Credit Services: In 1986, the
card collection company opened in K
City with 30 employees. Since then, C
corp Credit Services has grown to mo
than 900 employees, with more than
planned for the future.

One reason for the growth: "An extre
productive work force," says Philip J.
to, president of the Kansas City opera
which has just broken ground on a $2
lion expansion complex.

"It's a superior work force with a marv
work ethic. Our productivity level in K
City is among the highest in the coun
our organization. Our turnover is very
low; our absenteeism is very, very low.
closed places in other parts of the cou
and moved people here because of our
rience with the work force." *Smart mo*

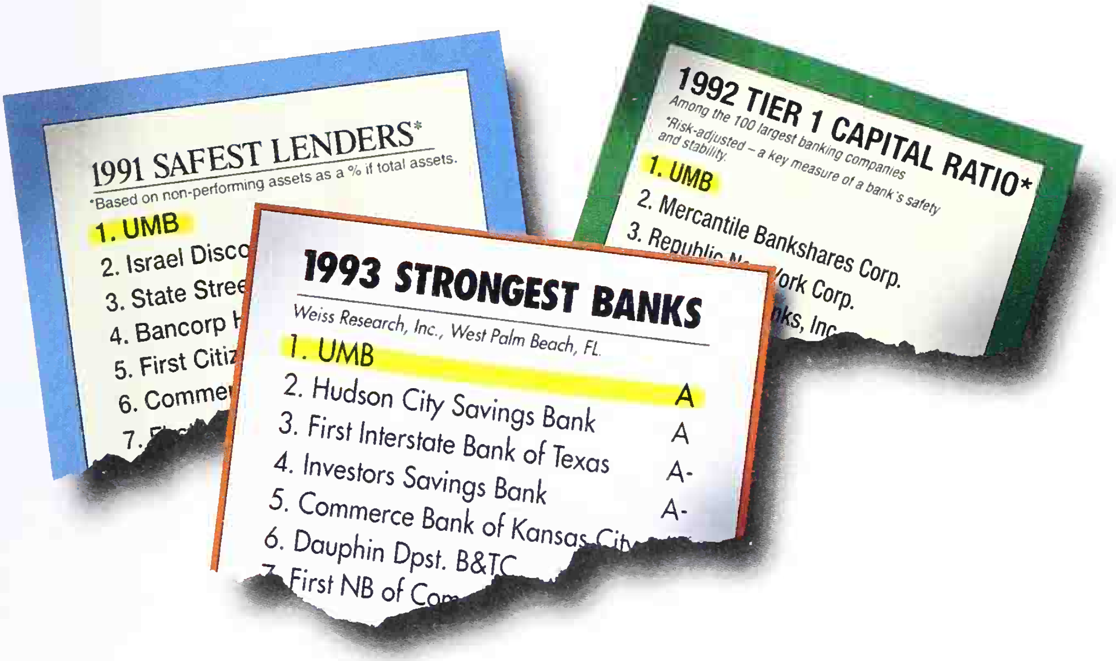
Kansas City employees consistently ea
top marks for productivity, brain pow
work ethic. That's why it came as no s
prise to area business leaders when *For*
magazine recently named Kansas City
among 31 metro areas in "access to hig
quality labor."

TOPS IN AVAILABILITY, SKILLS, HEALTH, AND EDUCATION

Study after study shows that Kansas Ci
employees have earned their strong rep
tion for working hard and working sm
Consider the facts:

- A survey of site-selection executives
  recently found that Kansas City rank
  seventh in the nation for business valu
  that is, productivity versus wages – o
  work force.
- Kansas City workers add a whopping
  more to the value of products for eve
  hour they work according to the lates
  ures available from the U.S. Departm
  of Commerce.

America's best bank.



1991 SAFEST LENDERS*
*Based on non-performing assets as a % if total assets.
1. UMB
2. Israel Disco
3. State Stree
4. Bancorp H
5. First Citiz
6. Comme
7.

1993 STRONGEST BANKS
Weiss Research, Inc., West Palm Beach, FL.

1. UMB	A
2. Hudson City Savings Bank	A
3. First Interstate Bank of Texas	A-
4. Investors Savings Bank	A-
5. Commerce Bank of Kansas City	
6. Dauphin Dpst. B&TC	
7. First NB of Com	

1992 TIER 1 CAPITAL RATIO*
Among the 100 largest banking companies
*Risk-adjusted – a key measure of a bank's safety and stability.
1. UMB
2. Mercantile Bankshares Corp.
3. Republic N ork Corp.
nks, Inc

Once again, UMB's strength has gained national notice. A recent report by Weiss Research, Inc. calls UMB America's best bank in 1993 with assets over $2 billion. In the two previous years, *Business Week* and *American Banker* honored us with their top rankings. That's three straight years in which independent sources have rated UMB #1.

Weiss is a national, financial research and analysis group that studies thousands of banks coast to coast. After comparing many factors — liquidity, non-performing assets as a percentage of total assets, and risk-adjusted capital ratio — long-time market analyst, J. Irving Weiss, stated the results very simply: "I like UMB best."

All of which means just one thing, if you're looking for the best place to build your financial relationships: There's no better place in America than UMB.

UMB
BANKS
America's Strongest Banks
Missouri • Illinois • Kansas • Colorado
(800) 892-2944

MEMBER FDIC

THE POWER TO COMMUNICATE BEGAN WITH THE SOUND OF A PIN.

You could hear a pin drop when Sprint launched the first nationwide 100% digital, fiber optic network back in 1986. And almost a decade later, it's still the only one. Today, Sprint's network spans the globe, bringing you advanced technology like the world's largest videoconferencing network. The first application of ATM data transmissions and the first and only voice activated calling card. At Sprint, that's not just a promise for someday in the future. That's the power to be there now. That's the power of a pin. ***1-800-PIN-DROP.***

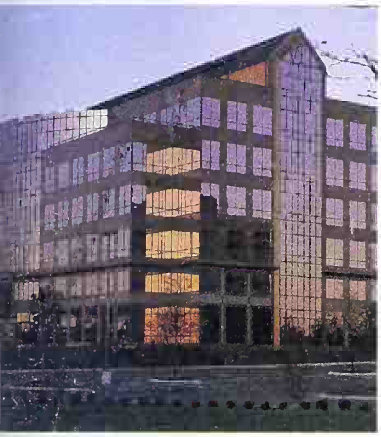
WorldCupUSA94™

Be there now. **Sprint.**

©1994 Sprint Communications Company L.P.

igh-quality work force comes at a
n: The corporate relocation consult-
m of Moran Stahl & Boyer ranked
ansas City area's wage rates as the
most attractive in the nation.

tatistics pay off for executives like
ith, president of AlliedSignal Inc.,
City division. Smith's plant, which



**ro's Johnson County is home to
Boulevard, a business corridor
er 2,000 businesses and about
employees.**

ctures non-nuclear components for
s, was recently chosen by the
nent of Energy as the consolidation
plants in Ohio, Florida, and Col-
The reason the Kansas City plant
d and others didn't? "That is linked
uality of the people we have here,"
ays. "Our work force is a significant
he reason."

ONG MIDWEST WORK ETHIC

son believes he understands the
City work ethic. "One of the
measures of productivity that we
ansas City is something called com-
t of discretionary time," says Nel-
irman, president, and CEO of
n's First National Bank of Kansas
mong both the hourly and manage-
loyees, there is a willingness to stay
job is finished, to put in extra time."

"I guess it comes from the Old West ethic of barn raising where everybody gets together and helps out. I've supervised people in other states, and you just didn't have that. People would say, 'It's not my job,' or 'I've got to catch the train.' I guess it's because the West starts here, and that the barn-raising spirit is central to the West."

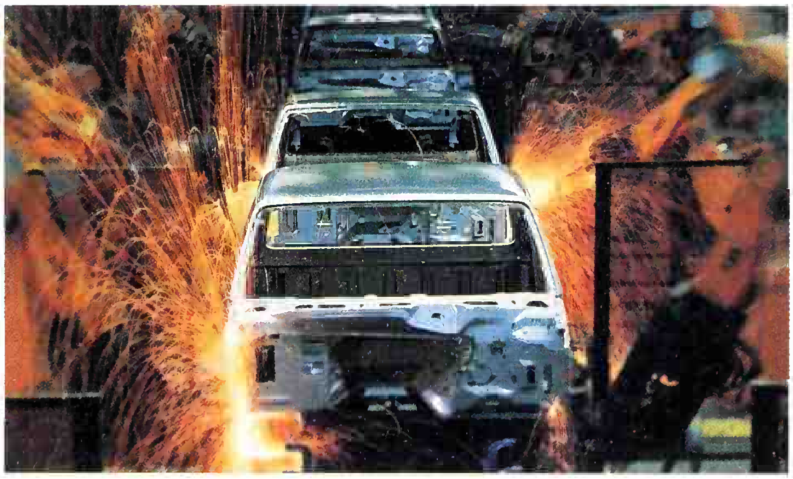
CENTRAL INTERMODAL LOCATION

To get to the top, Transamerica Life Companies needed to put its 550-person administrative staff in the middle. *Middle America, that is.*

"It's a superior work force with a marvelous work ethic...productivity in Kansas City is among the highest in the country."

To improve its business, Transamerica wanted to make calling during office hours more convenient for customers on both coasts. The insurance company was also looking for ways to allow employees to conduct business across the country efficiently during 8-to-5 work days. And Transamerica needed to streamline travel, reducing flight times and expenses for employees traveling between the administrative office, the field, and the company's West Coast headquarters. Everything pointed to a central location.

In 1993, Transamerica chose Kansas City as the site for a major relocation from Los Angeles. Looking back, James Roszak, president of the Life Insurance Division, feels it was the smart choice. He says: "One of the key factors in selecting Kansas City is its geographic location." *Smart move.*



The wheels of commerce are driven by a steady current.

Kansas City Power & Light can put your business on a roll with new electric technologies. Greater efficiency. And a dependable supply of clean, affordable energy.

No matter what your ideas for business success, count on Kansas City and KCPL for the energy to see them through.

KCPL℠
The Energy Behind Your Ideas

AMERICA'S SMARTCITIES™
The Kansas City Area

For businesses like Transamerica, location is everything. And Kansas City's location – within 250 miles of the true geographic and population centers of the United States – can mean a competitive advantage.

"It's halfway to each coast and halfway north to south," says Jim Stowers Jr., chairman of Twentieth Century Mutual Funds, from his perch in the middle of the country.

The area's in-the-middle-of-it-all location offers, among other benefits, a central time zone, reduced travel time, and lower distribution costs.

MID-U.S. LOCATION MEANS LONGER WORKDAYS

For Informix Software, which recently opened divisions in the Kansas City area, the central time zone means employees can reach customers or vendors on either coast throughout much of the 8-to-5 workday.

"Our technical support group is better able to serve our customers from the Kansas City area than from our West Coast headquarters," says Jeff Loehr, Informix's director of human resources. "I no longer have to bring people in to work off hours just to reach New York." And that translates into reduced wages.

Kansas City's unique location also makes it a natural transportation hub, with quick and efficient access to the rest of the country – a distinct advantage when it comes to shipping goods and receiving materials.

A driving force of the area's transportation hub is Yellow Freight, the nation's largest less-than-truckload carrier. Yellow is currently undergoing a $100 million reengineering process from its Kansas City headquarters, which will make the company faster, more reliable, and more convenient than its traditional less-than-truckload competitors.

Supported by an innovative computer model, Yellow now provides improved transit times and reduced handling (more than 54% of all shipments arrive in three days or less); reliable two-day connections to more than 19,500 communities with no extra charge; and guaranteed, expedited delivery with more than 99.5% reliability.

GETTING AROUND EASILY NETS BOTTOM-LINE SAVINGS

A Kansas City location allows employees to travel more efficiently, too.

Now that New York Life has opened an operating division in Kansas City, its employees can travel to most cities and back within a day. As a result, says Stan Metheny, the company's management consultant, New York Life has reduced the costs typically associated with overnight stays, including hotel rooms, car rentals, and meals.

The metro's $500 million, 85-acre Crown Center complex links offices, restaurants, and upscale shops with over 1,400 hotel rooms, creating a "city within a city." The comple developed by Hallmark Cards, Inc. and is the site of its world headquarters.

For Neal Patterson, that means more flexible travel. "It's pretty nice to be able to go to either coast, meet a client, have an early dinner, and be back home on the same night," says the chairman and CEO of Cerner Corp., a healthcare information company dealing in hardware and software. "If you're on one coast and have to go to the other, it's a very big deal. You might as well be in Europe."

> "It simply makes sense
> move to Kansas City…
> can work more efficien
> and inexpensively from
> middle of the country

Kansas City's location also provides an unique benefit. "The states of Kansas Missouri are joined in Kansas City, cre a metropolitan area of 1.8 million peo says Bob Marcusse, president of the K City Area Development Council. "Th vides us with a very diverse labor force well as two distinctive and decidedly business state climates."

IMPORTANT LINK IN THE INFORMATION INFRASTRUCTURE

Who knows more about site selection t one of the nation's leading business rel tion magazines?

Launched in 1986, *Expansion Manager* has quickly risen as one of the top pub tions for corporate decision-makers and business mobility planners. So when it planned a move recently, its leaders kne what to look for.

We don't condone a life of crime.

But we do think of Corsica as somewhat of a steal.

Imagine buying your new fleet vehicles from someone else and finding out that they can't compare to the value of the Chevy Corsica. You'd probably feel like you were fleeced. While others may charge more for the extras you want, Corsica costs less and comes with lots of important standard features, including anti-lock brakes, driver's-side air bag, automatic transmission, and even air conditioning. Corsica also has room for five passengers and 13.5 cubic feet of cargo space in the trunk. Choose Corsica for your fleet and get more for your money. You might call that pulling a fast one. We call it Genuine Chevrolet. To find out more, call us at 1-800-FLEET-OPS (353-3867).

GENUINE CHEVROLET™

Chevrolet, the Chevrolet Emblem and Corsica are registered trademarks and
Chevy is a trademark of the GM Corp. ©1994 GM Corp. All Rights Reserved. Buckle up, America!

Yellow Freight System headquarters in Overland Park, Kansas.

ELLOW UNVEILS LUEPRINT FOR CHANGE"

ellow Freight System is making a newed commitment to total customer tisfaction.

eadquartered in Overland Park, Kansas, ellow Freight System is the nation's rgest provider of less-than-truckload TL) transportation services and is a holly-owned subsidiary of Yellow Corpo- tion, which owns companies specializing transportation, logistics and informa- on technology.

he marketplace is changing rapidly and e are, too," said Reid Armstrong, Presi- ent of Yellow Freight System. "Shippers ant speed, convenience and reliability – ll at a reasonable cost."

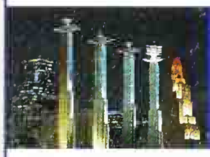
he "Blueprint for Change," a recently nveiled plan that will enable Yellow to e the most convenient, reliable shipping nd distribution partner for business, ncorporates several factors:

Introduction of diversified transporta- on solutions including expanded inter- ational coverage, express services with uaranteed delivery, and integrated ser- ices such as warehousing, distribution nd return coordination;

Smart new approaches to customer ser- ice utilizing state-of-the-art telecommuni- ations and information technology;

Use of sophisticated technology tools imed at improving freight flow, streamlin- ng business processes and reducing costs.

o learn more about Yellow's plan for the uture, call 1-800-GO-YELLOW for a "Blue- rint for Change" brochure.



AMERICA'S SMARTCITIES™
The Kansas City Area

In addition to a smart work force and a central location, publishers had another key consideration: The magazine planned to introduce new electronic publishing and interactive multimedia projects. To offer the latest technology to readers, *Expansion Management* needed access to smart technology itself.

In mid-1994, the relocation magazine announced its own relocation of editorial offices – to Overland Park, in the Kansas City area. *Smart move.*

As home to some of the biggest names in telecommunications – Sprint's world headquarters, Southwestern Bell, KC FiberNet, and AT&T – the Kansas City metropolitan area offers direct access to cost-efficient, state-of-the-art telecommunications services. That makes doing business easier and cost effective for area companies.

RELIABLE, ROBUST, AND REDUNDANT TELECOMMUNICATIONS

"Businesses place a high value on Southwestern Bell's ability and willingness to customize telecommunications services to their specific needs," says Ray Wilkins, Jr., vice president and general manager for Southwestern Bell in Kansas City.

"Here in Kansas City, Southwestern Bell understands the critical link between excellent telecommunications and a prosperous local economy," explains Wilkins. "We take very seriously our mission, which says, 'we will be our customers' first and best choice.'" Citicorp's Trovato concurs: "We have fiber optics and all state-of-the-art equipment, and we get excellent technology and support from all our providers."

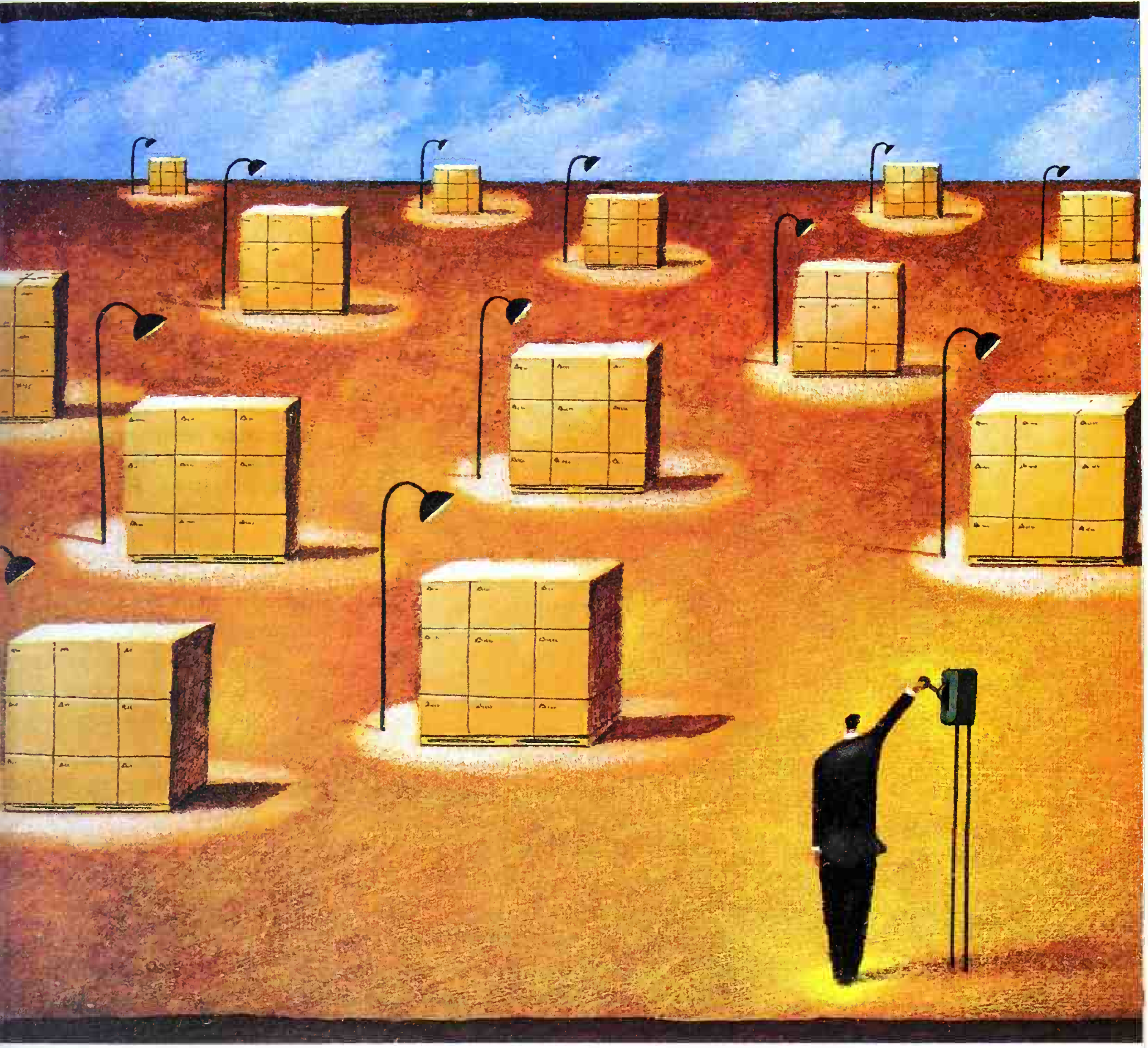
Just look at the numbers:

- Southwestern Bell has built a 1,500-mile highway of fiber beneath Kansas City streets, assuring area companies the most advanced communication capabilities available.
- With more than 150 local companies involved in the telecommunications industry, Kansas City offers extremely competitive services and rates.

The nation's most user friendly airport, Kansas City International, transports abo eight million people annually.

- Kansas City is one of Southwestern Bel premier markets for testing and deploy new telecom technology, such as ATM, SelectVideo Plus, ISDN, Voice Dial, ar Advanced Intelligent Network.
- Fully 90% of the central offices serving Kansas City area offer digital switching. Compare that to an average of just 35 other major metropolitan areas.
- Southwestern Bell provides businesses v "fail-safe" telecommunications. Bell's SONET ring technology in Kansas Cit a self-healing network, which essentiall eliminates service interruptions.
- Kansas City is digitally connected by fil optics to the intercity network of all th major common carriers, boasting 20 ISDN-capable central offices.
- Recently named a top-ten U.S. city for home-based businesses, Kansas City was chosen by Southwestern Bell for its first Home Office Services Program because of its status as a leading work-a home market.

A LITTLE INFORMATION GOES A LONG WAY.



A little information can give you a lot of power. Power you can see in the way Yellow uses its unrivaled information echnology internally to orchestrate the entire Yellow network and optimize the routing of shipments. And power you an use to provide better service to your customers. Yellow can put this information at your fingertips via mainframe, EDI, PC, phone and fax. Giving you faster proof of delivery, easier access to tracing information, and more accurate rating, routing and invoicing. All of which means improved operating efficiencies, increased cash flow and a reduction of costly, time-intensive paperwork for your company. And results like that can take anyone a long way.

For your Yellow Information Technology™ brochure

Call 1-800-GO YELLOW Ext. 16

YELLOW®

BECAUSE IT'S NOT BUSINESS AS USUAL.™

©1994 Yellow Freight System

Dynamic changes sweeping the energy industry
could produce tremendous efficiencies
in operating your business.

A

+

UtiliCorp United, the national utility company,
manages gas and electric utilities,
gas marketing contracts and international energy
development partnerships.

B

=

When you work with UtiliCorp in Kansas City,
or anywhere else in America,
you'll maximize your opportunities in energy.

C

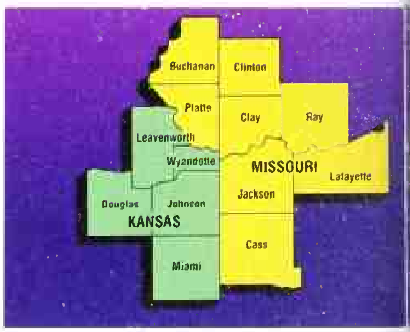
The logic is simple. The benefits enormous.
For information about UtiliCorp's industrial
development services, call for your free brochure.
(816) 737-7694.

UTILICORP UNITED
America's Utility Company℠

> "Kansas and Missouri a
> joined in Kansas City
> creating a metropolit
> area of 1.8 million peop
> a very diverse labor for
> as well as two distinct
> and decidedly pro-busin
> state climates."

ADVANCED INFRASTRUCTURE FOR VOICE, DATA, AND IMAGE TRANSMISSION

This sophisticated information infrastr
ture "was clearly at the top of my list" i
choosing Kansas City as a site for corpo
headquarters, says Bob Cowan, CEO o
American Teleconferencing Services. A
a private company providing electronic
group communication services worldwi
that's earned national attention for its
rapid growth.



The greater Kansas City metro encompa
over 6,200 square miles in 13 counties
parts of two states.

Jerry Stabenow is another high-tech bus
executive that benefits from being plugg
into Kansas City's communications infr
structure. Stabenow is vice president of
keting at CompuSpeak Laboratories Inc
private, high-tech research and develop
company. The technology "is no differe
than you would find in New York, Los
Angeles or Chicago," he says. "But the c
in Kansas City are so much lower."

RDABILITY MEANS TER RETURN ON INVESTMENT

mmunications had to cut costs. pense of worker's compensation, nd electric utilities at TIE's Connect- dquarters were eating huge chunks elecommunications company's To see if they could do better else- TIE officials began to search for a here taxes were sensible and office ffordable.

ound that place in Overland Park, In 1993, TIE officials announced tentions to relocate to the Kansas burb.

ussing TIE's plans, president George jamin projected that the relocation reduce costs by more than $500,000 Within 12 months of the relocation, npany reported that it had achieved ion, reducing operating expenses by 30%. *Smart move.*

sts of running a business quickly add companies like TIE find they can t business for less in Kansas City, one country's most affordable areas.

TY ASSETS, . TOWN LIFESTYLE

osts in Kansas City are so much says CompuSpeak's Stabenow. "And ght down the line: real estate, labor, ransportation – all of it is the very you'll find for a large metro area."

, study after study shows that dozens ness expenses cost well below the l average in Kansas City. That's one *Newsweek* recently proclaimed: "Say ye to Manhattan and Malibu. In ing numbers, refugees from the high .on both coasts are finding their par- n Kansas City."

Patrick McLarney, managing partner ok, Hardy & Bacon, that translates 'buy low, sell high" economy.

isically have a national – international ice," McLarney says. "Sometimes we have litigation going on in 45 states." But though Shook Hardy sells its expertise in expensive markets, most of the work is conducted in Kansas City, where the costs of doing business are low. As a result, says McLarney, "We can work in Milan cheaper than a Milanese law firm can."

Southwestern Bell is leading the way in the development of new services such as distance learning, telemedicine, and video conferencing.

EASY RECRUITMENT AND PROFESSIONAL TRANSFERS

Employees enjoy Kansas City value, too. And that's a big factor when it comes to recruitment.

After all, the metropolitan area claims a standard of living higher than most at a cost of living lower than most. "A $50,000 salary here is the equivalent in spending power to $70,500 for a Manhattanite," proclaims *Fortune* magazine.

Among other things, residents can buy more house for less money. Ernst & Young and the National Association of Realtors consistently rank Kansas City one of the nation's most affordable housing markets. Indeed, a four-bedroom, 2,200-square-foot, single-family home with two-and-a-half baths, a family room, and a two-car garage costs an average of $197,617 nationally. In Kansas City, such a home averages $121,826, nearly 40% less.

"We have some employees who have four-bedroom homes and backyards for the first

Payless Cashways INC®

Building Materials and Full-Line Lumberyard

PAYLESS CASHWAYS • FURROW • LUMBERJACI
HUGH M. WOODS • SOMERVILLE LUMBER • KNOX

PAYLESS CASHWAYS, INC.,

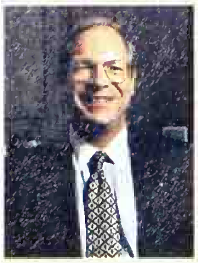
Payless Cashways, Inc., a building materials specialty retailer, is headquartered in a SmartCity™, Kansas City, Missouri. The company's strategy of high service levels with competitive prices is particularly appealing to its primary customer base of project oriented do-it-yourselfers and professionals.

Founded in 1930, Payless Cashways now ranks among the top 50 retailers in the nation and is the third largest retailer in a vast and rapidly growing industry.

Today Payless Cashways operates more than 200 retail stores in 24 states under the names of Payless Cashways, Furrow, Lumberjack, Hugh M. Woods, Knox and Somerville Lumber – and the company is growing. Payless Cashways is expanding markets and opening new stores throughout the country.

Payless Cashways is publicly traded on the New York Stock Exchange under the symbol "PCS."

For more information about Payless Cashways, Inc., and PCS stock availability, call 816-234-6183.



William C. Nelson
Chairman, President,
and Chief
Executive Officer

BOATMEN'S BIG ON BUSINESS

Kansas City's biggest bank is also the city's biggest lender. That's by design, according to William C. Nelson, Chairman, President, and Chief Executive Officer of Boatmen's First National Bank of Kansas City.

"Boatmen's continues to compete successfully throughout the region with the nation's largest banks," says Nelson. "Our strong performance allows us to focus on growth, and that focus is good for our customers and our community."

Size has its advantages in that regard. With total assets of $4 billion and as a subsidiary of the $28 billion Boatmen's Banchares holding company, the bank has the capacity to make virtually all sizes of business loans. Corporations and consumers located in Kansas City have to look no further than their own neighborhood to find a lender with the financial resources to meet their borrowing needs.

Nelson, who takes an active role in the Kansas City community and its economic development efforts, also realizes loans are only part of what businesses look for in a bank. His push for state-of-the-art technology has positioned Boatmen's as a leader in providing an array of cash management services for the bank's business customers.

Nelson has expanded Boatmen's International Services capabilities and has overseen the development of programs that benefit small- and mid-size companies. For example, Boatmen's innovative new Pro Business Banking program not only increases the borrowing power of small businesses, but also dramatically streamlines the loan application process and reduces annual financial reporting.

Boatmen's has also become a leading financial services provider for Business Week 1000 companies, as well as small businesses. Boatmen's offers investment, trust, and other non-credit services – all of which define long-term relationships with the bank.

"Boatmen's is proud to be considered a leader in the communities we serve," says Nelson. "We have the resources and commitment to work with individual customers and businesses both large and small."

AMERICA'S
SMARTCITIES™
The Kansas City Area

time in their lives," says New York Life's Metheny. "They were used to living in apartments."

SMART CHOICE FOR COMMUNICATIONS-SENSITIVE, KNOWLEDGE-DEPENDENT FIRMS

When Informix moved its manufacturing arm to Lenexa, Kansas, from Menlo, California, in 1990, it couldn't get enough of a good thing. Later that year, the software company's telemarketing group consolidated in the Kansas City suburb. In 1992, Informix began moving its front-line technical support folks to the Lenexa office. This year, the company began moving the research and development lab to the Kansas City area, as well.

The new location is proving to be a competitive advantage for Informix: The company's revenues jumped 58% in 1992.

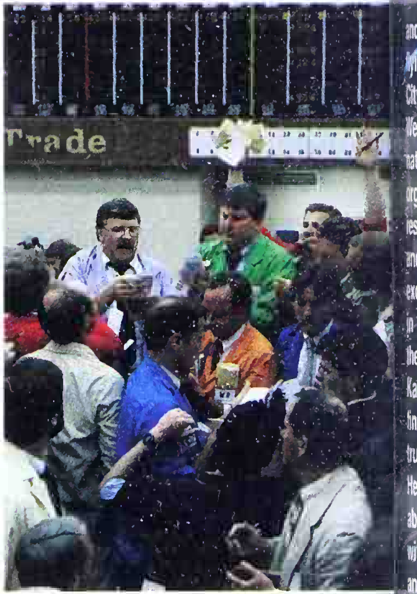
"It simply makes sense to move to Kansas City," says Informix's Loehr. "After all, it's all about money. And we can work more efficiently and inexpensively from the middle of the country."

EDUCATED EMPLOYEES PROVIDE CORPORATE BRAINPOWER

The strength of Kansas City's work force begins in its schools. How good are they? "Executives rank Kansas City schools America's best," says one business magazine.

It's easy to see why, when you consider these facts:

- Kansas City's suburban SAT scores consistently outshine the national average, ranking the region among the top of the 25 largest metro areas in the country.
- The city's urban schools have invested more than $1 billion in curriculum enhancements and capital improvements, with results that have earned raves from the national press. "The...makeover has enabled the Kansas City School District to equip the schools with some of the best facilities, programs, and personnel money can buy," according to *The Christian Science Monitor.*
- Kansas City's percentage of high sch
and college graduates tops national
averages.
- Within half an hour's drive of the m
politan area are five universities, sev
four-year colleges, 24 business and
tarial schools, 43 industrial and tech
schools, three medical schools, a law
school, a conservatory of music, one
nation's best art schools, and a comm
college network that's one of the lar
and best-funded in the nation.



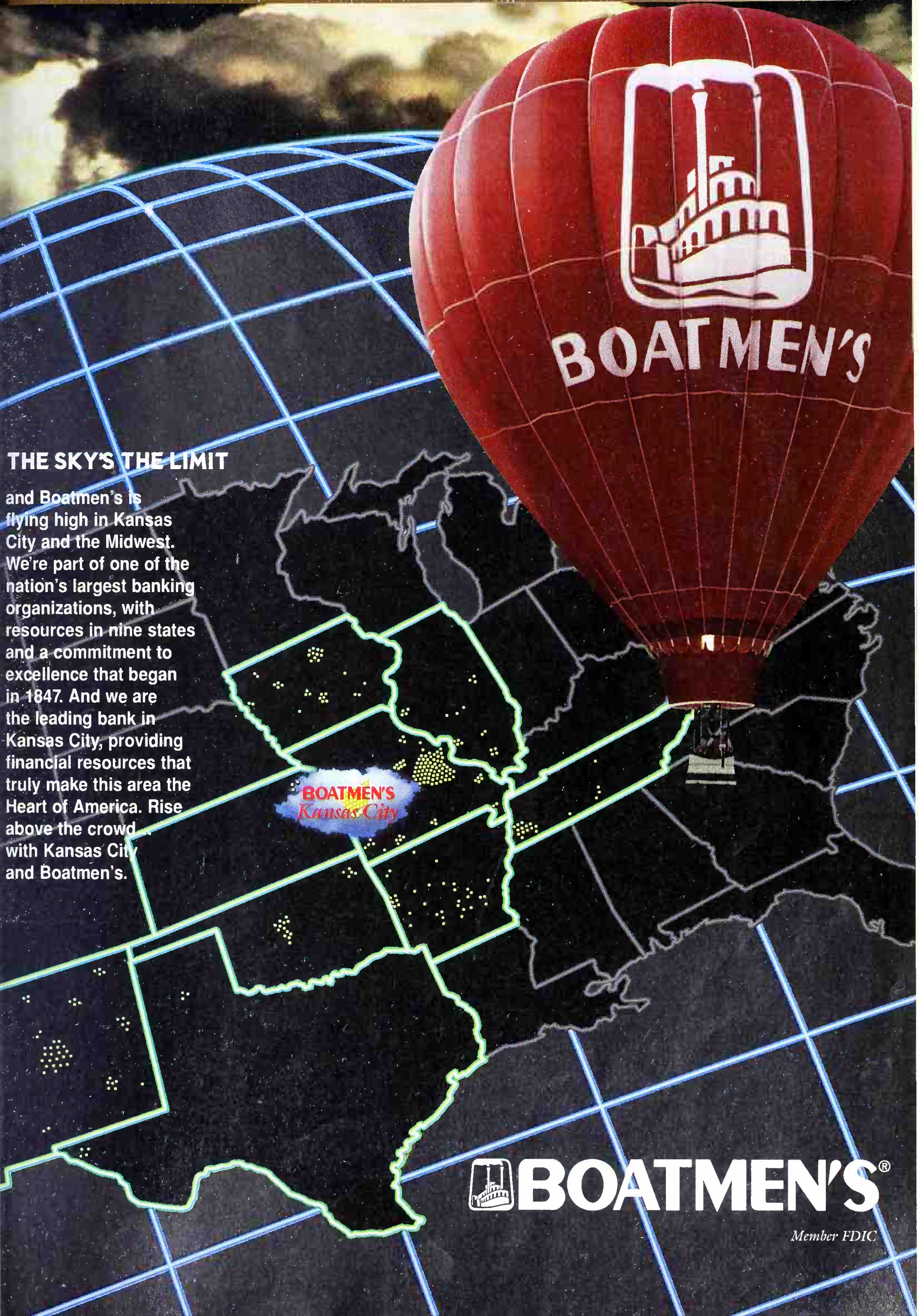
The world's largest winter wheat futur
market trades in the Kansas City metro

"If you write software, you don't meas
productivity in the usual ways," says
Neal Patterson, chairman and CEO of
Cerner Corp., a high-tech healthcare in
mation firm. "This is a knowledge-bas
work force."

KC WORK FORCE HEALTHIEST IN THE U.S.

Kansas City area workers get a clean bi
of health – and that makes for a health
bottom line.

Workers in Kansas City lose fewer sick
to illness or injury than workers in any
33 areas studied, according to a recent

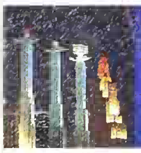


THE SKY'S THE LIMIT

and Boatmen's is flying high in Kansas City and the Midwest. We're part of one of the nation's largest banking organizations, with resources in nine states and a commitment to excellence that began in 1847. And we are the leading bank in Kansas City, providing financial resources that truly make this area the Heart of America. Rise above the crowd... with Kansas City and Boatmen's.

BOATMEN'S®

Member FDIC



AMERICA'S SMARTCITIES™
The Kansas City Area

ublished by *American Demographics*. In act, Kansas City area workers logged fewer han one-third the sick days of the worst-anking area, according to the study.

Midwestern values could be responsible for ansas City's stellar devotion to work," said he report. "The fabled wholesome lifestyle f the Midwest may play a role ..."

Vhatever the reason, the result is the ame: Employers in Kansas City, the report ays, "are accustomed to excellent ttendance records."

ansas City is a major league sports town, ncluding the excitement of football's Kansas ity Chiefs, led by Joe Montana.

Just ask Bob Cowan, CEO of American Teleconferencing Services, a private compa- y providing electronic group communica- ion services worldwide: "We have a won- derful on-time performance record, well bove what we see in other places."

NATURAL TRANSPORTATION HUB

Getting there is easy from Kansas City, a natural transportation hub.

What makes Kansas City's distribution capa- ilities so attractive?

- Located at the intersection of three interstate highways, the area has attracted the services of more than 225 motor freight carriers, placing it second in the nation in freight car handling. As a result, all points in the continental United States can be reached within two working days of pickup in Kansas City.
- Kansas City is the nation's second leading rail center, with 11 railroads offering the efficient option of overland transportation.
- Twenty airlines offer quick transportation for both people and goods at the nationally acclaimed Kansas City International Airport, where airfares are among the lowest in the nation.
- Kansas City International Airport, with 250 non-stop daily departures to 30 cities allows passengers to reach both coasts within three hours flight time.
- And because the city is situated at the confluence of the Missouri and Kansas Rivers, it offers shippers a means of reaching national and international markets via the inland waterway system.

Those attributes make all the difference for executives like Fred Schrodt. "That allows the most economical movement of time- or cost-sensitive shipments," says Schrodt, vice president of transportation and logistics for Farmland Industries Inc. "Farmland is a transportation-dependent firm that benefits from the highly competitive carriers in the Kansas City area. Time and transportation cost savings improve our competitive edge and would do the same for any transportation- sensitive corporation."

EASY COMMUTES AND HASSLE-FREE LIFESTYLE

It's no hassle getting around town in Kansas City, a metropolitan area so free of lines and traffic that long-time residents have dubbed it "The Little Easy." The average commute time from the suburbs to downtown is only 20 minutes, according to city statistics.

> "No other large city i the nation can breathe easily as Kansas City. I the largest U.S. metro meet all federal clean- quality standards."

"Not until you've sat on a bridge in Ne York, wondering when you're going to work, do you understand Kansas City how good it is," says Jerry Stabenow, vi president of marketing and sales at the Kansas City-based CompuSpeak Labor ries Inc. "We have our orange barrels li every place else, but, by and large, whe are in traffic, it's moving."

HI-TECH IN THE HEARTLAND

Kansas City has long been an importan in the nation's information infrastructu Now the metropolitan area is aggressive developing its strong technology base, w the goal of being the best city in the na for doing business electronically.

- Technology is the area's fastest-growin employment sector.
- Sprint and the University of Missouri-Kansas City have teamed up to establi a graduate program in telecommunica tions and computer science technolog that has been recognized as one of the nation's finest.
- And the Silicon Prairie Technology As ation, a trade group with 175 high-tec member companies, exists to help ent preneurs launch and develop area tech ogy companies.

Most recently, the Kansas City Area De opment Council was awarded a $250,00 grant by the U.S. Department of Comm National Telecommunications Infrastruc Administration. This grant will be used produce a prototype telecommunication planning framework for national use.

BREATHING EASY IN KC

No large city in the nation can breathe a easily as Kansas City. In fact, the Enviro mental Protection Agency has designate

We've got to stop meeting like this.

Business people spend entirely too much time in hotels. And airports and rental cars. Frankly, there's no excuse for it now that SelectVideo Plus℠ service* from Southwestern Bell is available in Kansas City. Because SelectVideo Plus technology makes videoconferencing and data transmission affordable for virtually any size business.

The savings start with public switched video rates, which are significantly less than dedicated circuits, and continue with new national standards that give you the flexibility to connect with nearly every existing system quickly and easily.

See your Southwestern Bell representative soon for details about our new videoconferencing and data transmission services, plus a host of building distribution systems and local area network solutions.

And start meeting like this.

New SelectVideo Plus lets you meet with more people, more often, more affordably than ever before. It's definitely time to start meeting like this. For more information on SelectVideo Plus call **1-800-859-SWBT, Ext. 114.**

Southwestern Bell Telephone

---

*SelectVideo Plus service not available in all areas.

MARION
MERRELL
DOW INC.

Marion Merrell Dow:
A Longtime Kansas City Partner

The year was 1950. With Harry Truman in the White House and a sense of optimism throughout the land, a Kansas City salesman named Ewing Marion Kauffman began a pharmaceutical company in the basement of his home. The rest is Kansas City legend.

Marion Merrell Dow is proud to trace part of its family tree to that small undertaking, then known as Marion Laboratories. As a result of Marion's tremendous internal growth and a 1989 merger with Merrell Dow Pharmaceuticals, which itself had a proud history as the country's oldest pharmaceutical company, Marion Merrell Dow today stands as a leader in discovering, developing, manufacturing and marketing major pharmaceutical products worldwide. Its products rank among the most important cardiovascular, respiratory and gastrointestinal therapies available.

In tune with Kansas City's dreams for future growth, the company's landscape in the southeastern part of the city began to change as it embarked on a major construction project in early 1994 to consolidate on one campus all associates in the Kansas City area, including those in the North American business unit, the new product development organization and the global administrative and planning groups.

As Kansas City looks to the future, Marion Merrell Dow is proud to play a vital role in contributing to its growth. A prime example is the Scientific Education Partnership, a collaboration between the Marion Merrell Dow Foundation, The University of Kansas and the University of Missouri-Kansas City which encourages expansion of scientific research and education in the area.

Marion Merrell Dow and Kansas City...it's been a great longtime partnership.

AMERICA'S
SMARTCITIES™
The Kansas City Area

the region the largest metropolitan area in the nation to meet federal clean-air quality standards.

That means companies located in Kansas City can breathe easier, too. As a federal clean-air city, Kansas City is exempt from many money-gobbling pollution controls required elsewhere, including vehicle emission checks, travel restrictions, and regulatory controls on industry. And that's easier on the corporate budget.

There are other benefits as well. "Kansas City's air is healthier to breathe," says Bob Marcusse, president of the Kansas City Area Development Council. "That should improve health, lower medical expenses, and result in fewer days lost from work."

KC COST COMPETITIVENESS

The bottom line: In Kansas City, each dollar buys more. Building costs, utility bills, wages, taxes – Kansas City's all cost well below the national average, and many are among the lowest in the nation.
A sampling of studies:

- Overall, operating a business in the Kansas City area costs less than in other cities, according to the Metropolitan Consulting Group.
- Office rental rates in Kansas City are among the lowest in the nation, according to ONCOR International and the Society of Industrial and Office Realtors. The per-square-foot rental cost of class "A" office space in downtown Kansas City averages $16 to $18; in New York, similar space and conditions run $32.
- Utilities, too, come with one of the nation's lowest price tags. The average industrial electric bill in Kansas City is nearly half that in San Francisco or New York.
- Office personnel wages in Kansas City are also among the lowest in the nation. They average $9.37 an hour, more than $1 an hour less than a 16-city average, according to Abbott Langer and Associates.
- Missouri and Kansas rank well below
U.S. average for property and other
according to the Bureau of the Cens

KANSAS CITY
AMERICA'S RISING STAR

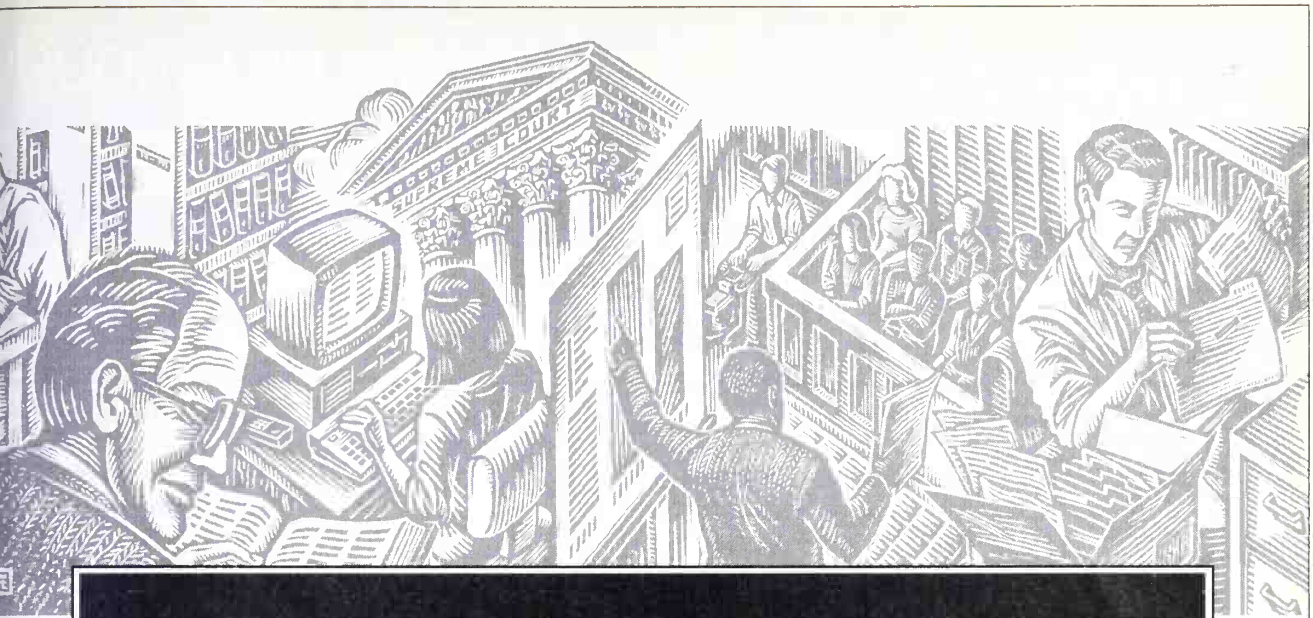
Located in the center of the U.S., Kan
City has gained affection for its down-
earth, yet surprisingly metropolitan as

Forget Toto...Kansas City is cosmopoli
It's where Luciano Pavarotti made his
debut, President Bill Clinton regularly
for barbecue and the only cow in town
stands on a statue, a tribute to bygone

Kansas City is known as the city of foun
tains, and has more fountains than any
in the world except Rome.

It's a city set on hills crowned with state
oaks and maples. Over 150 miles of fou
lane boulevards (more than Paris) mean
rarely more than 20 minutes from one
of town to another. And instead of flash
neon, you're likely to see a boulevard di
ed by a 30 foot fountain, Grecian urn o
bronze sculpture.

"There is more going on in the KC area
than cities twice its size", says Bill Nelso
chairman of Boatmen's Bank. The Kans
City Symphony, State Ballet of Missour
Lyric Opera, and William Jewell College



Why smart businesses worldwide are turning to a Kansas City law firm.

The pressure is on to hold down the cost of legal services, but we've been doing that for a long time at Shook, Hardy & Bacon P.C.

From our base in Kansas City, Shook, Hardy & Bacon has earned an international reputation in high-stakes litigation and high-dollar corporate finance dealings. Our Midwestern location means a lower cost of doing business, which is directly reflected in savings for our clients. For years, our multinational clients have been taking advantage of these qualities and efficiencies.

NOW THE SECRET IS OUT.

As geographic distance becomes an ever-smaller factor in today's business world, Shook, Hardy & Bacon makes economic sense for corporations with legal needs that span the country and the globe.

If your company is looking to reduce costs while maintaining service and quality, send your legal work to Kansas City, or to one of the other international offices of Shook, Hardy & Bacon.

Pat McLarney, Managing Shareholder, (816) 474-6550.

LAW OFFICES

SHOOK, HARDY & BACON P.C.

Kansas City, Missouri Overland Park, Kansas London, England Milan, Italy Zurich, Switzerland

Kansas City area businesses take us seriousl

because we're serious about business!

In the Kansas City area, some of the best business resources are the area's rich educational and research institutions.

Whether pursuing advanced degrees, accessing university research hubs or tapping into research and management expertise, the area's institutes, colleges, universities and research center offer ideal business-education partnerships.

Midwest Research Institute
- Excellence in scientific research and technology applications.
- Develop new technologies in partnership with local entrepreneurs.
- Provide expertise in technology for economic development and quality of life.

The University of Kansas
- Kansas City-based Edwards Campus offers 11 professional graduate degrees.
- Programs with corporate partners in international marketing, total quality management.
- Ranked among top research universities by National Science and Carnegie foundations, with emphasis in telecommunications, pharmaceutical chemistry, and engineering.

The University of Kansas Medical Center
- Major biomedical research center for the region.
- Named to Top 10 Medical Schools by U.S. News & World Report.
- Teaching hospital recognized for quality, range of specialties.

Kansas State University
- Nationally ranked research programs in science and engineering funded in excess of $50 million annually.
- Offers 42 doctoral and 60 masters degree programs, including interactive distance learning degree opportunities in Kansas City.
- Special emphases: agribusiness, advanced manufacturing, robotics, materials science, toxicology, hazardous substances, plant genetics, space biology, and grain science.

University of Missouri-Columbia
- Provides extensive resources of **both** a land-grant and research university.
- Membership among the nation's 29 most prestigious public research institutions.
- Supplies sophisticated economic analysis and forecasting for Kansas City business.

University of Missouri-Kansas City
- Research excellence in biological and biomedical science, telecommunicatio and networking, dental materials, and pharmaceutical science.
- Hub for five-university video network bringing graduate courses to the wor place or home.
- Home of the National Center for Managed Health Care Administration, a national Center for Direct Marketing, and a new Executive MBA program with an international emphasis.

University of Missouri System
- Research parks in Kansas City and in the St. Louis area.
- University Extension operates Small Business Development Centers throug out Missouri.
- Provides specialized technological support for business and industry, in cooperation with Missouri's Departme of Economic Development.

Rockhurst
- Since 1978, 400 executives have graduated from the Rockhurst Executiv Fellows MBA Program.
- National Seminars, a division of Rockhurst College Continuing Educatio Inc., offers seminars annually to 500,00 participants in North America.
- In partnership with the Department of Energy and AlliedSignal Inc., Rockhurst sponsors the largest regional Science Knowledge Bowl in the country annuall

The University of Health Sciences College of Osteopathic Medicine
- UHS-COM is a private, four-year osteopathic medical school that was founded in 1916.
- There are more than 600 full time osteopathic medical students enrolled.
- Graduates are awarded the D.O. (Doctor of Osteopathy) degree. D.O.s and M.D.s are the only two fully traine and fully licensed physicians in the United States.

The Kansas City Area University/Business Partnerships

AMERICA'S SMARTCITIES™
The Kansas City Area

ts Series keep downtown marquees
Over 20 theater companies provide
ing from provocative drama at the
ri Repertory Theater to grand musi-
Starlight Theatre, a 7800-seat out-
nphitheater.

DLY NEIGHBORHOODS

for friendliness, Kansas Citians
eir new arrivals to feel at home.
ve the City and the City loves you,"
n Connelly, Kansas City Chiefs vice
nt and chief operating officer. Adds
ed, president of KCPT public televi-
My wife and I have made more
in Kansas City in two years than in
a in 18."

Citians are proud of their agricultur-
. For two weeks every autumn, they
their Ferragamos and pull on the
ses for the American Royal, the
livestock, horse show and rodeo in
ld. Country favorites such as Mary
-Carpenter or Garth Brooks perform
whole town turns out dressed in
n chic.

NG KANSAS AND MISSOURI

it about this city at the confluence
Missouri and Kansas rivers that holds
like a magnet? Ask thirty natives and
a similar answer: "It's our people
outstanding quality of life," says
City's Mayor Emanuel Cleaver, a
list minister and transplanted Texan
l in love with the city and his future
n the same date in 1968. Pro golfer
atson likes the fact that "people still
u in the eye, smile and are not afraid
iendly."

f 1.8 million, KC is large enough to
opolitan but small enough to be
able. "We're on a human scale so it's
get things done," says Marc Wil-
ector of the Nelson-Atkins Museum
Kansas City's crown jewel. The com-
has raised $80 million for the muse-
he past 12 years, among the highest
table giving to a U.S. museum.

Forty-seven acres of prime green space near the museum has been set aside for a sculpture garden which already boasts the largest collection of Henry Moore's works anywhere in the nation.

Next door to the Nelson is the new $6.6 million Kemper Museum of Art whose first exhibit was a rare collection of Georgia O'Keeffe watercolors owned by R. Crosby Kemper, who also underwrote the new museum. Four new 18-foot-high white shuttlecocks by Claes Oldenburg and Coosje Van Bruggen recently added to the Nelson's grounds caused a stir; everyone has an opinion about them. That's not unusual in a town that expects its people to be involved.

The Nelson-Atkins Museum of Art has the largest U.S. collection of Henry Moore sculptures and one of the largest collections of oriental art in the world. Over 500,000 visitors enjoy the museum each year.

A LEGACY OF GIVING

It started early. Joyce Hall built a greeting card empire, Hallmark Cards, Inc., by urging people to remember birthdays and anniversaries. Community leader Adele Hall has put in so many volunteer hours she was voted "Kansas Citian of the Year."

> "The whole nation is looking at Kansas City because our problems are solvable and our public/private partnerships are working."

"We can still get people together around the breakfast table and use our imagination to solve problems," Hall says "without asking the federal government to do it for us."

Kansas City cares about its children and education. KC suburb Overland Park was ranked the best place in the nation to raise children, according to a Washington D.C. based agency. Three of the nation's top 25 school districts are in the metropolitan area, and both Kansas and Missouri have outstanding four-year and community college systems.

Kansas City, Missouri has what *The Economist* calls a "hugely ambitious" school program. Since 1986, KC has poured nearly

1,500
GUEST ROOMS.
64
SHOPS.
49
MEETING ROOMS.
20
RESTAURANTS.
6
MOVIE THEATERS.
2
HEALTH CLUBS.
1
GREAT LOCATION.
0
REASONS TO
STAY ANYWHERE ELSE.

If you're doing business in Kansas City, Crown Center can do more to make your stay a success.

Call 1-800-215-8222 for all the facts on one of the country's most vibrant meeting, business, and entertainment complexes.

DESTINATION
CROWN CENTER
KANSAS CITY

$1.3 billion into a magnet school program for its 37,000 students.

Literally hundreds of Kansas Citians have left billions of dollars to the city they love. Ewing Kauffman, founder of Marion Labs, left over $1 billion to fund youth and entrepreneurial programs and to send graduates of his inner city Westport High School on to college. Twentieth Century Mutual Funds Chairman James Stowers has committed an initial $50 million to turn Menorah, an abandoned inner city hospital, into a world class cancer research center. "The whole nation is looking at Kansas City," says Bob Rogers, Kauffman Foundation chairman, "because our problems are solvable and our public/private partnerships are working."

AN UNCOMMON LIFESTYLE

The list of recent accomplishments is impressive...$108 million that will turn a six-mile stretch of Brush Creek near the Country Club Plaza into a beautiful river walk...$74 million for a new zoo with roaming animals in an African Veldt and a surround sound IMAX educational theater, and $140 million for an expanded downtown convention center, Bartle Hall, the nation's largest column-free exhibit space.

It's not just bricks and mortar. Social programs flourish in KC because the business leaders and social services work together. The Community Foundation, a collection of 370 funds, underwrites dozens of projects. One, Partnership for Children, is immunizing all school age children. Youthnet, a 23-agency coalition, is working to build a ring of help around at-risk children. KC is willing to try new ideas.

"It must be something in the water. It's just give, give, give in KC," muses John McMeel, president of Universal Press Syndicate (which represents Erma Bombeck and Doonesbury among others) and co-founder of 'Christmas in October'. This year the project, using a volunteer army of carpenters, plumbers, students and housewives, will rehab 300 homes for inner city elderly, the largest comm
effort of its kind in the country.

STRONG SUPPORT FOR ARTS AND SPORTS

In 1983, Alvin Ailey, one of America's
choreographers and dancers, came to
research Kansas City's jazz and blues h
itage. Ailey loved the city so much, an
dance company was so warmly receive
he made Kansas City the company's s
home. Both local and national memb
the Alvin Ailey American Dance Thea
give dance lectures, in-school perform
and conduct a summer camp with pr

Baseball's Kansas City Royals are the nu one tourist attraction in the Kansas Cit metro. Annually, nearly two million pe attend Royals games.

reaching over 20,000 teens annually in
discovery of the power, beauty, and dis
pline of dance. Kansas City Friends of
Ailey has become a national model for
multi-cultural arts organizations.

Insurance giant Transamerica looked fo
such cooperation when it was relocatin
550-person life insurance operations di
sion from Los Angeles. "We were very
of our diversity and needed it to transfe
it did," says Mary Dinkel, company vic
president. Quality of life issues sealed t
deal. "Many of our people were able to
homes for the first time," says Dinkel.
surprising, since Kansas City has a cost
living among the lowest in the country.

'Refugees from the
n prices on both coasts
finding their paradise
in Kansas City."

VARDS & GREEN SPACE

are the lungs through which a city
, Kansas City is a marathon runner.
,000 acres of parklands come under
nagement, including new Hawthorne
signed specifically for handicapped
. Real estate developer J.C. Nichols
ighborhoods and joined them with
rses...happily for the locals who now
er 57 to choose from and more on
.

is also credited with building the
pping center. After a trip to Europe
he built a Spanish-style shopping
a river bank just four miles from
wn. Now called the "Rodeo Drive of
lwest", the Plaza has 200 shops and
nts, 90 works of art and 4,000 cov-
e parking spaces.

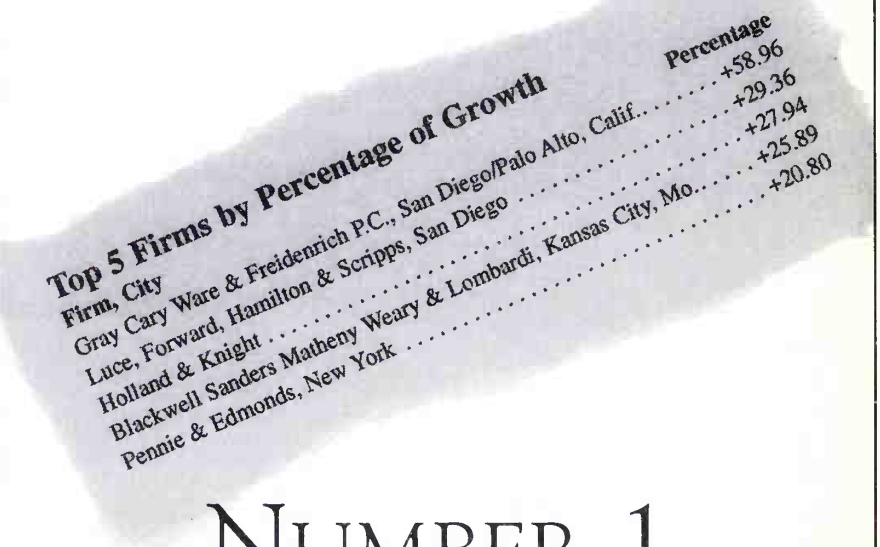
ly activity more popular than shop-
going to Arrowhead Stadium for a
home football game...rated one of
five sports experiences in the coun-
ng with the Indy 500 and Masters).
80,000 red-clad fans scream for Joe
a and Co. inside, another 1,000 sit
hes watching big screens in the
lot. One hundred yards away (the
only side-by-side stadiums) is the
f the KC Royals, whose victory over
Louis Cardinals in the 1985 World
t the town on its ear.

March the city goes basketball crazy
e Big Eight tournament is played at
Arena. The game's inventor, James
h, actually coached at the University
as, 40 miles from the city. The KC
hockey team, Explorers pro tennis,
ack indoor soccer all have strong
llowings.

OUNDS FROM THE HEARTLAND

t's nighttime, it's always been the
ne to be in Kansas City. Jazz legend

NUMBER 4 IN THE NATION.



Top 5 Firms by Percentage of Growth

Firm, City	Percentage
Gray Cary Ware & Freidenrich P.C., San Diego/Palo Alto, Calif.	+58.96
Luce, Forward, Hamilton & Scripps, San Diego	+29.36
Holland & Knight	+27.94
Blackwell Sanders Matheny Weary & Lombardi, Kansas City, Mo.	+25.89
Pennie & Edmonds, New York	+20.80

NUMBER 1 IN KANSAS CITY.

Want to put your business on the fast-track?
Talk with Kansas City's fastest-growing law firm –
and one of the fastest-growing firms in the country.

Talk with Blackwell Sanders.

Our recent ranking in *The National Law Journal* is evidence
of our willingness to work a little harder and dig a little deeper
for our clients. It's a Midwestern work ethic
that's paying dividends for our clients throughout
Kansas City and across the country.

When you're ready to make your mark in this area,
head straight for the top. Contact Dave Fenley at our
Kansas City, Missouri office, (816) 274-6800.
Or call (913) 345-8400 and talk with Jim Warden at our
Overland Park, Kansas office.

BLACKWELL SANDERS
MATHENY WEARY & LOMBARDI L.C.
The Legal Advantage

Jonathan E. Baum
Chief Executive Officer

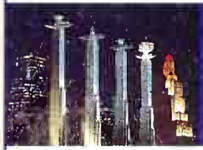
GEORGE K. BAUM & COMPANY
Successful People Working With Successful People

With our headquarters in the heart of America, George K. Baum & Company's Midwestern heritage integrates hard work, integrity, and dedication into everything we do. Today, our offices across the nation have the pulse of American business at their fingertips. Our purpose is to take that pulse, analyze and review it, then pass along to our clients the best possible advice.

Founded in 1928, George K. Baum & Company has steered a constant course through 66 years of economic booms and busts. Rather than blindly following the latest trend into unfamiliar territory, we have sought our opportunities in the markets we know best, public and private securities. Sticking to what we know best has served our clients, and our firm, well.

A corporate pledge was made in 1928 to combine quality service with integrity and creativity. This commitment has never been compromised and remains the cornerstone of our business today.

GEORGE K. BAUM & COMPANY
Investment Bankers Since 1928
Member: New York Stock Exchange, Inc.
For more information call:
1-800-821-7195



AMERICA'S SMARTCITIES™
The Kansas City Area

Count Basie was discovered when his big band sound was broadcast from the Reno Club. The Jazz Hall of Fame now under construction at 18th and Vine will honor jazz greats including KC native Charlie "Yardbird" Parker (recently at Christie's in London the city outbid Clint Eastwood for Parker's sax, paying a cool $140,000).

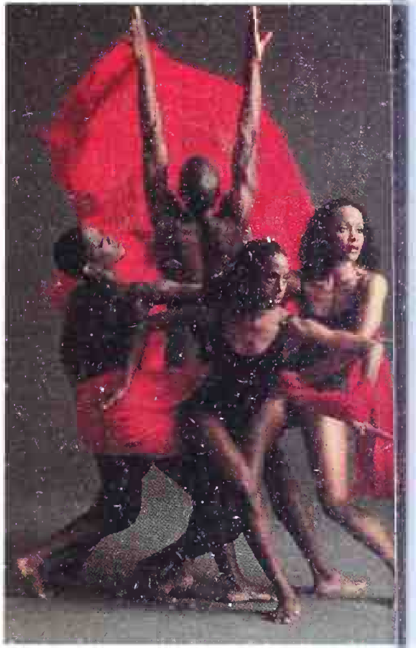
Legends Jay McShann, Claude "Fiddler" Williams and Ben Kynard still play alongside newcomers Kevin Mahogany, Karrin Allyson and Joe Cartwright at clubs such as The Phoenix, Jardines or the Club downstairs at Plaza Three. The Grand Emporium on Main Street has been repeatedly named the best blues club in the nation by the National Blues Foundation. In fact, legendary director Robert Altman is coming to town to film the city's rich jazz heritage, called (what else?) "Kansas City."

BARBECUE AND WORLD CLASS CUISINE

What's music without eats...KC barbecue that is. Over 60 restaurants serve beef, chicken, sausage or ribs cooked for hours over hickory wood and covered in delicious sauce. Those recipes are "guarded like the family jewels" according to psychiatrist turned chef Dr. Rich Davis, whose KC Masterpiece sauce (originally called KC Soul Style) is a top seller. It all goes back to 1916 when Henry Perry began serving ribs wrapped in newspaper from an old streetcar barn near the Kansas City Blues ballpark.

Many of today's restaurants, Arthur Bryants, Rosedale, and Gates & Sons date back 40 or even 50 years. Arzella Gates changed the name of their party tray to the "president's tray" after Bill Clinton made his third stop (he also had a slab of ribs wrapped to go).

Visitors are pleasantly surprised by the number and quality of KC restaurants. Tom Watson's favorite, the Savoy, is also where Harry Truman ate pot roast with his political pals. Most restaurants are bistro style, very good and extremely reasonable.



Kansas City is the second home to the world-renowned Alvin Ailey American Dance Theater.

The only downside of living in KC is
having to leave. Ernest Hemingway lea
to write at the Kansas City Star...KC n
Walt Disney began drawing a tiny mou
while a student at the Art Institute.

Harry Truman retired to his heartland
in nearby Independence to take brisk r
ing walks and build his library. Says Ru
Wilcox, whose husband Jim commutes
his St. Charles, Mo., company east of
"People feel so lucky to be in Kansas C
they want to make it their last stop." T
is no place like it to call home.

For more information
on the Kansas City area, contact:
Kansas City Area Development Council
2600 Commerce Tower
911 Main Street
Kansas City, MO 64105
816-221-2121 or 1-800-SMART KC
Fax. 816-842-2865
Internet address: kcadc@accunet.com

Ann Wylie and Barbara Koval Nelson are well known Kansas City journalists who have both written on city development trends and lifestyle attributes.

EXPERIENCE AN ENTIRELY NEW CULTURE.

YOURS.

Now that our new museum has opened, you can feel free to do the same with your mind.

You'll find us at 4420 Warwick Blvd. in Kansas City, Missouri.

Admission is free. The experience, however, is priceless.

Kemper Museum Of Contemporary Art And Design
OF KANSAS CITY ART INSTITUTE

What are America's SmartCities?

A place where it all works together— Workforce. Technology. Value. Location.

When considering the 13 counties that make up the Kansas City area, it's easy to see why we're called America's SmartCities.

- **Workforce** rated #1 in the U.S. by FORTUNE magazine based on skills and availability.
- **Technology** support from headquartered companies such as Sprint and 150 other info-tech firms.
- **Value** for business rated "most affordable" by Ernst & Young.
- **Location** that puts you near the true geographic and population centers of the nation.

As America's SmartCities, it's no wonder the Kansas City area is globally recognized as one of the best and most cost-efficient cities for business.

To learn more, contact the Kansas City Area Development Council at **1-800-SMART KC**

AMERICA'S
SMARTCITIES™
The Kansas City Area

Kansas City Area Development Council • 2600 Commerce Tower • 911 Main Street • Kansas City, MO 64105 • Phone: 816.221.2121 • Fax: 816.842.286

usiness Outlook

JAMES C. COOPER & KATHLEEN MADIGAN

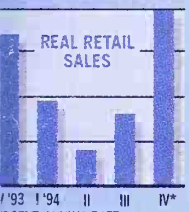
N UPBEAT YEAR NDS ON A HIGH NOTE

U.S. ECONOMY Any forecaster who doesn't believe in Santa Claus by now is ng to underestimate the economy's strength. Through vember, at least, retailers were ringing up sales at a e guaranteed to make the holidays bright—as far as nomic growth is concerned, if nothing else.

ut while consumers are itching to spend, they're also ping an eye out for the best price tag. Retail inflation ained tame in November, and wholesale prices show scant pressure in the pipeline. As a result, the econ- y heads into 1995 enjoying a combination of solid wth and low inflation not seen since the early 1970s.

The fly in the wassail bowl: The Federal Reserve is determined to prevent the brew from bubbling over. Although the Fed seems likely to hold off on a further rate hike at its Dec. 20 policy meeting, the cheery glow from consumers is sure to prompt another tightening in early 1995 (page 94).

IO WONDER STORES ARE SO CROWDED



RCENT, ANNUAL RATE
*OCT.-NOV. AVERAGE
: COMMERCE DEPT., BUSINESS WEEK

The Commerce Dept.'s tally of retail sales looks especially heady. 'e receipts in November jumped a greater-than-ex- ed 1.2% from October, and Commerce revised Octo- sales up slightly to show a 1.3% gain. Adjusting for es, retail sales so far in the quarter are rising at a vny annual rate of nearly 12% (chart).

nat means, depending on the December performance, e-adjusted sales are on track to post the strongest terly advance in eight years. And that would include booming holiday quarters in 1992 and 1993.

RM WEATHER may have helped November's results oosting construction-related buying. Despite rising in- st rates, receipts at building-supply and hardware es jumped 2.9%, as homeowners took the opportuni- repair gutters or fix the roof. People, fearing a repeat ne 1994 winter, also may have been stocking up on v shovels and rock salt. Sales at furniture stores were strong.

les at department stores, which are only 10% of Com- ce's retail total, rose a healthy 0.5% in November and up 8.6% from a year ago. Weekly surveys of receipts r in December could be more encouraging: The sam- by the *Johnson Redbook Report* shows sales through nonth's second week down 0.5% from November. But that weak showing is likely to change as Dec. 25 draws nearer.

One upbeat sign for December buying: Consumers are still whipping out their credit cards, intent on fully enjoying another Christmas now that strong labor markets are allaying job worries. MasterCard International Inc. reports that amounts charged to its card were up 27% in the week ended Dec. 9.

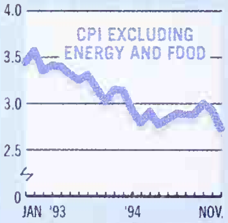
Another good omen: Households appear to be in excellent spirits. The University of Michigan's preliminary reading of its index of consumer sentiment for December shows that optimism jumped during the month. The index rose to 97.7, up from 91.6 in November, according to market sources who subscribe to the report. To put that reading in perspective, the index's record high is 101, reached in 1984.

THE GOOD NEWS is that the economy's muscle is not pumping up inflation. The consumer price index rose 0.3% in November, bringing price growth during the past year to only 2.7%. Core inflation—excluding energy and food—is especially well contained (chart). Inflation seems likely to end 1994 no higher than its 2.7% for all of 1993.

For 1995, some acceleration in inflation is to be expected—given the rising rate of capacity utilization and tighter labor markets—but not much. Even after the manufacturing sector's strong performance in 1994, producer prices of finished goods at the end of the year were about as benign as they were at the start.

The producer price index for finished goods rose 0.5% in November, but that increase reflected outsize energy gains, following declines in both September and October. Excluding energy and food, the core PPI rose a scant 0.1% in November, after dropping 0.5% in October. Over the year, inflation for the core PPI is running at 1.6%. Ignoring the blip caused by the huge drops in cigarette prices in 1993, the core rate has been nearly flat for two years.

CORE INFLATION HITS A 20-YEAR LOW



▲PERCENT CHANGE FROM A YEAR AGO
DATA: LABOR DEPT., BUSINESS WEEK

Further back in the production chain, inflation for intermediate goods—those that are partly processed but not finished— does show signs of picking up. But the acceleration from 1.2% a year ago to 3.9% now is not profound. And given increased price resistance, price hikes will

ERIC HOFFMANN/BW

have a tough time making their way to finished-goods prices, let alone consumer prices.

Although consumer prices for energy rose 0.7% in November, reflecting the higher cost of gasoline reformulated to control air pollution, prices for apparel, new cars, and public transportation fell in the month.

Most categories posted only modest increases in November, with the exception of entertainment: Prices of sporting goods rose sharply. Also, at least in one case, the Fed's rate hikes are pushing up prices: The cost of auto financing rose 1.5% in November, and it has surged 18.5% so far in 1994.

On balance, the core CPI rose only 0.2% in November for the third consecutive month. In fact, annual core inflation was running at only 2.8%—the lowest in two decades.

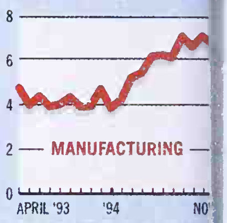
INFLATION'S moderate pace is evident even though factories are operating at rates usually linked to rapid price pressures. Industrial production rose 0.5% last month, with a 0.8% surge in factory output alone. Mild weather in the East cut utility output by 1.6%.

Factory output in November was a steep 6.7% higher than a year ago (chart). Production of business equipment, up 0.7% in November, has soared 10.1% in the past 12 months. Capital-goods manufacturers, especially those making information-processing machinery, enjoy the double boost of booming investment and surging exports.

Still, production data give hints of a downshift in fact y activity. So far, fourth-quarter output is growing at n annual rate of 5.3%, down a shade from the third quarte s 5.6% and below the 7.3% clip in the second. A steep decl e in defense-related output is one reason for the slowdov, but growth is slacking off in output of materials and so consumer goods, such as cars and nondurables.

As long as production is rising, however, operating rates continue to edge higher. The capacity utilization rate for all industry rose to 84.7% in November, up from 84.5% in October. That's the highest rate in 5½ years. An operating rate above 85% is typically associated with production bottlenecks and shortages that trigger price markups.

THE MOMENTUM IN FACTORY OUTPUT



▲PERCENT CHANGE FROM A YEAR AC

DATA: FEDERAL RESERVE, BUSINESS W

For its part, the Fed is intent on heading off those inflationary pressures. The proble Policymakers keep looking for clues that higher intere rates are cooling off domestic demand, but few are fortcoming. If anything, the November data on retail sales a industrial production suggest that growth in real gross mestic product will exceed 4% in the fourth quarter. So stead of marking a cooling trend, the final quarter m well post the strongest gain of the year.

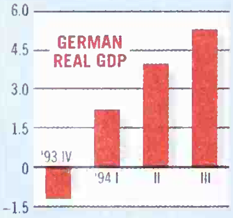
EUROPE

GERMANY IS KICKING UP DUST

Germany's recovery from its worst postwar recession is leaving even the most optimistic forecasters behind. For the second straight quarter, economic growth outpaced expectations, and the momentum continues to build. Suddenly, talk of another cut in interest rates by the Bundesbank has changed to: "When will the Buba begin to tighten?"

Real gross domestic product in western Germany jumped at an annual rate of 5.3% in the third quarter, on the heels of the second quarter's 4% pace. Even the mix of growth was surprising. The export-led recovery, which boosted manufacturing output and jobs, is starting to fuel a rise in domestic demand. In line with recent upbeat survey results on capital spending, business investment in machinery surged ahead last quarter, rising at an annual rate of 13.3%—the best showing in 3½ years.

THE RECOVERY BLASTS OFF



▲QUARTERLY PERCENT CHANGE, ANNUAL RATE

DATA: DATASTREAM INTERNATIONAL

Another surprise in the third quarter was the 6% jump that showed up in private consumption. Although that increase was exaggerated by an understated second-quarter level, the size of the gain suggests that current spending expectations are too low. To be sure, the 7.5% income-tax surcharge that is expected in January will hit household purchasing power hard, but now, it looks as though the economy's sudden thrust will provide an offset.

Both domestic and foreign demand continue to fuel manufacturing in the fourth quarter. As a result, the fall in unemployment has accelerated, as shown by the large 11,000 drop in unemployed workers in November, the third consecutive monthly decline, and by a fall in part-time employment.

Given Germany's latest signs of strength, the Bundesbank's "steady hand" policy, which has kept all Buba-controlled rates unchanged since July, may end by spring, economists say. Although inflation had fallen to only 2.7% in November, with the rate expected to approach 2% later on, the Buba will not stand idly by as central banks around the world act preemptively to fight price pressures.

Franklin Tax-Free Income Funds

Protect Your Investment Earnings From Taxation.

Are taxes taking a toll on your investment earnings? You can help protect those earnings in a Franklin tax-free fund.

Franklin offers a selection of 42 tax-free funds. Many pay dividends exempt from both federal and state regular income taxes, so you may be eligible for double tax savings.† Franklin's tax-free funds offer:

- **Monthly Tax-Free Income**
- **Professional Portfolio Management**
- **The Potential For Tax-Free Compounding**
- **Low, $100 Initial Investment**

By investing in a portfolio of tax-free municipal securities, you can continue to work toward your financial goals while supporting economic growth in America.†† The funds invest in securities issued to finance state and local government operations which can include projects such as housing, highways, schools and hospitals. This can help create jobs and improve the standards of living in communities everywhere.

Call your investment representative or Franklin today for a free brochure on the tax-free fund for your state.

Call 1-800-342-FUND Ext. F212

FRANKLIN FUNDS
777 Mariners Island Boulevard
San Mateo, CA 94404-1585

Yes! I would like a free prospectus containing more complete information on the Franklin tax-free income fund for my state, including sales charges and expenses. I will read it carefully before I invest or send money.

☐ *I am currently a Franklin shareholder.*

Name ______

Address ______

City ______

State/Zip ______

Daytime Phone ______

BWK94
F212

FRANKLIN

---

†For investors subject to federal or state alternative minimum tax, all or a portion of these dividends may be subject to such tax, depending on the fund. Distributions of capital gains and of ordinary income from accrued market discount, if any, are generally taxable.

††Investing in a Franklin tax-free fund does not guarantee that your financial goals will be met.

Franklin Templeton Distributors, Inc.

A Member of the $117 Billion Franklin Templeton Group

BARE KNUCKLES AT BIG BLUE

The Intel fracas is just one sign IBM is fighting back

For a time, it looked like the uproar over a technical flaw in Intel Corp.'s powerful Pentium chip would quietly fade away. But on Dec. 12, IBM dropped a bombshell: The computer giant announced it would stop all shipments of its top-of-the-line personal computers, charging that tests indicate Intel had seriously underrepresented the potential errors caused by the chip's flaw. The dramatic move—which sent Intel shares sliding 6.5%—pits the world's biggest computer maker against its most important supplier.

IBM says there is a "greater risk" of error than Intel maintains: Customers working on spreadsheets for as little as 15 minutes a day could produce a mistake every 24 days.

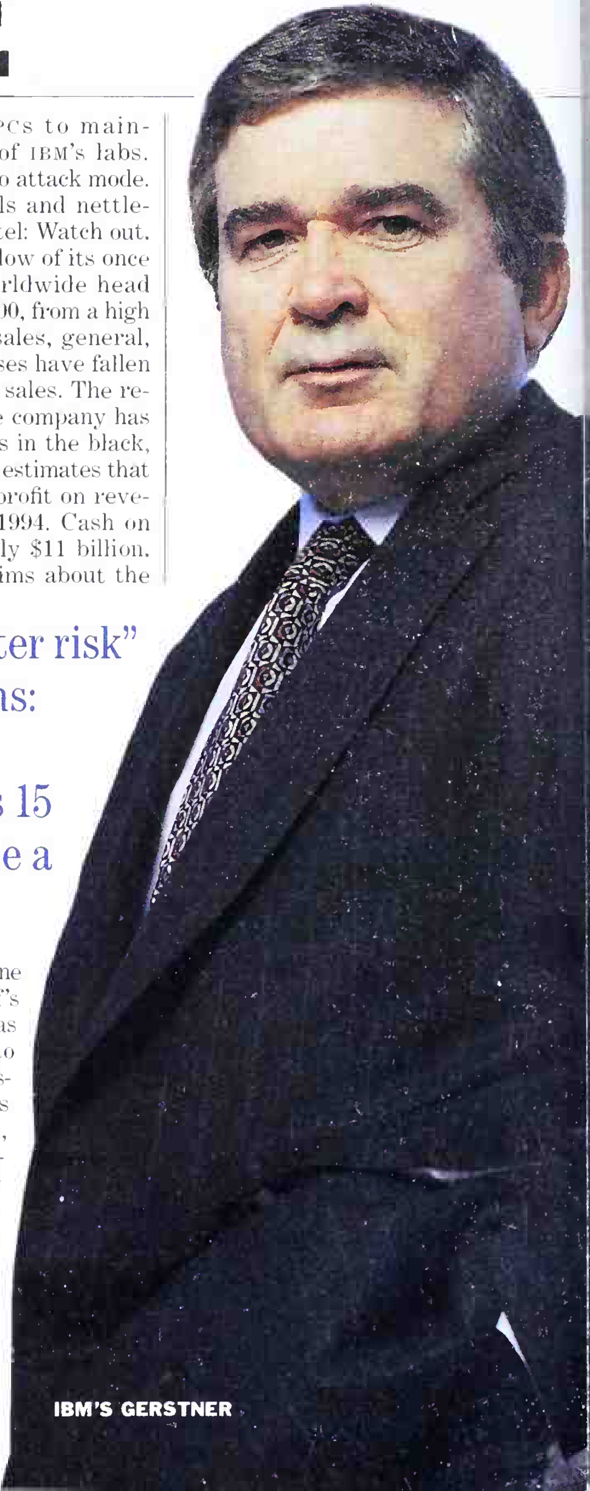
Remember the old white-glove IBM, the company above unseemly squabbling? Well, things have changed since Louis V. Gerstner Jr. took the chairman's job nearly two years ago—and the Intel imbroglio shows how much. Intel CEO Andrew S. Grove quickly tried to knock down Big Blue's snipes at its chip, insisting that the "reaction is unwarranted." But IBM stood firm, even as its fellow PC makers—publicly, at least—sided with Intel. "It is absolutely critical for this industry to grow, that people trust that our products work right," says IBM PC chief G. Richard Thoman.

ATTACK MODE. Meet the new, bolder Big Blue. Until now, Gerstner has spent most of his time relentlessly pushing IBM's boundaries to get the company into shape. He has pushed out senior managers, hacked at costs, pared prices, and goosed product development so that new products—from PCs to mainframes—are flying out of IBM's labs. Now, he is pushing IBM into attack mode. The best advice for rivals and nettlesome suppliers such as Intel: Watch out.

Gerstner's IBM is a shadow of its once well-stuffed self. Its worldwide head count has plunged to 222,000, from a high of 406,000 in 1986. And sales, general, and administrative expenses have fallen nearly 9 points, to 25% of sales. The result: Profits are back. The company has had four straight quarters in the black, and Morgan Stanley & Co. estimates that it will turn a $2.8 billion profit on revenues of $63.9 billion for 1994. Cash on hand now stands at nearly $11 billion.

Challenging Intel's claims about the Pentium's reliability is in line with one of the IBM chief's aims: to position Big Blue as a company that will go to great lengths to protect customers' interests. Says Richard Zwetchkenbaum, an analyst with International Data Corp.: "This all fits into [IBM'S] marketing message: 'It does make a difference who you buy from. IBM makes good on its product where others may not.'"

Another example of IBM's new aggressiveness: Earlier this year, when



IBM'S GERSTNER

The New, Bold IBM

SEIZING OPPORTUNITIES Questioning the Pentium's reliability positions IBM as customer-driven, and creates opportunities for the PowerPC chip.

COST-CUTTING Gerstner cut IBM's workforce by 34,000 this year—bringing employment to 222,000, vs. 406,000 at the 1986 peak.

PRODUCT DEVELOPMENT New products are coming out far faster. Developers now are held to deadlines and required to use readily available parts.

PRICING Rather than demanding a premium and letting rivals undercut it, IBM is going toe-to-toe on discounting.

vlett-Packard Co. tried to steal IBM
icomputer customers by offering 30%
ounts for customers that jump ship,
responded the next day with a se-
of aggressive ads and a pledge to
t or beat any HP offer. Such moves
having an effect: IBM recently told
ysts its minicomputer sales were up
in the third quarter over the same
rter last year.

ther tough steps are paying
too. Product developers
are held to strict
edules and must use
same parts across
erent product fami-
and follow accept-
ndustry standards
henever possible.
IBM has missed some deadlines—notably for its PC based on the PowerPC chip—but most products are coming out faster than ever. Mainframes now hit the market in 18 months—vs. three years before. And updated workstations are coming out on a nine-month cycle vs. 12 to 18 months before.

IBM also is jumping into new markets far faster—and at less cost—than before. By adapting existing products and technology, it got into parallel computers in 1992 and came out with a second-generation machine last summer, just 18 months later.

Behind this improved performance is heavy new pressure on managers to perform. Human Resources Chief Gerald M. Czarneki lasted a year in the job and former PC chief Robert J. Corrigan in May took early retirement as his operation was trying to work off $700 million in excess inventory. Meanwhile, an increasing percentage of compensation for all managers—as much as half in the most senior positions—is being tied to profits rather than sales.

The Intel move is a sign that IBM is going on the offensive in the PC business—where it has been bruised by Intel, Microsoft, Compaq, and others. At issue is the reliability of the powerful Pentium chip. Because of a glitch, IBM says, an average spreadsheet user could experience an error as often as every 24 days. On spreadsheets, "there's a lot greater risk than Intel portrays," insists Thoman.

BAD PUBLICITY. Intel, which has shipped at least 4 million of the chips, says the odds of a Pentium error are 1 in 9 billion division calculations—or once in 27,000 years of running a spreadsheet. "If IBM's contention was right, the problem would have shown up thousands of times," Grove says. The rub for him: Any doubt about the chip could slow sales and give an opening to rivals such as Advanced Micro Devices Inc. and Cyrix Corp., which plan to launch clones by mid-1995.

INTEL'S GROVE

INTEL insists that the chance of error is so rare—one in 9 billion calculations, or once in 27,000 years of running a spreadsheet—that there is no need to recall the Pentium

The IBM move catches Intel at an awkward moment. The chipmaker kept the problem from customers and has been slow to calm their fears. "In reality, technically this is not a problem. It's a consumer-product issue," says Erik N. Jansen, an analyst with Alex. Brown & Sons. Jansen figures replacing the Pentiums shipped so far would result in a $300 million charge to Intel's earnings. And even if Intel avoids a recall, new products will face increased scrutiny.

IBM can afford to be aggressive. Only 5% of the nearly 5 million machines it is expected to ship this year use Pentium chips. And analysts say most Pentium PCs are being sold to consumers—a market in which IBM mostly pushes lower-end PCs. In the end, any doubts about the new chip could hurt rivals—such as Dell

Computer, Gateway 2000, and Packard Bell Electronics—that are far more dependent on Pentium PCs than IBM.

Another potential plus for Big Blue: It wants to shake Intel's mighty grip on the world's PC business. To do so, it is pushing its PowerPC microprocessor, developed with Apple Computer and Motorola, as a rival to Intel's processors. And its chipmaking arm, which plans to make Pentium clones, both for IBM's use and to sell to other companies, could get a boost from an Intel sales glitch. "Arguably, a portion of this may be a battleground for competitive position," says Grove.

Still, IBM's Pentium gambit may yet prove futile. Other PC companies have sided with Intel, and even some customers aren't convinced by IBM's argument. Says Peter J. Daboul, senior vice-president with insurer MassMutual: "The f t that the other PC companies aren't do g this reinforces Intel's position." Thon n is unrepentant: "Frankly, I think the c ers should be with us." He's finding it that defending a position in a storm c n be lonely. Just ask Intel.

By Ira Sager in New York, with R ert D. Hof in San Francisco and reau reports

EARLY SIGHTING: *Merchants' pre-Christmas discounting is paying of*

RETAILING

IT'S A WONDERFUL LIFE FOR RETAILERS

They're seeing big increases over last year's strong holiday sales

Phyllis C. Terrill is buying gift wrap—a lot of it. The Chicago clerical supervisor plans to give at least 20 presents to friends and relatives this holiday season, including football jerseys, fleecewear, and—inevitably—Mighty Morphin Power Rangers for the kids. She'll be spending far more than last year. "All my friends are," she declares, loading up on purchases at a downtown Walgreen's.

Boy, are retailers ever dreaming of a green Christmas: After a rocky start, the holiday shopping season is rolling. U.S. retail sales rose 1.2% in November, their sixth consecutive month-over-month gain (chart). Even excluding strong auto results, sales rose 0.9%—not earth-shattering, but triple the expected increase. Now, economists expect sales increases for the holidays to average 5% to 6% over 1993's vigorous showing. And "1995 is looking stronger today than it was last month," says John McDevitt, economist for 3M Co.

There's sound economic underpinning to the retail strength. Unemployment is down, and job creation and consumer confidence are up. Americans are being promised tax cuts. And at last, weather in the Northeast and Midwest has turned cold, helping to send Christmas-spirited shoppers into stores.

Then there are the sales. Early discounting is rampant this year, especially at the big department stores such as Marshall Field's, Barney's, and J.C. Penney. Those chains are spicing already deep markdowns with one-day sales. In the Midwest, Carson Pirie Scott & Co.'s stores are countering heavy discounting by rival Dayton Hudson Corp. by offering newspaper coupons good for an additional 10% off marked-down items. "The whole ind try is more promotional this ye Everyone is afraid of losing mark share," says Carson chief executi Stanton J. Bluestone.

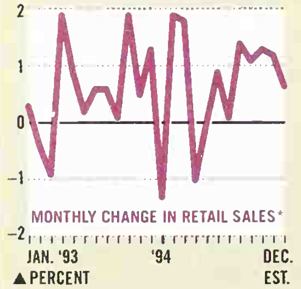
All the discounting may not hurt pr its. Retailers' bottom lines are "mu healthier" when merchandise is mov early rather than being liquidated deep discounts as it was in Janua 1992, says Sid Doolittle, partner wi consultant McMillan/Doolittle. Still, n all retailers are robust. On Dec. 12, d counter Kmart Corp., struggling wi flat apparel sales and cost problems, a nounced 900 layoffs. Apparel retaile such as The Limited Inc. and Gap In are showing poor results, too.

GLAD TIDINGS. Still, retailers as diver as Sears, Radio Shack, Tiffany, and Q Network, the home-shopping chann are reporting strong holiday sales. T hot gifts? Sears is doing well with bi screen TVs, breadmakers, and vid games—and a $20 picture frame with computer chip that can record gree ings. Other retailers report fast-pac sales in home-related items, includi computers, furniture, and houseware At Sharper Image, which expects a 20 December sales increase in its stor and 70% in its catalog, a big mover the $59.95 Snore Control, a sensor th buzzes snorers awake.

Not bad for a nation supposedly o sessed with value for money. Retailer glad tidings could er abruptly if the Feder Reserve takes intere rates higher to slow th economy. But such move isn't likely unt January. By that tim store executives prol ably will have gone t bed with visions of plu profits dancing in the heads.

By Susan Chandler i Chicago, with Laur Zinn in New York an bureau reports

BUY, BUY, BUY



*INCLUDING AUTOS, DURABLE, AND NONDURABLE GOODS
DATA: COMMERCE DEPT., 3M CO.

COMMENTARY

By Susan B. Garland and Howard Gleckman

THESE TAX CUTS WILL ONLY UNDERCUT AMERICA

Working Americans are going to get a tax cut in 1995. Congressional Republicans have promised one. House Democratic Leader Richard A. Gephardt of Missouri likes the idea. And President Clinton has jumped on board, pledging to fulfill a promise he made in his 1992 run for the White House.

The politics are clear. On Nov. 8, the public voted for smaller government and lower taxes. Republicans, being Republicans, want families earning up to $200,000 to share the wealth. Democrats, being Democrats, want to limit the largess that goes to wealthier families. Clinton and the House GOP want credits for kids, while Gephardt prefers tax breaks for anyone—with or without children—making less than $75,000.

PHOTOGRAPH BY JOHN FICARA/SYGMA

Rather than fiddle with tax credits, Clinton and Congress should cut tax rates. The goal: Spur investment, which in turn will raise wages

Some Democratic strategists fear the President is falling into a deadly trap of "me-tooism" by following the GOP's call for tax cuts, but most pols believe he has no choice. Says Representative Martin Frost (D-Tex.), chairman of the Democratic Congressional Campaign Committee: "This is something people feel very strongly about. We need to recapture the middle class."

But if a tax break is to amount to more than mere political pandering, it has to pass the economic smell test. And none of the versions on the table come close for two reasons: Deficit-choked Washington can't afford them, and even if it could, a family tax cut is the wrong way to go.

NEEDED FOCUS. Downsizing government and returning some of the savings to taxpayers makes a lot of sense. After two decades of seeing their incomes stagnate, the hard-pressed middle class surely can use the money. But the federal budget now is running a $160 billion deficit that will start rising in 1996 without new reductions. That's no atmosphere in which to start writing checks. The GOP would give away more than $100 billion over five years; Clinton about half that. They should reduce spending and get the budget closer to balance first.

Truth is, if voters feel overtaxed, it's due to rising state and local levies. The federal tax burden hasn't grown much in decades: It mostly has drifted between 18% and 19% of gross domestic product for 40 years. In 1994, it will probably run about 18.8%—almost exactly what it was when Ronald Reagan left office.

If Washington wants to put more money in workers' pockets, it should focus on improving the economy, and the best way is by increasing investment. That would free up more capital for productivity-boosting equipment—which, in turn, would hike wages. Already, the nation has started to see a modest, but discernible, rise in incomes over the past year because of productivity gains. Inflation-adjusted, aftertax personal income rose about $350 in the first nine months of 1994. That's as good a deal as most taxpayers would get from Washington.

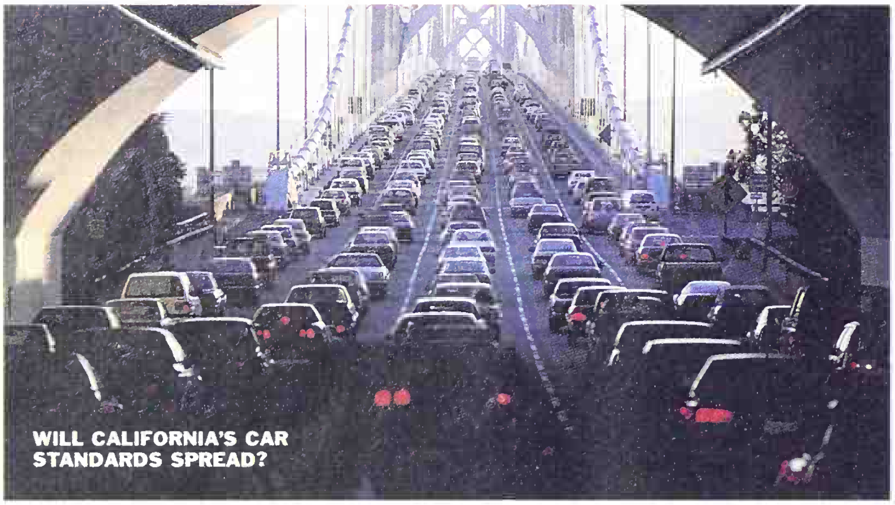
Where will the critical investment capital come from? Cutting the deficit is one sure way to increase national savings, another is by increasing personal savings. A quick-and-dirty tax credit is the last way to do that. Families with children—the beneficiaries of most versions of a middle-class tax cut floating around Washington—are sure to spend every dime of the largess at the mall.

OVERHAUL. In the short run, families may not even see a net gain in buying power. The Federal Reserve, struggling to keep a firm leash on a powerful expansion, is determined to offset any stimulative tax cuts that deepen the deficit. Says Roger E. Brinner, executive director at economic forecaster DRI/McGraw-Hill, "whatever the President and Congress put in our right pocket, the Federal Reserve will take out of our left through higher interest rates." And anyone who thinks loose fiscal policy and tight money is the way to political or economic Nirvana should speak to George Bush. His Presidency foundered on just such a formula.

What's a better policy? Cut taxes as soon as the nation's fiscal house is in order. But target any tax cut to savings and investment. Ultimately, that may mean replacing the current income-tax system with some sort of consumption-based levy, an idea that has garnered support from lawmakers as disparate as incoming House Ways & Means Committee Chairman Bill Archer (R-Tex.) and Senator Sam Nunn (D-Ga.).

That sort of radical overhaul won't happen for years. In the meantime, if the nation can afford it, Congress ought to cut tax rates, not add new credits and deductions. It would be simpler and avoid the traps of using the tax code for social engineering. It's hard to see how a kiddie credit—which would do little more than generate a run on Power Rangers—will improve the long-run health of working families or the U.S. economy.

Garland and Gleckman follow the tax battles from Washington.



WILL CALIFORNIA'S CAR STANDARDS SPREAD?

ENVIRONMENT

MAY OLD CLEAN-AIR LAWS BE FORGOT...

The New Year's deadline sparks a revolt across the U.S.

In the wee hours of Oct. 22, 1990, a weary group of Washington lawmakers celebrated with champagne and bipartisan backslaps after hammering out the first overhaul of the nation's clean-air laws in 13 years. They had managed to paper over deep conflicts to pass a sweeping law that left hardly any industry or region untouched and carried a $25 billion price tag. "People sweated blood for that agreement," recalls one lobbyist.

But as a Jan. 1 deadline for states to comply with its many tough antismog mandates looms, the act is rapidly losing support. In the Northeast, state officials have been locked in a battle with Detroit for months over plans to require the sale of cleaner-running cars. States are also balking at selling reformulated gasoline, and governors have attacked requirements for costly centralized test stations to measure auto emissions. Plus, conservative Republicans want to gut much of the law. "This issue will be at the top of my legislative agenda," warns incoming House Whip Tom DeLay (R-Tex.).

Environmental Protection Agency Chief Carol M. Browner is frantically cutting deals with governors in an effort to contain the spreading revolt (table). Browner wields a powerful club: She can cut off billions of dollars of highway funds from states that violate the law's strict standards. But she knows if she doesn't give some ground, she could spur lawmakers to repeal the law. While states will have to meet the standards for clean air, "I want to be as flexible as possible," she says. "I'd rather deal with the states than spend my energy arguing with them in Congress."

HOW THE EPA IS SOFTENING THE CLEAN AIR ACT

CLEAN CARS Rather than backing Northeast states' efforts to follow California in mandating electric cars, it is pushing a less onerous "clean car" standard for all states except California

REFORMULATED GASOLINE It has decided not to punish areas that refuse to force service stations to sell new, less-polluting reformulated gas at slightly higher prices than other gas

TAILPIPE TESTING It is relaxing a requirement that states set up expensive centralized testing centers to put cars through rigorous tests of their pollution emissions

DATA: ENVIRONMENTAL PROTECTION AGENCY

CALIFORNIA 49ers. She's getting plenty of chances to deal, too. In the Northeast, for example, an alliance of 12 states and the District of Columbia, fearing they can't meet the tough clean-air standards, want the EPA to give approval to their agreement to require sales of cars clean enough to meet California's toug er standards. New York and Massach setts even want to mandate the sale f some electric models. But Detro doubts the public will buy such vehicl which it says will raise the average c of an auto by $2,800. Carmakers a pushing a plan to develop a so-called 4 state model that's cleaner than curre vehicles and could be sold in every sta but California.

Browner is trying to forge a compr mise. If an agreement can't be reache aides say, she plans on Dec. 19 to ba the tougher plan advocated by t Northeastern states. But aides say s still hopes to cut a deal under whi auto makers would agree to mark cleaner gasoline cars nationwide, wh also pledging to sell natural-gas-fuel models in the Northeast. The comp nies, however, think they may get a b ter bargain from Republicans in Jan ary. The GOP "wants to challenge t whole law," notes one Detroit offici close to the negotiations.

The oil industry is unhappy about a other Browner compromise. States ha promised to sell reformulated gasolin which costs up to 10¢ more per gallo than regular gas. But with drivers gri ing, 28 Pennsylvania counties backe off—and counties elsewhere are consi ering doing the same. That creates a b problem for big oil, which doesn't wa to go to the expense of varying its ga oline formulas county by county. The i dustry is furious at Browner for letti counties opt out until Jan. 1, 199

Browner also has given ground on requirement that states build costly ce tralized auto-emissions-testing station Environmentalists say centralized tes ing is cheaper and more likely to assur compliance than gas-station inspection As a compromise, Browner is allowin states to use less-stringent testin equipment than was required at first.

Browner's flexibility has le critics to blast her for cavin in too fast. The Clinton Ad ministration "seems to rais the white flag very early, an that's a pattern that's likel to continue," says William K Reilly, head of the EPA unde George Bush. That Adminis tration held together a divers coalition to pass the Clean Ai Act four years ago. The ques tion now: Does Browner hav the political finesse to keep i together?

By Mary Beth Regan i Washington, with Davi Woodruff in Detroit

ANDSHAKE IN LONDON, ANDS SHAKING ON WALL STREET

rgan-Warburg could send rivals rushing to find partners

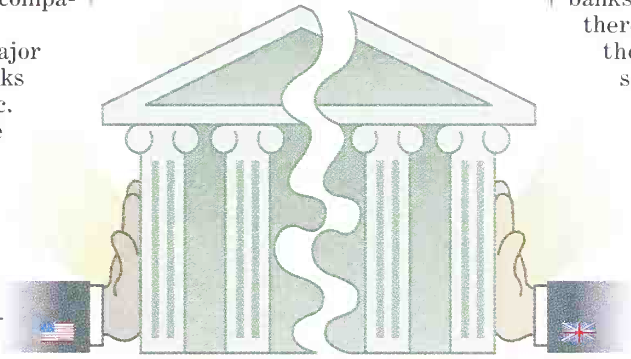
was early October in London when
he aristocratic banker and the Wall
treet broker got together for lunch.
y way they tell it, they met to talk
ut sharing administrative costs and
ed up deciding to merge their com-
ies. But in fact, insiders say, Mor-
Stanley & Co. President John J.
k and Lord Simon Cairns, his coun-
art at Britain's S. G. Warburg Group
, had been talking merger for
ths. So when the two sat down to
h, it was to carve up their compa-
' worldwide operations.

f the deal comes off—and major
acles remain—the merger talks
executives announced on Dec.
uld precipitate a worldwide
solidation among financial
panies. With dealmaking go-
increasingly global, "putting
two together brings im-
nse power," says David
he, a London-based indepen-
strategist and a former Mor-
Stanley economist.

he combined company—to be
by Morgan Stanley Chairman
hard B. Fisher, with Cairns
Mack as co-presidents—would
frog its competition. With
0 billion in assets, it would
e ahead of Goldman, Sachs &
to rank as No. 4 in the world,
ind J. P. Morgan, Merrill
ch, and Salomon Brothers. It
ld lead worldwide in mergers
acquisitions, become the larg-
manager of equity issues, and
as No. 4 in debt issues (ta-
. The companies also would
their capital to plant flags in
a, Latin America, India, and
er emerging markets. Staff
—up to 2,000 out of a com-
d workforce of 15,000—are
ely expected.

IT CIRCLE. Can they pull it off? The
ket expects another bidder to step
vith Germany's Deutsche Bank said
e the most likely candidate. And
burg's 75%-owned fund-manage-
t arm, Mercury Asset Management
up PLC, whose shares trade inde-
dently in London, may oppose the
l. The merger—an $8 billion ex-
nge of shares in which no cash
ld change hands—vastly underval-
MAM, which has a market capitalization of about $2 billion, close to Warburg's $2.8 billion.

Analysts figure MAM might fetch $3.5 billion on the open market. It has $90 billion under management, more than twice as much as Morgan's fund-management arm, and it provided most of Warburg's $100 million profit for the six months ending Sept. 30. MAM's advisers are pushing to sweeten the pot. One option: merge the two banks' asset-management units, issue new shares, and allow MAM to manage the operation.



Why Morgan And Warburg Need Each Other

GEOGRAPHICAL REACH Morgan's operations in the U.S., Latin America, and Japan would fit nicely with Warburg's European business.

MERGERS & ACQUISITIONS Together, they are No. 1 worldwide, with $55 billion worth of deals handled in the first nine months of 1994.

EQUITY ISSUES Combined, the two companies will be tops in the world in issuing stock and No. 3 in the fast-growing Far East.

DEBT ISSUES Together, they're No. 4 worldwide, with $32 billion worth of debt issued during 1994's first nine months.

DATA: BUSINESS WEEK

If the Morgan-Warburg merger succeeds, it will shore up weaknesses at both companies. Warburg is undercapitalized after a failed attempt to expand in the U. S. Morgan Stanley has three times Warburg's assets but still hasn't cracked Europe's tight circle of blue-chip corporate clients. And both had disappointing years because of lower trading profits and rising overhead costs in the wake of expansion sprees.

But industry experts think the merged companies would be so powerful that rivals may have to find partners to compete. "Every firm in the business is questioning its own strategy now," says a top French banker. "Obviously, we are, too." A handful of investment banks — Goldman, Merrill, J. P. Morgan—likely will make it as full-service global players. But for others, finding a profitable niche or a partner may become even more critical. "I view this merger as a clear indication of the way forward for the industry," says Hugh Scott-Barrett, director of investment banking for Swiss Bank Corp. Not just Deutsche Bank, but Lehman Brothers, Bear Stearns, National Westminster Bank, and Union Bank of Switzerland are all thought to be looking for suitable allies.

CULTURE CLASH. In Japan, where regulators have just begun to let commercial banks ease into the securities business, there is a fear of being left behind. "If the planned merger yields fruit," says Nomura Securities Co. Managing Director Akira Ogino, "we may have to think about a merger, too." And the Hong Kong managing director of one large investment bank says the Morgan-Warburg deal "represents a significant change—and demands that everyone else pay attention."

Rivals, however, are quick to point out that Morgan-Warburg may not be a marriage made in heaven. In fact, they say, it's hard to find two banks more culturally different. Cairns inherited his title and wealth; went to Eton, Britain's most exclusive boys' school; and is a vegetarian. Mack, a Duke University grad who was born in a small North Carolina town, is a decisive, meat-eating former bond trader nicknamed "Mack the Knife." The companies mirror the execs: Warburg is old-fashioned, slightly stuffy, and paternalistic, while Morgan is bold and opportunistic.

But despite the differences, the two banks seem to work well together. They are currently privatizing Turkey's telephone and postal systems and have done a number of other joint deals. And their managements are committed to the venture. As Morgan's Fisher was explaining the merger deal to directors at a hastily called meeting, a refreshment cart was wheeled in. He cracked: "Get used to it, guys. It's tea."

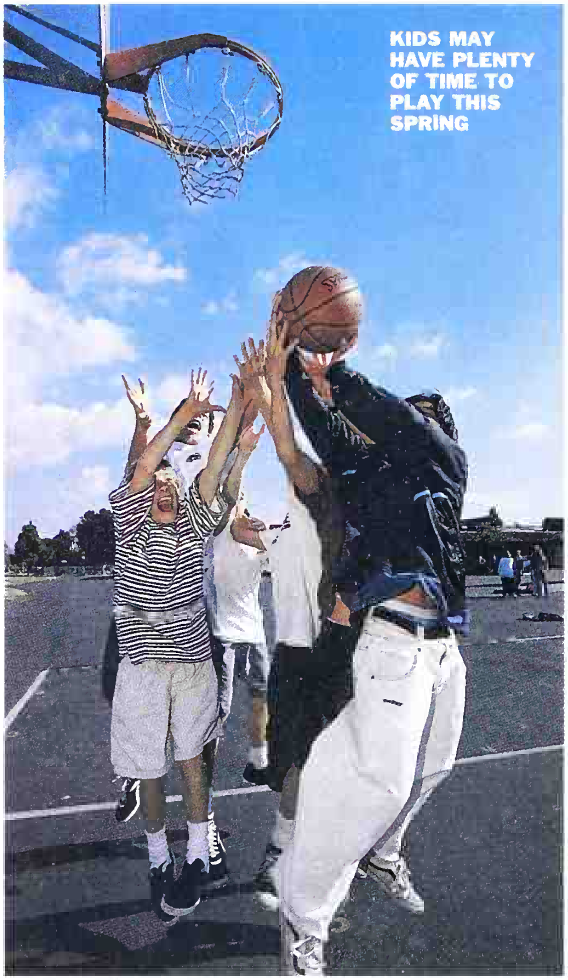
By Paula Dwyer in London, with Leah Nathans Spiro in New York, Robert Neff in Tokyo and Bill Javetski in Paris

ALBERTO MENA/BW

MUNI MELTDOWN

ORANGE COUNTY IS LOOKING GREEN AROUND THE GILLS

All spending is on hold, and schools might have to close early



KIDS MAY HAVE PLENTY OF TIME TO PLAY THIS SPRING

It already is shaping up as one of the most expensive man-made disasters in history. At $2 billion and counting, the investment losses suffered by the funds managed by Orange County Treasurer Robert Citron threaten to devastate services in one of America's wealthiest counties. There won't be many new miles of its litter-free highways for a while, and there's talk that some of the nation's poshest public schools may close their doors earlier than usual this spring.

As a stunned Board of Supervisors sifts through the rubble of devalued investments in the county's $8 billion portfolio, the aftershocks of the losses continue. On Dec. 13, the board approved a plan to liquidate the existing pool. Meanwhile, the county's bond ratings are plummeting, limiting its ability to fund the shortages in its $3.7 billion budget. And the depression in California real estate has made sales of county land an unappealing option.

SAD MESSAGE. How soon can Orange County recover? Not very. "The county crossed a big line when it declared bankruptcy," says Richard Larkin, a managing director at Standard & Poor's. "They sent the message to creditors that they're at risk doing business with [Orange County]." Raising taxes, a political no-no in the ultraconservative county, isn't likely. Neither is a bailout by a state that is facing some $2 billion in deficits over the next 18 months. The probable alternative: a sharp cut in services.

By most economists' estimates, likely cutbacks in county service jobs will knock only a few points off a local economy that was expected to grow by a modest 1% to 2% anyway. But they will dig deeply into a lifestyle that has been feeling the pinch of state shortfalls for years. According to County Administrator Ernie Schneider, the state has usurped 60% of county property tax revenues since 1991; the county now sees just 6¢ of every tax dollar.

Until last week, the mighty interest income generated by the Citron-managed funds offset these losses. Indeed, the $170 million that Citron was exp ed to generate this year bettered $117 million in property taxes the c ty expected to collect. Now, extra gances such as a proposed $82 mil police, fire, and emergency system, signed to run on 63 frequencies, are ing reconsidered. Established serv are also in limbo. The Fountain Va School District will run out of mone March, according to Assistant Supe tendent Mark Ecker, who is struggl to extend the year by freezing teac pay and halting nonessential spendi

The news isn't apt to get better. Los Angeles Rams football team, r unlikely to get county funds fo planned stadium, could soon scoot to Louis. Also left in a lurch is a $3 bill expansion of Disneyland that depe on Walt Disney Co. negotiating up $750 million in parking and other inf structure improvements with a sudd ly poorer Anaheim city government.

BAD BET. How Orange County and staggered cities will raise cash for ne ed services, much less the high-pro projects, is muddled. It may well Wall Street firms for the proceeds of lateral sales it claims weren't permissi under terms of its bankruptcy filing, cording to a source working with county. And a State Senate panel is lo ing into a modest bailout, which mi take the form of an advance on tax r enues. But the bucks stop there. T county's bonds have been downgra from AA- to D by S&P, adding million the costs of borrowing. "I don't kno lot of people who would lend them m ey," concludes S&P's Larkin.

If the bill were to fall to taxpaye each household's share of $2,437 wo be a bitter pill in an area where prop ty values have already slid an aggreg $22.5 billion over the past four yea says James L. Doti, president of Cha man University. Not surprisingly, t local populace is in a fretful mood. don't know where the citizens would g the money," says Nikki Niznik, a re dent of Huntington Beach and an e ployee of the county's social servic agency. Like many who have basked the Orange County lifestyle for so lon Niznik worries that life will look ve different in coming months. Her conce is well founded.

By Nanette Byrnes in Santa A Calif.

A new emergency system is delayed, the Rams could leave town, and an expansion of Disneyland is left in the lurch

NI MELTDOWN

PPLES AND RANGES?

en unleveraged pools have contend with muni-phobia

here's nothing about Nevada's $300 million state investment pool to suggest a repeat of the $2 billion loss in nge County, Calif.: It uses no lever- and owns very few derivatives. Still, e Treasurer Robert L. Seale, who nages the pool, has spent the past weeks reassuring the 75 nervous ol districts and towns whose assets e up the pool. "My phones have been ing off the hook," he says.

et used to it. The Orange County de- e has pushed local government in- ment pools, or LGIPs, under the mi- scope. Relatively new, little erstood, and subject to a patchwork tate regulation, LGIPs suddenly are g viewed by investors with deep sus- on. There's no shortage of targets for cern: Hundreds of pools may be in tence—no one is really certain—and e $80 billion is invested in state pools e, according to Fidelity Investments.

he strategy driving LGIPs is simple ugh: By pooling funds to gain clout with Wall Street, LGIPs often provide small municipalities with higher returns than they could reap themselves. The problem: The pools operate in a backwater of municipal finance. Many don't price assets daily, making it tough to assess their worth. And they have no uniform disclosure requirements or federal oversight. Rating agencies are scrambling to analyze the pools, which until now have been viewed as benign cash-management vehicles. "The investment pools have existed in a quasi-never-never land with far less oversight in some cases than is necessary," says Robert B. Lamb, finance professor at New York University.

PURE PANIC. Now, investors are starting to get nervous. One of the casualties is TexPool, a state LGIP run by Texas Treasurer Martha Whitehead. TexPool used no leverage and had only 2% of its assets in derivatives, which it since has sold. Comparisons to Orange County are "absolutely incorrect," says Texas assistant deputy treasurer John A. Bell.

Still, dramatically higher interest rates have caused $70 million in paper losses on the Treasury securities in TexPool's portfolio. News of Orange County's disaster brought withdrawals by 100 of TexPool's 1,300 investors, causing the fund's assets to drop from $3.8 billion to $2.3 billion on Dec. 13. Jim Keyes, director of fiscal services for Fort Worth, says he withdrew $5 million. "We have no concerns about TexPool being solvent or being managed properly, but there's such a panic we decided to withdraw."

MARTHA WHITEHEAD The Texas treasurer kept derivatives to only 2% of TexPool's assets, but investors fled anyway

HARRY CABLUCK/AP/WIDE WORLD

There could be more problems lurking. Other California counties, among them Los Angeles, operate LGIPs. These pools, like Orange County's, are subject to lenient California rules that allow more leverage than any other state. NYU's Lamb anticipates further losses in California—and, indeed, in municipalities nationwide.

That could prove the very dear price of allowing a public investment entity without enough disclosure, regulation, and market discipline.

By Leah Nathans Spiro in New York, with Gail DeGeorge in Miami and Stephanie Anderson Forest in Dallas

---

YCOTTS

ALIFORNIA'S ATINO BACKLASH

npanies that backed e Wilson could get burned

hat's a California CEO to do? First, the recession. Then came the riots, the fires, the floods, and the hquakes. Even wealthy Orange nty went bust. Now comes the latest aine: The state's 8 million Latinos— quarter of California's population— being urged by opponents of Prop- ion 187 to boycott the likes of vron Corp. and the Walt Disney Co. he reason: Those companies, and of-staters such as directors of RJR isco Inc., gave generously to Gov- r Pete Wilson's reelection campaign. y Latinos see Wilson as enemy No. cause of his support for Prop. 187, explosive anti-immigration measure ing services to illegal immigrants. on is synonymous with "all the im- ant-bashing going on in California," Roberto L. Martinez, director of the US/Mexico Border Project, a boycott organizer. "We intend to hurt these companies in their pocketbooks."

It's too soon to gauge the economic impact of such threats: So far, only local groups are pushing the boycotts. But Latinos in the U. S. number 25 million, representing disposable income of $115 billion a year, says Leo Estrada, a demographer at the University of California at Los Angeles. And, with a history of effective organizing, few dispute the clout of Latino groups. "We've got a lot of gas stations in California and the Sunbelt—this is something we are taking very seriously," says a Chevron spokesman.

For many organizers, Disney is emerging as the focal point. In posters, Mickey Mouse, renamed "Migra Mouse," (La Migra is Spanish slang for the Immigration & Naturalization Service) is shown as an INS officer. And one group kicked off its boycott campaign in front of Disneyland. Disney isn't saying much. "We've been neutral on Prop. 187, and we're not going to do anything to compromise that neutrality," says a Disney spokesman.

On The Hit List

COMPANY	WILSON CONTRIBUTION
ARCO	$135,000
CHEVRON	$123,000
DISNEY	$55,000
RJR NABISCO	$125,000*

*From two board members

DATA: *CAPITOL WEEKLY*, COMPANY REPORTS

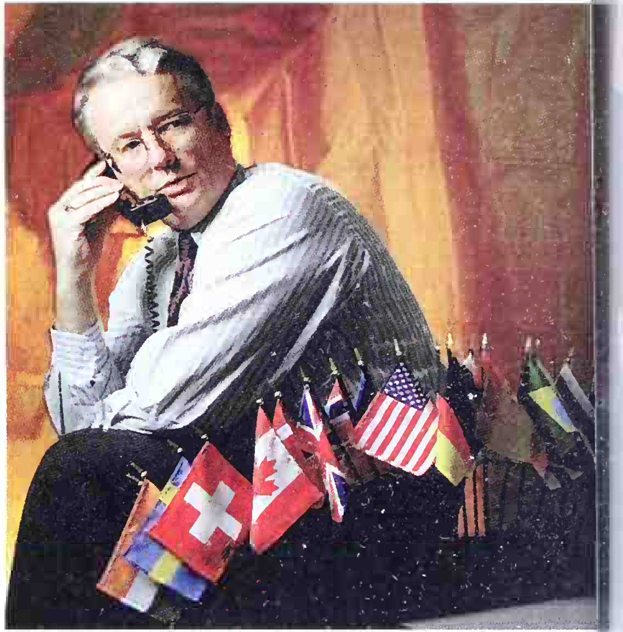
Some anti-Prop. 187 activists are even planning a national campaign against companies that supported Wilson. Their aim: to counter the calls for Prop. 187-like measures cropping up in such states as Florida and Texas. "We're seeing tremendous support from everyone in the Latino community," says Jesus R. Vejar, a national boycott organizer based in Tucson.

Not quite. About 22% of California's Latinos voted for Prop. 187, and some Latinos who opposed Prop. 187 don't want the boycott. A day after protesters gathered at Disneyland, a larger group of Latino hotel and restaurant workers met there to urge citizens to ignore the boycott, which they fear will hurt Latinos in the tourism industry. And Disney says its park attendance remains steady. Still, if the boycott gathers steam, it won't be just California CEOs who have splitting headaches.

By Eric Schine in Los Angeles

NOVELL: TALKING LOUD BUT CARRYING A SMALLER STICK

It's got the goods–Microsoft, the marketing clout



SMART MOVE: *Frankenberg cut NetWare's price by 25*

Can William H. Gates III utter the words "second-best"? Not likely. That's one big reason Novell Inc. faces a tough year ahead.

On Dec. 13, Novell, which holds 75% of the market for software that controls computer networks, began shipping a new version of its mainstay product, NetWare 4.1. The next day, it introduced a new business software suite called Perfect Office. "We have our core products refreshed and in good shape," says Robert J. Frankenberg, who took over as chief executive last April. "We're on the verge of seeing some very exciting new markets open up."

WAR CHEST IS HELL. Just in time, too. The same day it shipped NetWare 4.1, Novell reported a 30% dive in earnings, to $61 million, for the quarter ended Oct. 30. The main culprits: soft sales of NetWare and a bigger decline in sales of applications programs. Frankenberg is betting that the new products can reverse that slide. "This is make it or break it time" for Novell, says Forrester Research Inc. Director John C. McCarthy.

Perhaps. Both NetWare 4.1 and Perfect Office are getting good reviews. The problem lies in Novell's adversary—the steamroller known as Microsoft Corp. Gates's company, with $4.7 billion in revenues, is nearly three times Novell's size. The "millions of dollars" Novell says it will spend to boost its two new products pales next to Microsoft's available war chest: The company is spending $100 million alone on a broad advertising campaign.

Microsoft isn't Novell's only problem. The company is recovering from missteps of its own, largely the result of former CEO Raymond J. Noorda's determined—and many believe ill-conceived—attempt to challenge Microsoft at all costs. Noorda's acquisitions of WordPerfect Corp. and other companies, for example, flung Novell into the applications and operating system businesses. But they diverted attention from the networking products that account for more than 50% of the company's revenue. Customers found NetWare 4.0, released 18 months ago, buggy and difficult to use, and a recent Computer Intelligence Infocorp. survey indicated that only 5% of customers had upgraded to the new version. Since then, "interest has really dwindled in [NetWare] 4.1," says Bruce Barnes, an information systems manager at Union Oil of California, a Novell customer.

That trip-up gave Microsoft an in. Its rival operating system, Windows NT, which includes networking features, got off to a slow start, but a fresh version is picking up steam. Next year, says James E. Allchin, the Microsoft vice-president in charge of NT, "we're going to blow the roof off" Novell. Indeed, some customers are finding the new offering compelling. Forrester believes Microsoft will sell more than 90,000 copies this year, nearly double last year's volume. And 54% of the customers it surveyed said they were evaluating or planning to install Windows NT in 1996.

Novell is fighting back with NetWare 4.1. Reviewers say it's a more robust system, able to support more users and easily find them, no matter which server they're connected to. Novell also cut the price by 25%, making it more competitive with NT. "Novell has made significant improvements," says David A. Blake, technical marketing enginee Hewlett-Packard Co., who has b testing the system.

In the meantime, Frankenberg ins that Novell's move into applications pay off. "Microsoft is not about to d great job of integrating their appli tions to our networks," he notes. N ell's new suite combines WordPerfe word-processing package and the Qu tro Pro spreadsheet that Novell quired in March from Borland Inter tional Inc.

NOT BETTER LATE. But Microsoft has more marketing clout in application and a stable of fully ensconced produ It already has captured some 85% of $1.2 billion suite business with Micros Office. Against that, Novell's well- garded suite "is not a dollar short," s Robertson, Stephens & Co. anal Richard C. Edwards. "But they're c ing more than a day late."

Market researcher Dataqu Inc. believes Perfect Office co capture 15% of the suite market ter 12 months, generating up $300 million in revenue. And a y from now, analysts expect, NetW still will account for 62% of all t networking software in the mark But nobody, least of all Frank berg, underestimates the power Microsoft. "There's no doubt crosoft has significant momentu admits Frankenberg. Novell m have better products. But few betting that will be enough.

By Richard Bra
in San Francis

Software's New Jihad

UNIT SALES OF NETWORKING SOFTWARE

WINDOWS NT SERVER

NOVELL NETWARE		MICROSOFT NT	
1993	425,000	1993	47,250
1994	442,000	1994	90,750

DATA: FORRESTER RESEARCH INC.

BT Office Products
a KNP BT Company
2150 E. Lake Cook Road, Suite 590
Buffalo Grove, Illinois 60089

OfficeMax
3605 Warrensville Center Rd
Shaker Heights, Ohio 44122-5203

Corporate EXPRESS
35 Melanie Lane
Whippany, New Jersey 07981

EFFECT:

EGGHEAD® SOFTWARE
22011 S.E. 51st Street
Issaquah, WA 98027-7004

Every day more suppliers who value customer service see the value of welcoming the new purchasing standard.

Office DEPOT
LOW PRICE Guarantee EVERYDAY
2200 Old Germantown Road
Delray Beach, FL 33445

Boise Cascade
Office Products
800 West Bryn Mawr Avenue
Itasca, Illinois 60143-1594

STAPLES The Office Superstore
Staples, Inc.
100 Pennsylvania Avenue
Framingham, MA 01701

Bearings, Inc.
3950 Euclid Avenue, Cleveland OH 44115
Bruening Bearings, Inc • Dixie Bearings, Inc • King Bearing, Inc

THE DOCUMENT COMPANY
XEROX
Xerox Corporation
800 Long Ridge Road
P.O. Box 1600
Stamford, Connecticut 06904-1600

NATIONAL OFFICE SUPPLY CO.
Service Across the Nation
45 East Wesley Street
South Hackensack, NJ 07606-1498

CAUSE:

NON TRANSFERABLE
AMERICAN EXPRESS
CORPORATE PURCHASING
8014
3787 312345 67890
VALID DATES
MEMBER SINCE
94 AX
GAIL STEWART
REXPORT INC
© AMEX

Corporations are finding more and more of their major suppliers accepting the American Express® Corporate Purchasing Card. Since its introduction, thousands of suppliers welcome this new purchasing standard that helps you cut costs and streamline the entire purchasing process. If any of your suppliers haven't signed on, we'll begin the process right away. Call 1-800-445-4880, Ext. 41.

AMERICAN EXPRESS **Corporate Purchasing Card**

©1994 American Express Travel Related Services Company, Inc.

SIEMENS

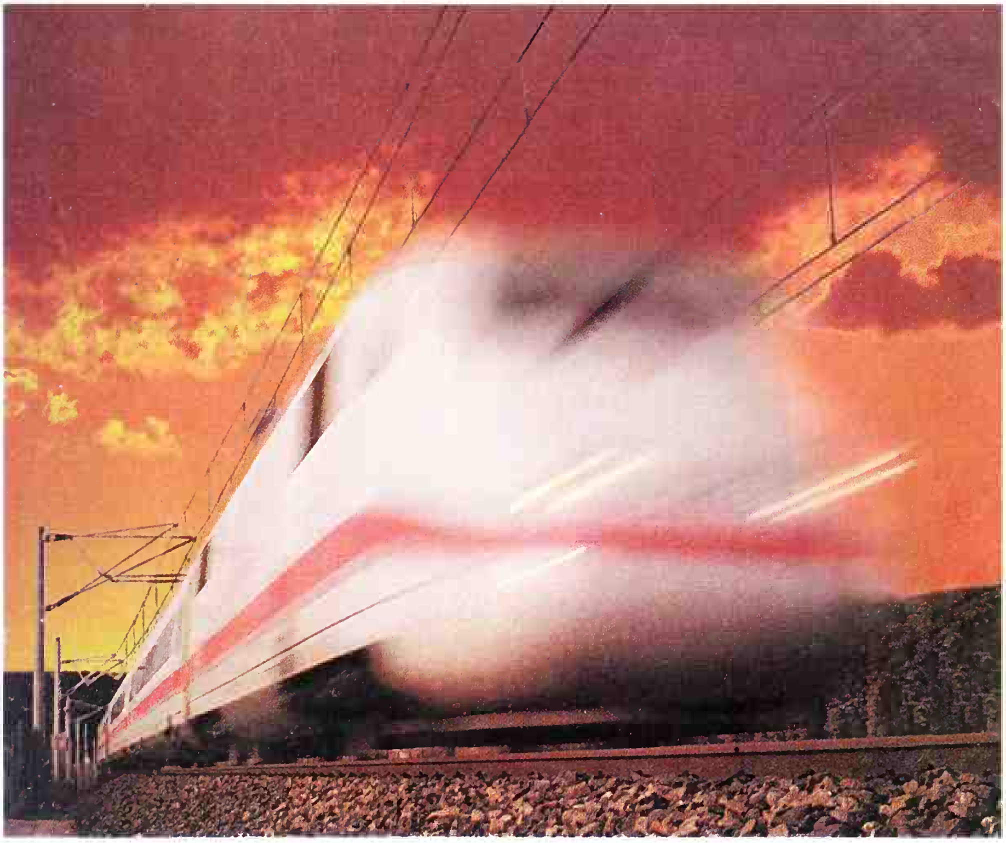
1879. That was then.

Paul Loeff
Siemens

Siemens invents the world's first electric locomotive. Introduced at a world trade fair, it carried seated passengers at speeds of up to ten miles an hour and held the promise of a cleaner, more convenient way to travel.

© Siemens Corporation 1994

1994. This is now.



Today, Siemens continues to lead the way in transportation with innovations in everything from high speed trains to urban mass transit systems to heavy-duty locomotives. Siemens technology now enables high speed trains to connect cities at over 200 miles an hour. And our mass transit systems carry millions of commuters with greater comfort and convenience all across the United States in cities such as San Diego, Sacramento, Pittsburgh, St Louis and Denver. Transportation is just one of Siemens' vast array of technologies. And it's one more way we help keep America on the move.
Siemens. Precision Thinking.

For more information, write for *Siemens '94*. Box 8003T, Trenton, New Jersey 08650

Automation Automotive Electronics Electronic Components Energy Information Systems
Lighting Systems Medical Systems Power Generation Telecommunications Transportation

GIZMOS

IT'S 10 PM. DO YOU KNOW WHAT YOUR BANK BALANCE IS?

Seiko's pager-watch brings the Information Age to your wrist

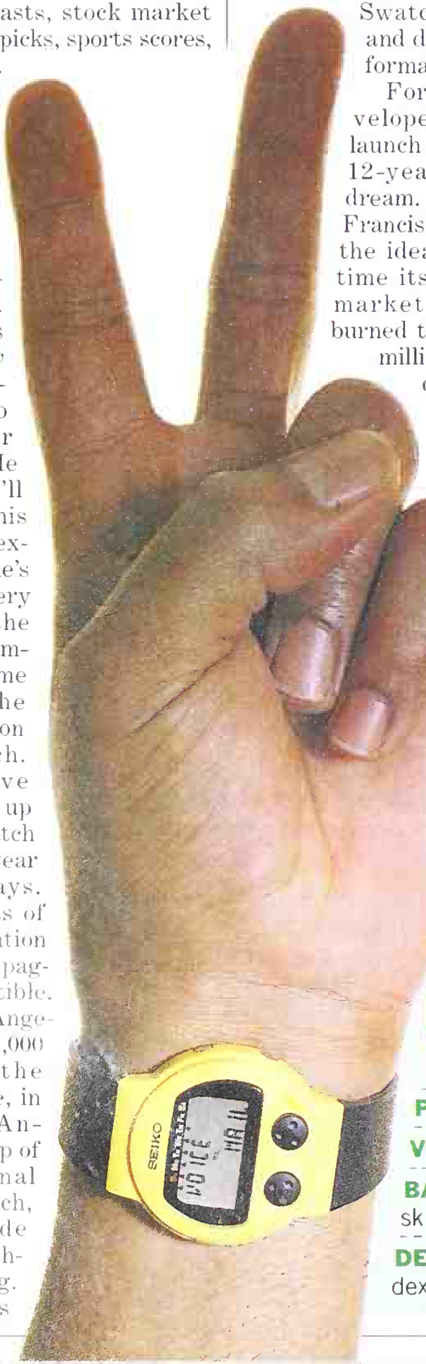
This is as good as it gets, Dick Tracy fans.

Imagine a digital watch with a pager built in. Then, envision one that will beep when you have voice-mail messages. Now, suppose it can also display weather forecasts, stock market information, lottery picks, sports scores, and ski conditions. No, you can't call home from it yet. But hey, that's why you have a cell phone, right?

Seiko Corp. may be on to something here. Just ask Andrew Krasny, 30, a producer of NBC's *Leeza Gibbons Show* who has been wearing the new Seiko MessageWatch for less than a month. He already swears he'll never go back to his 10-year-old Rolex, except maybe when he's wearing a tux. Every night, he checks the winning lottery numbers and has become a fanatic about the weather forecasts on his MessageWatch. "Who would have thought you'd wake up and look at your watch to decide what to wear every day?" he says.

STAMPEDE. For lots of people, the Information Age lure of Seiko's pager-watch is irresistible. Gadget-conscious Angelenos snapped up 11,000 the first week the watch went on sale, in November. Los Angeles is the first step of a two-year national rollout for the watch, which will include New York and Washington next spring.

The watch runs $80, and owners have to pay monthly service charges of $8.95 a month to receive pages. There are additional fees for other services (table). For the moment, the product's only real rival is Swatch's Swatch the Beep. But the Swatch version costs $175 and doesn't offer Seiko's information services.



For MessageWatch's developers, the Los Angeles launch is the culmination of a 12-year, $200 million-plus dream. AT&E Corp., a tiny San Francisco outfit, came up with the idea in 1982. But by the time its first product got to market, in 1990, AT&E had burned through more than $60 million in cash and had produced a bulky $225 pager that would work only in Portland, Ore., where it was first launched. When AT&E got into financial trouble a year later, its longtime backers, Japan's Seiko and Seiko Epson Corp., picked up its assets for $19 million. Seiko got busy working out the product's bugs and developing a smaller version. Portland, meanwhile, fell in love with the watch—despite its shortco- ings. Halle M. Sadle got her first ce nearly four years ago to cut cellul phone bills and recently replaced it wi the new, sleeker version. "I like it cause I'm not going to lose it or leav it at home like a regular beeper," she sa

Sadle, who runs a business shuttl celebrity authors to interviews a book signings, needs a pager so pub cists and agents can keep in touch wi their writers. But she also uses it communicate with her family, throu coded messages arranged in advan. Her two sons use Code 4 when th want to be picked up from socc games. Code 1 means voice mail waiting at the office. Code 9 is to sig an affectionate thought to her hu band, Rick. "It means 'I'm too busy talk, but I'm thinking about you,'" s explains.

WORLDWIDE CALLING? More servic are on the way. For instance, Seiko trying to get banks to transmit accou information via the system. Eventua Seiko says, the MessageWatch will able to function as a pager anywhe in the world: It receives paging sign piggybacked on transmissions by FM r dio stations.

Along with IBM and Delco Electr ics, Seiko also is testing a scheme transmit traffic information to driv in Seattle. At this point, the Messag Watch will receive only simple accid reports. But Delco plans to develop vehicle-navigation system that woul for example, suggest alternate trav routes. Another application: unlocki car doors when drivers have locke themselves out.

Seiko's real goal: to make Messag Watch the ultimate trendy accesso "I've always hated the idea of pagers says Krasny. "In the neighborhoo where I live and work, it means th you're a drug dealer, a prostitute, or personal physical trainer." Now, wea ing a pager can mean that you' turned a comic-strip fantasy into ever day reality.

By Larry Armstrong in Los Angel

WONDERWATCH

Monthly prices for MessageWatch services:

PAGING	Messages, time and weather updates	$8.95
VOICE MAIL	Phone-message alert	$5.00 and up
BASIC INFORMATION	Market closing prices, lottery numbers, ski conditions	$0.99
DELUXE INFORMATION	The basics, plus sports scores, UV index, pollution count	$1.99

BEETLE PROTOTYPE

HEY, IS THAT SONNY BONO DRIVING A VW BUG?

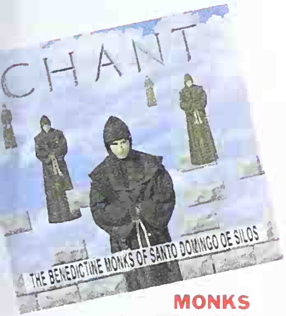
BW's '94 In and Out List: Everything that goes around . . .

ell, well. What a difference an election makes. Before Nov. 8, the health-care-reform setback didn't em fatal to the Democrats, and Sonny Bono was a has-en singer. Around that time, too, John Travolta rose like the phoenix, while Michael Eisner lost his magic touch. If quitting Prozac in the middle of this dislocation has you smoking again, try calming your nerves with Gregorian chanting.

WHAT'S IN	WHAT'S OUT
BUSINESS	
Privatization	Government
Overtime	Layoffs
Two-year Treasuries	Derivatives
Chile	Japan
Trade blocs	Trade spats
Cross-border deals	LBOs
Chunnel train	Channel ferry
VW Beetles	Minivans
Fox	CBS
Videoconferencing	USAir
Jeffrey Katzenberg	Michael Eisner
World Wide Web	Random Internet surfing
Accountants	Tax-preparation software
PowerPC	Pentium
Direct-broadcast TV	Video rentals
SOCIAL TRENDS	
South Bronx	Orange County
Figure skating	Pro hockey
Myst	Mortal Kombat
John Travolta	Kevin Costner
Tim Allen	Jerry Seinfeld
Ginseng	Prozac
Wonder Bras	Waifs
Gregorian chants	Rap
Smoking	Jogging
Assisted suicide	Life support
Broccoli rabe	Rice cakes
POLITICS	
Newtonian Laws	Moral Relativism
The Far Right	The Far Side
White males	Widows and orphans
Rich	Poor
Tax cuts	Health-care reform
IRA	PLO
Sonny Bono	Mario Cuomo
Alvin Toffler	Michael Lerner
Prayer Weekend	Renaissance Weekend
Christine Todd Whitman	Hillary Rodham Clinton
The Washington Times	*The Washington Post*
Devolution	Reinventing Government

Edited by Amy Dunkin

LEN: BIG YUCKS

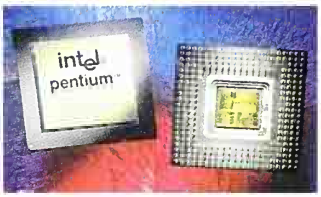


MONKS
IN THE 'HOOD

IO NEEDS THE NHL?

E EXPRESS TO CALAIS

YASSIR: NO SIR

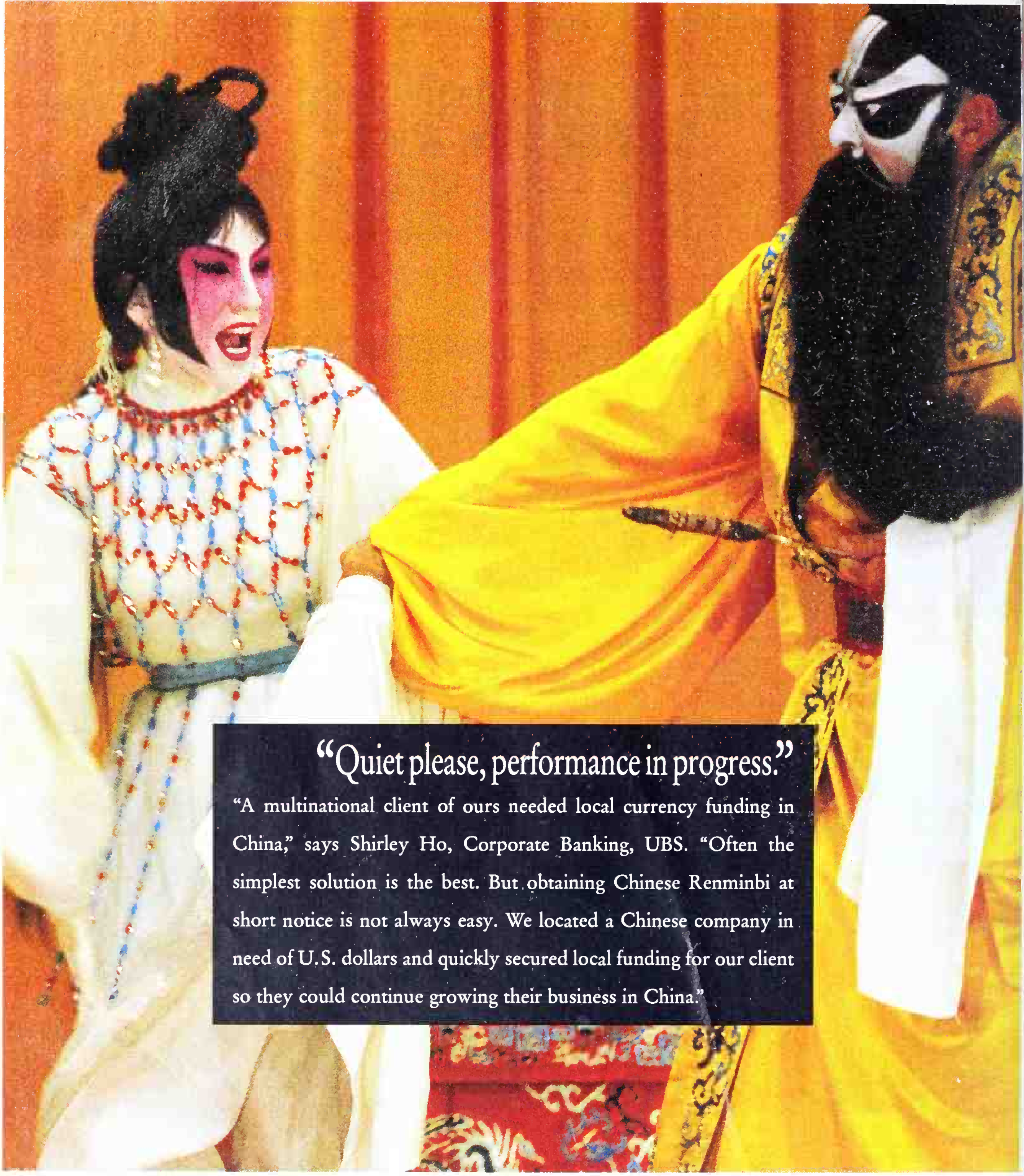


A CRACKED CHIP

WHAT'S THE NFL?

MOSS: GET A MEAL

(CLOCKWISE FROM UPPER RIGHT) MALCOLM LINTON/BLACK STAR (ARAFAT), GERARDO SOMOZA/OUTLINE (MOSS)



“Quiet please, performance in progress.”

“A multinational client of ours needed local currency funding in China,” says Shirley Ho, Corporate Banking, UBS. “Often the simplest solution is the best. But obtaining Chinese Renminbi at short notice is not always easy. We located a Chinese company in need of U.S. dollars and quickly secured local funding for our client so they could continue growing their business in China.”

Beyond the usual.

UBS Union Bank of Switzerland

NEW YORK, LONDON, PARIS, FRANKFURT, ZURICH, GENEVA, SINGAPORE, HONG KONG, TOKYO. In the U.S., UBS operates through various branches and subsidiaries with headquarters at 299 Park Avenue, New York, NY 10171. Other offices in North America: CHICAGO, HOUSTON, LOS ANGELES, SAN FRANCISCO, TORONTO, MONTREAL

n Business This Week

ITED BY KEITH H. HAMMONDS

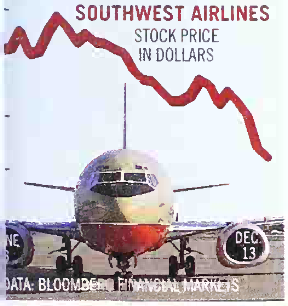
IRIFTS KEEP PAYING
IR PAST FOLLIES

OK FOR A BATTLE NEXT
ar at the Federal Deposit
surance Corp. Chairman
cki Tigert announced on
c. 13 that Bank Insurance
nd premiums for commer-
l banks will be cut in the
ond half of 1995. Those pre-
ums can be reduced be-
use the fund has been large-
replenished after paying
for a spate of bank fail-
es several years ago. But
Savings Association In-
rance Fund, the comparable
d for savings and loan in-
cutions, won't be rebuilt for
rs. Thrift lobbyists argue
t the lower BIF premiums for banks will put S&Ls at a disadvantage and want the two funds merged.

CLOSING BELL

RADAR BLIP?

rline investors are used to
sappointments—but not
om Southwest Airlines. So
hen Southwest said Dec. 7
at fourth-quarter profits
ould fall below last year's,
e stock plunged. The prob-
m: competition, and South-
est's own missteps. When
e airline launched fare sales
October, it failed to limit
e number of the cheapest
ats. It also suffered from
e addition of 42 planes and
om jammed reservations
nes. Even so, says analyst
ichael Derchin of NatWest
ecurities, the carrier remains
he strongest in the industry
far."



DATA: BLOOMBERG FINANCIAL MARKETS

HEADLINER

MARTY'S SMOKING GUN

Tobacco companies are breathing somewhat easier: Their Washington nemesis, Henry Waxman (D-Calif.), won't head the House subcommittee on health and environment come January, and a GOP-controlled Congress likely will be more understanding.

But there's still Marty Meehan (D-Mass.). On Dec. 14, the freshman representative delivered to Attorney General Janet Reno a letter charging cigarette makers and their executives with perjury, conspiracy, mail fraud, and RICO violations.

Meehan says the tobacco makers' own research confirms that cigarettes cause cancer and other diseases and that nicotine is addictive. Yet they have conspired, he says, to suppress the data and continue publicly to deny the truth. The tobacco companies deny the allegations. The former prosecutor and member of the Congressional Task Force on Tobacco & Health is calling for a grand jury investigation of alleged crimes perpetuating "massive illness and early death." A spokesman says the Justice Dept. is "continuing to look into any violation of federal criminal law."

By Maria Mallory

A CLOSER LOOK AT COMMUTER AIRLINES

IN THE WAKE OF A SECOND American Eagle plane crash, the Federal Aviation Administration will step up inspections and boost standards for commuter aircraft. At least 15 people died when a Jetstream plane went down on Dec. 13 near Raleigh-Durham. AMR, Eagle's parent, is in the process of closing its Eagle operations at that hub after an FAA decision to ground ATR-42 and ATR-72 aircraft in icy conditions—an order that followed an American Eagle accident on Oct. 31. AMR is scrambling to move its ATRs to Miami and San Juan. BT Securities analyst Leslie Hardin now expects AMR to post a small loss in the fourth quarter, before restructuring charges.

ONE MORE DEFT DEAL FOR THE LINDNERS

CARL LINDNER IS GOING PUBLIC again. More than a decade after taking American Financial private, he is combining it with his 40%-owned American Premier Underwriters, a specialty insurer. The deal, worth nearly $700 million, will leave Lindner's family with a majority of the new company while allowing Lindner, 75, to pay off $750 million in American Financial debt. American Premier, formerly Penn Central, has sought a place to invest its $820 million in cash and to deploy $645 million in operating tax-loss carryforwards.

TIME WARNER: READY, SET, INTERACTIVE

AFTER A LONG DRUMROLL, Time Warner unveiled its first fully interactive cable system on Dec. 14 in Orlando. Chairman Gerald Levin held an elaborate daylong demonstration to show off a system that delivers movies, home shopping, and video games at the touch of a button. After months of delays and questions about the technology, the fact that the system functioned smoothly is a victory of sorts. But to build a real business, Time Warner must reduce the cost of the system's set-top box. Consumers probably won't be willing to pay more than $300 per box, estimates Edward McCracken, CEO of Silicon Graphics, which supplies most of the system's software. The boxes currently cost far more than that.

LEANING ON BANKS ABOUT BIAS

SOME BIG BANKS ARE FEELING the heat in Washington. An analysis of mortgage data for the nation's capital from 1990 to 1993, released Dec. 13 by the Washington Lawyers' Committee for Civil Rights & Urban Affairs, found evidence of racial bias in lending. NationsBank's mortgage unit and Citibank topped the list, turning away black loan applicants five times more often than white ones. NationsBank Senior Vice-President Catherine Bessant calls the study "misleading," since it covered only the bank's mortgage company. Citibank says it has improved minority lending in the D.C. area since 1993.

ET CETERA...

- General Mills will split into two companies—one for food and another for restaurants.
- Caterpillar, still mired in a six-month-long strike, raised its stock dividend 67%.
- Triarc backed off from buying Long John Silver's, citing "difficult capital markets."
- Eli Lilly's Prozac didn't cause a 1989 mass shooting, a Kentucky jury decide.

(LEFT TO RIGHT) PHOTOGRAPHS BY LOUIS PSIHOYOS/MATRIX, AP/WIDE WORLD. CHART BY ROB DOYLE/BW

THE INTERNATIONAL NO-LOAD LEADER

To find you the best investment opportunities on earth, we leave nothing unturned.

At T. Rowe Price, we give our shareholders a view of the world based on a region-by-region, country-by-country and security-by-security analysis rarely found anywhere else. In fact, we've relied on a global network of locally based investment specialists since joining forces with Robert Fleming Holdings, Ltd., in 1979.

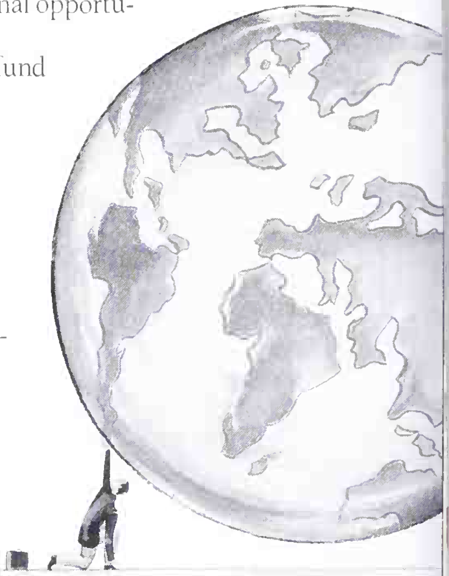
Together, we established Rowe Price-Fleming and launched the first of nine international mutual funds that have made us America's largest manager of no-load international mutual fund assets. Today, Rowe Price-Fleming manages in excess of $18 billion in foreign stock and bond assets, bringing a depth of experience to all our international funds, which remains unsurpassed.

Delivering proven results. With access to more than 100 investment analysts in over a dozen financial centers worldwide, we're uniquely positioned to provide proven performance and help our shareholders realize long-term investment success.

In fact, whether you seek stocks or bonds, prefer emerging companies to established ones, or wish to focus on a particular region, you'll find a promising international opportunity at T. Rowe Price. For example, our flagship fund—T. Rowe Price International Stock Fund—has been ranked the #1 international equity fund by Lipper Analytical Services for the 10-year period ended 9/30/94.* Recently, the Fund was also elected to the highly selective *Forbes* Honor Roll—for the fifth consecutive year.**

Let us show you the world. As the international no-load mutual fund leader, we can help mitigate the special risks inherent in international investing, including currency fluctuations, the volatility of emerging markets, limited geographic focus and changes in interest rates. Because along with active management and diversification, we offer all the experience that comes from taking a firsthand look at the world.

Call 24 hours for a free report and prospectus.
1-800-541-6158



International Stock Fund • International Bond Fund • International Discovery Fund • European Stock Fund
Global Government Bond Fund • New Asia Fund • Japan Fund • Short-Term Global Income Fund • Latin America Fund

Invest With Confidence
T.RowePrice

---

*According to Lipper Analytical Services, Inc., which ranked the T. Rowe Price International Stock Fund #1 out of 15, #15 out of 46, and #44 out of 146 international equity funds based on the total returns for the 10-, 5-, and 1-year periods ended 9/30/94, respectively. **As cited in *Forbes* Magazine (Mutual Funds issue) dated August 29, 1994. The honorees are chosen annually; current ranking includes 20 funds. The International Stock Fund's performance from 3/31/84 through 6/30/94 was considered. Past performance cannot guarantee future results. Request a prospectus with more complete information, including management fees and other charges and expenses. Read it carefully before you invest or send money.
T. Rowe Price Investment Services, Inc., Distributor.
INLD024375

ITED BY OWEN ULLMANN

ESSON NO. 1 FOR NEWT'S REBELS: ACTICAL RETREAT

When Representative Pat Roberts (R-Kan.) addressed the American Conservative Union on Dec. 6, he expected an ovation for helping to kill special-interest use caucuses financed by taxpayers. Instead, he got scat- ed boos. Why? In their zeal to remake Capitol Hill, Rob- s and his fellow GOP reformers eliminated not only liberal ıcuses but conservative units, too. "I'm more than a little ınned," he admits.

Roberts could be in for more shocks. As Republicans grasp wer in Congress, they are realizing the difficulty of mesh- ; revolutionary goals with political reality. That doesn't an they'll revert to business as usual, t they will have to compromise to ieve their conservative agenda.

Early signs show that incoming House eaker Newt Gingrich (R-Ga.) is deliv- ng on his pledge to streamline the Hill, : the status quo forces are tempering ne radical impulses. Take the proposal Representative David Dreier (R-Cal- to eliminate six House committees and erhaul several others. Faced with pro- ts from business lobbyists and incoming ıirmen, GOP leaders instead retained the all Business, Ethics, and House Admin- ·ation panels, reassigned less than a third of the old Ener- & Commerce Committee's functions, and decided to leave isdiction over health and welfare with Ways & Means.

VOODOO. The leadership also opted to ditch a controver- l plan to adopt "dynamic" budget estimating, which fore- ts revenue gains from tax cuts because of increased eco- nic activity. Instead, GOP wonks will stick with "static" imates and test their radical model for the future. The ıgrich Gang is backpedaling on a promised one-third staff , too. They're only trimming committee rolls—so just mocrats lose jobs—but members' own staffs stay intact.)n tax policy, compromise came in return for flexibility. The GOP's Contract With America promised to change House rules to require a three-fifths vote for any measure to "increase revenue." Now, the leadership wants to impose the 60% hurdle only for income-tax rates—not excise taxes and other fees. Likewise, the GOP is backtracking on promises to place welfare kids in orphanages and to reinstitute the ban on abortion counseling in federally funded clinics. Party moderates had warned that these ideas would lose swing voters.

Another source of intraparty friction is term limits: The Young Turks want them, while the Old Bulls are resisting. Incoming House Majority Leader Richard K. Armey (R-Tex.), a supporter of limits, has bowed to the status quo by suggesting that the '94 election sweep made term limits moot. Democrats are amused. "They're discovering what it's like to have the burden of governing," smirks a top Democratic aide.

ARMEY AND GINGRICH: *They blinked*

STEPHEN JAFFE/JB PICTURES

SACRED PACT. The retreats will probably continue. Contemplated cuts in farm subsidies may well be curbed amid strong opposition from farm-state lawmakers. Lobbying restrictions, a top priority of incoming Senate Majority Leader Bob Dole (R-Kan.), may slip to the bottom of the House's reform list. And look for a delay in Gingrich's promised pre-July vote on school prayer.

To their credit, the Republicans are pursuing most of their agenda with zeal. "It's six or seven steps forward for each step back," says Heritage Foundation analyst David Mason. GOP leaders say the tactical retreats keep the party united. "Maybe we could have shaken things up more," admits one strategist. "But these trade-offs have been done with an eye to accomplishing what voters want most. The contract is sacred."

If Gingrich enacts his contract, voters will forgive his concessions. If he fails, he'll be just another would-be reformer bested by the system.

By Richard S. Dunham

CAPITAL WRAPUP

RADE TUSSLE

It was all smiles at a White House gning ceremony for the General greement on Tariffs & Trade on Dec. but actually, Democrats are in deep scord over trade. Tempers exploded few days earlier when House Demo- ·ats met with White House Chief of taff Leon E. Panetta. They griped ıat their free-trade support cost ıem votes. "I voted for NAFTA and ATT, but I'll be damned if I vote for ıother one of your trade agree- ents," vowed one congressman. That sentiment could block Chile's entry into NAFTA.

CURBING TRUSTBUSTERS

►The GOP-controlled Congress may give companies relief from a burdensome merger-notification process followed by federal trustbusters. Incoming Senate Judiciary Committee Chairman Orrin G. Hatch (R-Utah) and likely antitrust subcommittee chairman Strom Thurmond (R-S.C.) are looking for ways to ease long, costly reporting rules under the 1976 Hart-Scott-Rodino act.

FEES ON FANNIE?

►Fannie Mae and fellow government-sponsored enterprises (GSEs) such as Freddie Mac are gearing for battle with Congress. The reason: Some Republicans want to charge the GSEs a fee in return for the federal government's implicit backing of their debt. Supporters of the idea say the GSEs get lower interest rates on the assumption that the feds will guarantee bad debts. Fannie Mae officials contend that the proposed fees would amount to a tax on home ownership.

LATIN AMERICA

RIPPING DOWN WALLS ACROSS THE AMERICAS

Companies are rushing for deals now—as talks begin to merge the hemisphere's trade blo

Tenneco Gas CEO Stephen D. Chesebro' isn't waiting for the conclusion of the "Miami Process"—the clunky term Western Hemispheric leaders chose for their effort to create the largest free-trade zone in the world by 2005. Even before President Clinton and 33 Latin American leaders ended their Dec. 9-11 summit with a free-trade framework, Chesebro' huddled in a Miami hotel room with officials from the U.S. embassy in Buenos Aires hashing out a few details of his own.

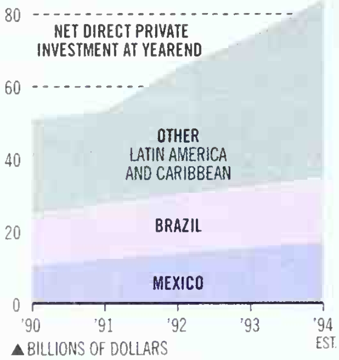
Tenneco Gas Co. is a partner with other private companies and Brazil's state-run Petrobras in a massive proposed natural-gas pipeline network that will stretch from Brazil to Bolivia, Peru, and Argentina, and eventually over the Andes to Chile. Houston's Enron Corp. is a partner with Bolivian state-run oil company YPFB in the Bolivian section of the pipeline. It will spawn other ventures such as electric plants and power grids. "However you try to say it, you underestimate the opportunities in Latin America," beams Chesebro'. "We're talking hundreds of billions of dollars here."

ARDUOUS EFFORT. While the three-day Summit of the Americas ended with a blueprint for opening up hemispheric trade over the next 10 years, U.S. companies' strategies for the region are on a faster timetable. Already, free-market reforms and economic revival have U.S. companies flocking to invest in Latin America (chart). Brazil's opening of its computer market, for example, has spurred a spate of investments, such as Hewlett-Packard Co.'s joint venture to make PCs. Ford Motor Co., faced with rising competition in Brazil's booming auto market, is breaking out of its joint manufacturing venture there with Volkswagen in order to modernize its plants and offer newer models, starting with imports from Europe.

For Procter & Gamble Co., says Chairman and CEO Edwin L. Artzt, Latin America now accounts for 8% of revenue. P&G is investing heavily in the region—$800 million in the past five years. The company now makes Pampers in Argentina that are shipped to Brazil and shampoo in Colombia that is sold in Venezuela. Artzt expects regional sales to roughly double in the next five years, to $4 billion. "We regard Latin America right alongside of Asia in growth potential—not as big, but plenty big," he says. Adds Jorge Montoya, president of P&G Latin America: "Now we want to see the next step, when things flo without us having t pay duties."

OPEN MARKET IN BRAZIL: *HP's joint venture produces PCs in São Paulo*

THE GROWING U.S. STAKE IN LATIN AMERICA



▲BILLIONS OF DOLLARS

DATA: U.S. COMMERCE DEPT., BUSINESS WEEK ESTIMATE

That's where th Miami Process come in. Trade, transpor and telecommunica tions ministers wi meet over the next si months to start forg ing the Free Trad Agreement of th Americas (FTAA through steps to mel the hemisphere's existing free-trad blocs. After years of isolation behin steep protective barriers, "we all fee we can find a common cultural and bus ness identity," says Bolivian Presider Gonzalo Sánchez de Lozada.

One aim is to draw up a hemispheri

‘estment code. That would clear the
.y for harnessing private capital to
ild highways, electric power plants,
1 telecommunications systems. The
imate goal is to stitch burgeoning
e-trade alliances in the hemisphere,
ch as Mercosur, the Andean Pact, and
e North American Free Trade Agree-
nt, into a web of commerce.
It may be an arduous 10-year effort,
tly because the existing “subregion-
trade pacts have built up their own
mentum. Mercosur, set up by Brazil,
gentina, Uruguay, and Paraguay, is
eady moving beyond free trade to
m its own customs union starting on
1. 1. And Clinton’s invitation to Chile
join NAFTA could run into trouble in
ngress if Republicans balk at giving
n negotiating authority.
Despite such obstacles, U.S. compa-
s are strengthening their own busi-
ss networks in Latin America. The re-
n is the fastest-growing U.S. export
rket, taking almost $90 billion worth
U.S. goods this year. By 2000, the
mmerce Dept. estimates, the region
l surpass Europe as a customer for
S. wares. By 2010, it will surpass Eu-
pe and Japan combined. “Latin Amer-
is booming, and we can’t wait,” says
mmerce Secretary Ronald H. Brown,
o plans to convene another summit
h U.S. business leaders next June.
JRBOCHARGER.” Companies such as
ca-Cola Co. aren’t waiting—they are
nping out in front of the parade. Coke
nvesting $800 million to protect its al-
dy sizable stake in Brazil, while Pep-
o Inc. is spending $300 million to
ak into that market. The investment
l export splurge isn’t only for big
npanies. Haverfield Co., a Miami-
sed utility servicing outfit with less
n $50 million in revenues last year,
added a startling $25 million in new
tin American business in the past six
nths, says company CEO Scott Haver-
d Yenzer. He sees the Miami summit
“the turbocharger our race car real-
needed.”
To sustain domestic support for free
de, Latin America’s democracies will
e to deliver more prosperity to ex-
tant voters. One urgent need is to
re up the region’s rickety infrastruc-
e—from health care to roads to tele-
nes. According to Enron Chairman
nneth L. Lay, energy needs will
w to $800 billion over the next 10
rs—at a rate four times faster than
rest of the world. If that’s the case,
y, Chesebro’, and other U.S. CEOs
iking deals in Miami hotel rooms
ing the summit will be well ahead of
game.

By Douglas Harbrecht, Geri Smith,
l Gail DeGeorge in Miami, with bu-
u reports

FRANCE

ALCATEL IS GETTING A LOT OF WRONG NUMBERS

Profits are plunging, and legal woes may force its chief to quit

It was a terrible year for Pierre Suard, chief executive of Alcatel Alsthom, the French telecommunications and energy giant. In the past 12 months, the $29 billion goliath has suffered one setback after another. Its German subsidiary lost almost $400 million, forcing overall profits down an estimated 43%. Alcatel’s stock tumbled some 55%. Rivals widened their lead in new markets such as cellular communications. French magistrates investigated whether Alcatel overcharged its largest customer, France Telecom, by $125 million, and in a separate case, whether the company illegally funded political parties.

Suard himself, once a hero of French industry, faces increasing pressure. In another action, magistrates are investigating allegations that he used corporate funds to renovate his home. He maintains the money was legitimately spent on security. The daily newspaper *Le Monde* speculated in early December that Alcatel’s board of supervisors will ask for Suard’s resignation at a Dec. 21 meeting. Although ITT Corp. Chairman Rand V. Araskog, also Alcatel’s board chairman, stated he backs Suard, the pressure for his departure could grow as legal investigations advance. Company officials say the inquiries will ultimately clear Alcatel and its chief. Suard declined to be interviewed.

SUARD: *Did his company overbill a big customer?*

M. DELLUC/L’EXPANSION

> Alcatel was once held up as a model to other companies in France. Now it seems more a picture of what’s wrong with classic French management

Alcatel’s fall from grace raises questions about France’s industrial policy, which underwrites large companies run by a political elite with close ties to the state. The equation often only works in protected markets, where captive customers have to pay top dollar for products and services. But should those markets decide to deregulate, those windfall profits may evaporate.

Alcatel built up considerable muscle in the protected French market where it enjoyed a steady stream of state telecom contracts with hefty margins. Privatized in 1986, Alcatel grabbed global leadership in telecom equipment sales through the $6 billion acquisition of ITT’s phone equipment business. The ITT stake gave Alcatel a privileged position as equipment supplier in the dozens of countries around the world—including China—

Arbeitsplätze
wichtiger
als Abfindungen !
ALCATEL SEL Standort Stuttgart

ANGRY OVER JOB CUTS: *A Stuttgart demonstration against Alcatel's German subsidiary*

that used ITT's public switching technology. That strategy paid off brilliantly as long as tightly regulated markets kept competition to a minimum.

But now a global wave of telecom deregulation is rapidly changing the rules. In many new markets, such as wireless communications and private networks, a total absence of regulation has spawned a swarm of rivals. And come Jan. 1, 1998, when European Union markets are fully open, rival MCI can storm Alcatel's protected home markets in France and Germany, which still generate 50% of the company's telecommunications revenues.

LATE DELIVERY. In this new world of thin margins, rapid product cycle times, and constant technological change, Alcatel has already stumbled. Nowhere has the shock been more painful than in Germany, where the giant company has sales of $3.5 billion.

For years, subsidiary Alcatel SEL raked in 70% of its business from public authorities, including the state telephone operator Deutsche Bundespost Telekom. But the German unit was hit hard this year when key customer Telekom sharply curbed spending in preparation for privatization. Worse, SEL incurred millions of dollars in penalties from Telekom for late delivery of switching equipment and repeated glitches in its software. And several plants it bought in eastern Germany turned out not to be needed. In November, Paris headquarters announced 5,300 job cuts at SEL and a restructuring drive that will transfer research and development and production in some key products to other countries.

The retrenchment in Germany has served as a wake-up call at Alcatel. A companywide program aims to dismantle regional profit centers and replace them with product divisions that have global responsibilities. Says Jozef Cornu, an executive vice-president of Alcatel: "We have to move toward making all our companies little tigers."

Yet while Alcatel reorganizes, it must also play catch-up in key technologies. For starters, although the company may have the resources to be a player in the fast-growing wireless sector, it will be an uphill battle. Rivals Motorola, Ericsson, and Nokia are far advanced in mobile technology, while Alcatel's mobile network equipment is still plagued by hardware and software glitches. One Motorola official reports th when France Telecom boug wireless equipment from I company this year, the loss face for Alcatel was so gre that France Telecom officials structed Motorola not to discu its contracts in public months. The ban, says this ex utive, was lifted in Novemb

STRONG POSITION. As Alcat faces these challenges, it h some strengths that could parlayed into higher profits a perhaps a turnaround in t company's sagging share pri One promising product is t ATM 1000 switch, which is d signed to handle huge volum of voice, data, and video signa Another bright spot is Alcat strong position in China. Than to ITT's operations, Alcatel w first in the door and now ow an estimated 40% of the ma ket. But even there, Northe Telecom, Siemens, and AT&T a pushing their way in.

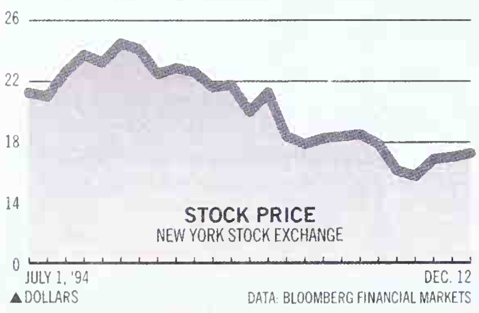
In a new strategic twist, Suard h also vowed to move into telecom servi es: He recently took a 20% stake in SF France's second mobile communicatio operator. He's also seeking a 20% stal in France Telecom. But it's unclear ho he would finesse the problem of co peting with his own customers, who fe a monolithic manufacturer/operator.

For now, Suard may be distracted the state investigators probing the va ious allegations Alcatel faces. In t overbilling case, Alcatel recently ask the judge for a new evaluation of t billings to prove the company acted l gally. But the case may have an impa even if Alcatel is cleared. Says one riv telecom executive: "What this scandal all about is more money going to Alcat than it really deserved. So [customer will be a lot more diligent and mu more aware of the prices being paid f [Alcatel's] products."

Privately, some senior Fren executives wonder whether th scandals affecting Alcatel an other French companies signal need for change. "The whol French system is creaking the joints because it's so old says one Paris-based consultan "The Establishment prevent the rough and tumble of fre markets." Alcatel needs more that rough and tumble to pr pare for a high-risk futur

By Gail Edmondson in Pari with bureau reports

ALCATEL'S STOCK TAKES A FALL



Compact upright cordless telephone
Sale $49.99
#43-1004x, reg. $59.99

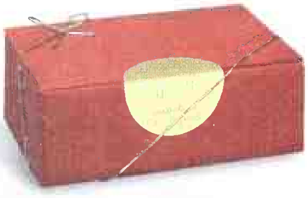
Organizer/calc with clock and scheduler
$39.99 #65-830x

Blackjack/Poker handheld game
$24.99 #60-2431x

Get a gift.

Get a card.

Get it wrapped.



Get it shipped.

Get the 5:28.

Need to send a gift in a hurry? Radio Shack Gift Express will wrap, pack, enclose a card, and ship your purchase anywhere in the U.S. via FedEx® delivery service—all for a nominal charge. For gift orders or the location of the store nearest you, call

1-800-THE-SHACK℠

Radio Shack®
Gift Express℠

You've got questions. We've got answers.℠

Digital-tuning pocket color TV
$139.99 #16-164x

Radio-controlled Off-Road Tiger 4×4
Sale $49.99
#60-4113x, reg. $59.99

Optimus® portable compact disc player
Sale $99.99
#42-5042x, reg. $119.99

le prices guaranteed through 12/24/94
dEx trademarks used by permission.

For product warranty information, write Customer Relations, 1400 One Tandy Center, Fort Worth, Texas 76102.

HONG KONG

SPIELBERG, GATES—AND WONG?

VTech's chief wants to play in the "edutainment" big leagues

When children rip open their presents on Christmas, many will find gizmos like Little Smart Alphabet Desk, a "talking" toy that teaches letters, numbers, and music. It's from VTech Holdings Ltd., a Hong Kong company with a 70% share in the U. S. for computer-based educational toys, one of the hottest parts of the $19 billion toy market.

Now, VTech Chairman Allan C. Y. Wong, 44, has bigger plans. He aims to quadruple sales, to $2 billion, in five years by making VTech, which also makes personal computers and cellular phones, a challenger in multimedia products. But VTech faces increased competition from rivals in the toy, software, and computer business.

Until recently, VTech prospered in a niche that was long ignored by others. When VTech launched its first educational toy in 1982, "education was considered the kiss of death," says Jack Hirsch, chairman of VTech Industries Inc., the company's U. S. subsidiary based in Wheeling, Ill. VTech has helped change that, with toys such as the $40 Talking Whiz Kid Notebook, a simulated laptop computer with animated graphics that quizzes 8- to 11-year-olds on math and science. Now VTech is one of the fastest-growing suppliers to retail giant Toys 'R' Us Inc.

TOUGH RIVALS. Yet VTech's performance has been weighed down by losses in its shrinking personal-computer division. While 1993 toy sales grew 30%, to $209 million, PC sales fell 40%, to $202 million. Total profits are likely to double, to $21 million, for the fiscal year ending in March, but analysts worry that growing competition from the likes of Sega Enterprises Ltd. and Fisher-Price could damage margins. "They're facing stronger, more agile competitors," says Sean P. McGowan, an industry analyst with Gerard Klauer Mattison & Co. in New York. Moreover, sales of educational software for home PCs may hurt even more.

The answer, Wong believes, is to offer computers just for kids. He says children soon will send homework to teachers via electronic mail. Instead of conventional PCs, Wong says they will use inexpensive machines designed for children. While parents who have spent more than $1,000 for a home PC may not want to buy another hunk of hardware for the kids, Wong thinks they will be so busy using the PC themselves that they won't want it tied up for hours as the kids do their homework. That means there would be a market for a cheap children's computer, with an inexpensive 286 microprocessor good enough for VTech's software. With that in mind, VTech is working on a computer with a CD-ROM, a modem, and multimedia software, which it hopes to launch in 1996.

TALKING Whiz-Kid PLUS
VTECH

WONG'S WORLD
VTech is convinced it can quadruple sales in five years with a line of cheap computers designed for children

For evidence that the convergence between toys and computers is already well under way, Wong points to VTech products such as the $199 I. Q. Unlimited for elementary-school students. VTech expects to sell more than 150,000 of them this year in the U. S. The I. Q., loaded with proprietary VTech software for word processing, attaches to a printer and can be plugged into a TV, eliminating the need for a separate monitor. As components become cheaper, VTech's strategy is to load power and features into the computer while keeping the cost under $00.

To compete against bigger ri VTech needs to be fiercely compet on cost. So Wong is building a manu turing base in southern China, w VTech employs 11,000 to 13,000 assem workers earning about $50 a month. Chinese labor force is likely to swe 16,000. Wong plans to greatly exp his staff of 300 design engineers in na, where talented engineers can be cruited for salaries of $5,000 a year

HEDGING. Wong also hopes VTech's e rience with telecoms and computers give it an edge. VTech produces cell phones in a joint venture with N Group and is the top supplier of megaherz phones, a high-end prod used in some homes and offices, to A Alcatel, and Philips. VTech has been successful in the U. S. computer mar where it lost $15.4 million last year. targeting China, Wong is pressing ah with new desktop and notebook Staying up-to-date in key technolo also helps the company be competi in children's products, he says.

To hedge his bets on where the ma is headed, Wong has put together a te of U. S. and Asian software designer launch a series of educational-softw packages running on standard PCs. Th where competition will be especia bruising, with the likes of Micros Tandy, Steven Spielberg's Knowle Adventure Inc., and hundreds of CD- producers all taking positions. VTech ures its biggest asset is its 14-year tr record in the U. S. But as Wong he into uncharted territory, he may hav harder time keeping other educatio toys from making their way und Christmas trees in the years to come

By Pete Engardio in Hong K

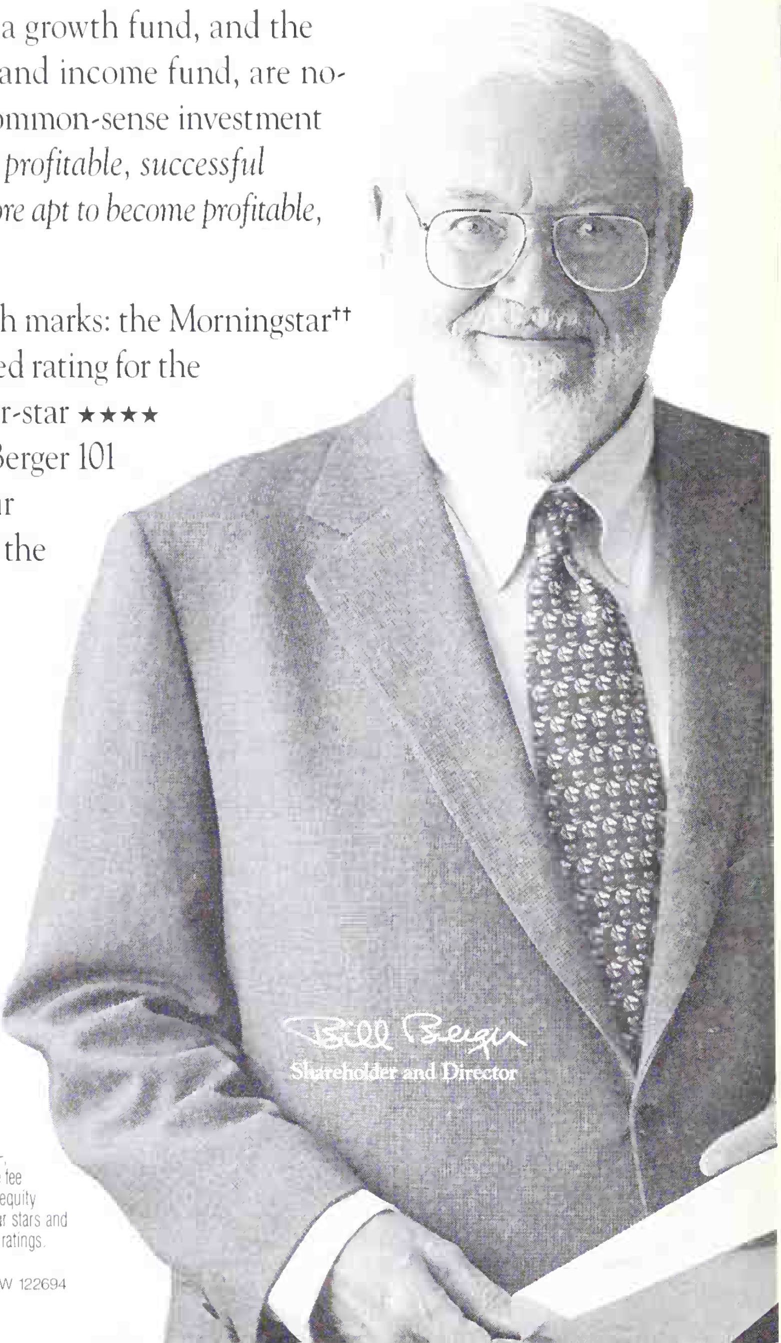
“With only a $250 minimum investment you don’t have to compromise your present to start saving for your future.”

Your plans for tomorrow shouldn’t interfere with your plans for today. That’s why the Berger Funds have kept the investment minimum low, so it’s easier for you to start saving for college, retirement or anything else you want in your future. You can open a rger account with as little as $250 and add to an existing one with $50. And while periodic vestments do not assure a profit nor protect against loss in declining markets, the Funds’ low minimums can help you build toward your goals … at your own pace.

TAL ANNUAL RETURN R THE PERIOD ENDING 9/30/94	
ERGER 100 UND	BERGER 101 FUND
Year 3.5%[†]	1 Year 2.9%[†]
Years 3.3%	3 Years 12.0%
Years 7.2%	5 Years 13.6%
Years 9.1%	10 Years 13.0%
Years 5.7%	15 Years 12.8%
ears[†††] 5.2%	20 Years[†††] 13.7%

Both the Berger 100 Fund, a growth fund, and the Berger 101 Fund, a growth and income fund, are no-loads and follow the same common-sense investment philosophy: *Seek to invest in profitable, successful companies because they are more apt to become profitable, successful investments.*

Both Funds have earned high marks: the Morningstar[††] five-star ★★★★★ risk-adjusted rating for the Berger 100 Fund and the four-star ★★★★ risk-adjusted rating for the Berger 101 Fund. So start saving for your future; consider investing in the Berger Funds today.



Bill Berger
Shareholder and Director

Please call (800) 333-1001

for a prospectus containing more complete ormation including management fees, charges d expenses. Read it carefully before investing.

THE BERGER FUNDS

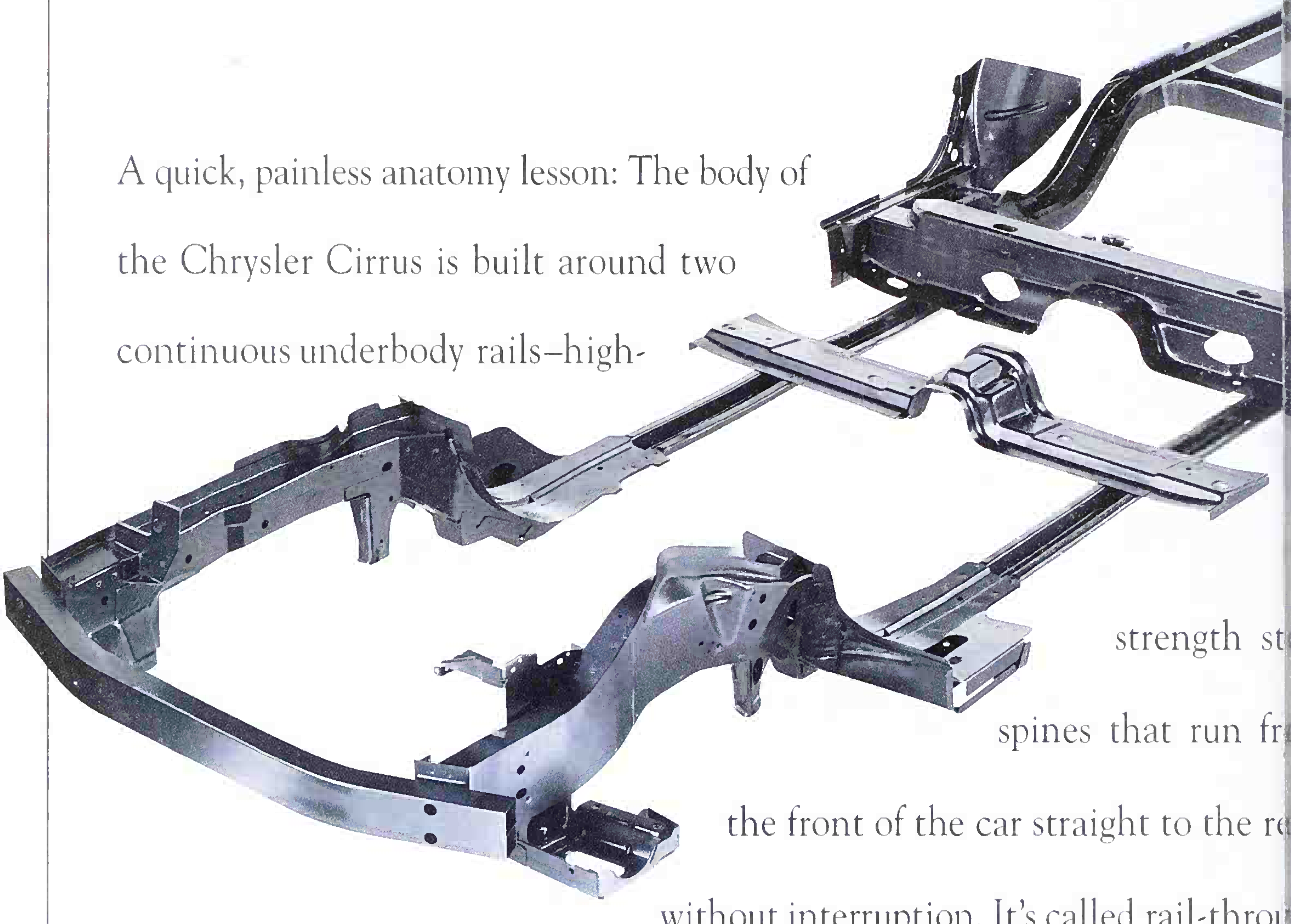
Together we can move mountains.℠

figures in the chart represent past performance and do not guarantee future results. They ude changes in share price and reinvestment of dividends and capital gains, which will tuate so that shares, when redeemed, may be worth more or less than their original cost.
figures include the deduction of 12b-1 fees beginning in June 1990
rce: Lipper Analytical Services, Inc
ningstar proprietary ratings reflect historical risk-adjusted performance through 9/30/94. The ngs are subject to change every month. Morningstar ratings are calculated from the funds’ three-, - and ten-year average annual returns in excess of 90-day Treasury bill returns with appropriate fee stments and a risk factor that reflects the fund performance below 90-day T-bill returns. 1,085 equity ds were rated: 10% of the funds in an investment category receive five stars, 22.5% receive four stars and 6 earn three stars. Overall rating is a weighted average of the funds’ three-, five- and ten-year ratings.
er Associates assumed management of the Funds 9/30/74.

994 Berger Associates, Inc

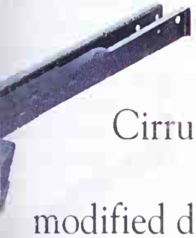
BW 122694

Like peopl
have more bac



A quick, painless anatomy lesson: The body of the Chrysler Cirrus is built around two continuous underbody rails–high-strength st spines that run fr the front of the car straight to the re without interruption. It's called rail-throu construction, and it's what gives Cirrus such exceptional torsional rigidity. T helps explain why Cirrus is so tight, solid and quiet. It also explains why wh you take Cirrus out on roads that look like 〰 they tend to feel like —

ome cars
one than others.



Cirrus also has cab-forward design for vast interior space. A specially
modified double-wishbone suspension, speed-sensitive steering, four-wheel
ABS and a 24-valve V6 engine. The result is a four-door sedan with dual air
gs[†] and a fold-down rear seat, lavishly
ipped for an exceedingly
sonable price. But more
ortant, you get a car that
ches beyond that part of you concerned with practicality and car payments
kids, and touches the part in you that loves to drive. And it all starts
a little extra backbone. Chrysler Cirrus, about $17,970* well-equipped
luding destination charge. For more
rmation, call 1-800-4-A-CHRYSLER.

Chrysler Cirrus

IT'S NOT JUST A STEP ABOVE.
IT'S THE NEW PLATEAU.

---

*†Always wear your seat belt. *Base MSRP.* LXi model shown: $19,900 *including destination charge. Tax extra.*

WORLD TRADE: WILL CHINA AGREE TO PAY ITS DUES?

This has been a season of heavy blustering between Beijing and Washington over China's bid to join the World Trade Organization (WTO), the new global trade regime. With the Jan. 1 launch of the WTO drawing near, the rhetoric has been heating up. Chinese officials have threatened to punish the U. S. if it keeps China out. But their American counterparts insist that China isn't going to get in unless it agrees to play by accepted international rules.

The stakes in this global showdown are high. The WTO really can't afford to exclude China. If this fast-growing, major-league economy remains outside, it could turn into an 800-pound gorilla, flouting the new system.

OH, SANTA: *Chinese-made toys*

But the U. S. doesn't want to jeopardize the WTO by allowing China in on cozy terms unfair to everyone else, either. Indeed, the U. S. and other industrialized countries have a huge interest in leaning on China to open such markets as telecommunications and key financial services and curb its software piracy and other ripoffs. China's trade surplus with the U. S. has surged to $29 billion this year and could create a political backlash. "We're talking about a regime that only wants to export and not import," says a Western diplomat in Hong Kong. "It's out to protect any and all local industries for as long as it can get away with it."

PRESTIGE POINTS. Word from Geneva, where American and Chinese negotiators are locked in difficult, last-minute talks, is that a compromise now looks likely. China would be given time to comply with WTO rules—but not the 10 to 12 years that developing countries normally get and that Beijing wants. U. S. negotiators are also saying that Beijing could be considered a founding member of the WTO—status that is important for prestige—even if the talks are extended for six months or more.

But first, American officials say, China must commit to eventually meeting WTO standards. That means protecting copyrights, abolishing high local-content requirements, an making customs rules and local contracts at least unde standable to foreign companies. Washington, for instanc demands that Chinese authorities shut down the 26 facto ries that churn out millions of counterfeit CDs. Excellen quality disks by such American artists as Mariah Carey an Kenny G are available in Chinese shops for as little as $1.1

There is plenty of pressure on Bejing's leaders not to giv in. With the battle to succeed ailing 90-year-old Den Xiaoping in full swing, no Chinese leader wants to appear t be caving in to the U. S. Moreover, the market-opening move that the U. S. wants would involve big political risks fo China's leaders. For example, increased foi eign competition could force layoffs at th struggling state enterprises, which emplo 110 million people, provoking social unres "They can't make all the concessions," say Shan Li, economist for Goldman, Sachs Co. in Hong Kong.

But Chinese leaders also seem to realiz that membership in the WTO would be an as set despite the short-term strains. It woul confer a global stamp of approval on a cour try that has been outside the General Agree ment on Tariffs & Trade system (which the WTO succeeds since 1949. There would be practical gains, too. Membershi might boost China's exports as much as 40%, according t World Bank reports. Acceptance of WTO dispute-settlemen procedures would reassure foreign investors, keeping up th vital flow of investment funds. More competition from im ports would help bring down China's chronically high inflatior

Indeed, most parties win if China comes into the WTO o terms that don't make a mockery of the system. The questio is whether a compromise can be forged that opens China' markets without causing its leaders to lose face.

By Joyce Barnathan in Hong Kong and Dougla Harbrecht in Washington

GLOBAL WRAPUP

APRES DELORS . . .

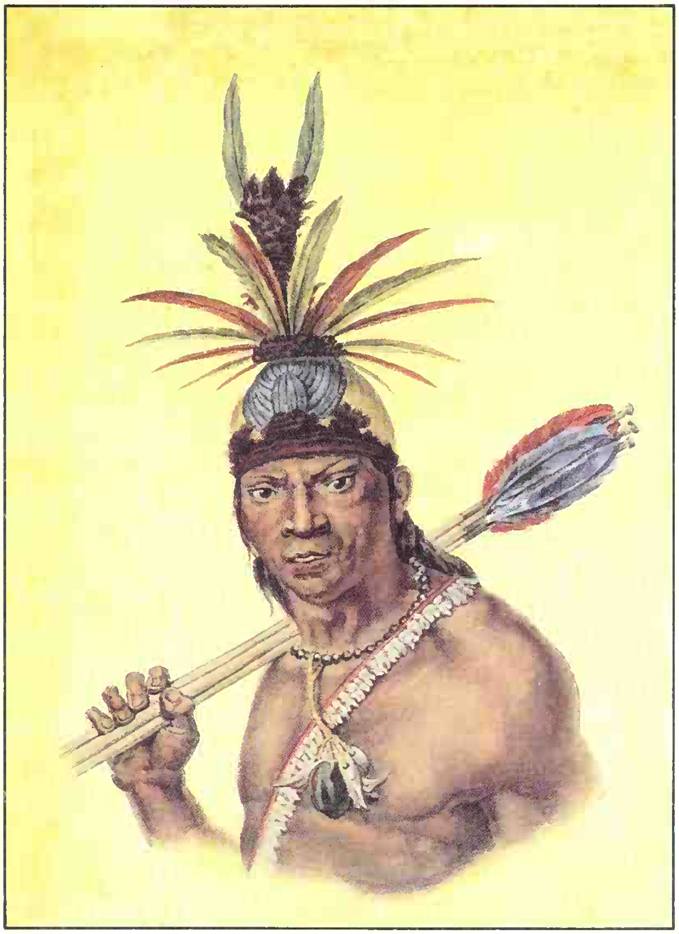
▶ Jacques Delors' surprise decision not to seek France's presidency virtually guarantees that a conservative will succeed Socialist President François Mitterrand. But first, the Right will likely weather a nasty family quarrel.

The main beneficiary is Gaullist leader Jacques Chirac, who will likely take on the front-runner, Prime Minister Edouard Balladur, a more moderate Gaullist, in the April first round. European union is likely to be the big issue. Balladur will try to woo pro-European centrists who liked Delors. Chirac, who is cool on monetary union, appeals to France's many Euroskeptics. Neither wants the tight federal Europe pushed by Delors, the outgoing president of the European Commission. Chirac may also argue for loosening Balladur's strong-franc policy, letting interest rates fall to create jobs. Delors' bowing out dropped the franc to its year low against the mark.

JAPAN'S MINI BANK RESCUE

▶ Japan has finally thrown its ailing banks a rope but only a short one. Ever since the collapse of the bubble economy in 1990, Japan's banking regulators have insisted that no public money would go toward bailing out banks, which are reeling from an estimated $300 billion in bad debts. But on Dec. 9, the Bank of Japan grudgingly coughed up $200 million in capital for a rescue bank that will first absorb two Tokyo-based credit cooperatives teetering on the brink with a reported $200 million to $300 million in bad debts. Japan's Deposit Insurance Corp. will kick in $400 million, and big commercial banks will contribute $200 million.

Brazil.



Do you
still remain with
this image?

Brazil, th

The leading economy:

- 40% of total Latin American GDP with 242 companies among the top 500.
- Trade surplus of US$ 13 billion in 1993 with one of the largest foreign exchange reserves in the world (US$ 43 billion by August 1994).
- Best performing stock market in Latin America in 1993 (111% in US$ terms) and in 1994, up to October 31 (78.53% in US$ terms). Average Price/Book value = 1.0.
- Introduction of a successful economic stabilization plan including restrictive monetary and fiscal policies, new currency, privatization, trade liberalization and deregulation.

The best information:

- YES BRAZIL - Fifteen booklets containing a comprehensive overview of kev information for foreign investors about the country, including foreign investment legislation, taxation, accounting rules, legal information and economic data.

BALANÇO ANUAL
94/95
PACTUAL
CO AN

- 94/95 ANNUAL REPORT - In partnership with Gazeta Mercantil, Brazil's most important business & finance newspaper, Pactual presents in CD-ROM a publication including key financial figures for all Brazil's leading companies, as well as industry sector overviews and an economic summary by leading Brazilian economists. Available by special request at Gazeta Mercantil: New York, tel. (1914) 738-4536 and London, tel. (4481) 347-5166.

The best team:

- Investment Banking: Renato Bromfman
- M & A: Paulo Bilyk and John Schlesinger
- Merchant Banking: Luiz Cezar Fernandes
- Economic Analysis: Paulo Guedes
- Portfolio Management: André Jakurski
- International Coverage: Thomas W. Kees
- Fixed Income: Marcos Pinheiro
- Foreign Exchange: R. Theodore Poor
- Capital Markets: Marcelo Serfaty

Pactual, the leading choice for opportunities in Brazil

real picture.
PROFESSA

"The Camacã Indian Warrior" is one of the unpublished portraits presented in the book sponsored by Banco Pactual about the nineteenth century famous French artist Debret.

PACTUAL

Av. Rep. do Chile, 230/29º andar
CEP 20031-170 Rio de Janeiro RJ
Tel: (55 21) 292-3125
Fax (55 21) 533-1661

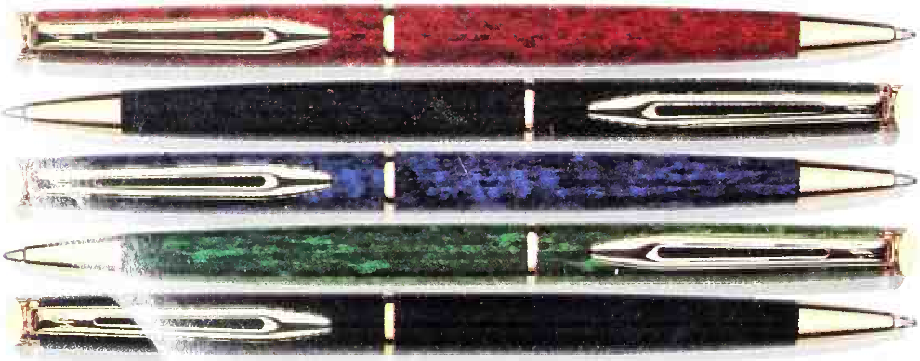
Av. Paulista, 1294/19º conj. 19B
CEP 01310-100 São Paulo SP
Tel: (55 11) 285-5122
Fax (55 11) 285-0963

Associated with Pactual Capital Corporation,
520 Madison Ave. 28th floor
New York, NY 10022
Tel: (212) 715-5863 Fax (212) 715-5859

The McCooeys

ALTHOUGH THE MCCOOEY BROTHERS AND THEIR SISTER
HAVE ALWAYS BEEN REMINDED OF THEIR STRIKING SIMILARITIES,
IT IS THEIR DIFFERENCES THEY HAVE ALWAYS INSISTED ON.
IT IS NO WONDER THEN, THAT EACH OWNS
A DIFFERENT WATERMAN PEN. FOR WHILE STYLE IS KEY,
INDIVIDUALITY IS STILL EVERYTHING.

INTRODUCING THE NEW WATERMAN HEMISPHERE



WATERMAN PARIS

There are over 100 styles and finishes to choose from, each with a lifetime guarantee

© 1994 Waterman Pen Company

BusinessWeek

WHERE TO INVEST 1995

INTRODUCTION

In a beat-up market, an awful lot of investments look like opportunities. We'll show you how to tell the up-and-coming from the down-and-out **92**

THE FRAMEWORK

The galloping growth of '94 will slow to a comfortable trot. But that doesn't mean easy business decisions—not with Washington's new bout of tax-cut fever **94**

STRATEGIES FOR STOCKS

There won't be a bull run or a bear slide. Here's what to look for—and avoid—in the U.S. and overseas. Plus, Inside Wall Street and picks from the pros **108**

THE INVESTMENT SPECTRUM

Real estate and bonds are recuperating. And even the murkier waters of commodities, mutual funds, and art have treasures for savvy investors **132**

BEST AND WORST

An air-bag maker balloons, the homebuilding sector swoons, it's Carnival on the São Paolo bourse, and a pay-per-view provider gets tuned out **156**

THE INVESTMENT SCOREBOARD

Signs are that 1995 will be another banner year for earnings. To help with your stock picks, we serve up the skinny on 900 publicly traded corporations **163**

A Year of Living Less Dangerously

The wild ride is over. Here's how to reshape your portfolio for '95

If you feel like a battered investor, you've got good reason. The stock market's ups and downs made equity investors financially nauseated without producing any gains. And the lightning-quick runup in interest rates turned the bond market into a once-in-a-generation bloodbath. Even the usually safe harbor of intermediate-term government bonds did not escape the maelstrom. They suffered negative returns for the first time since 1958 and the worst results since 1931. Yes, 1931.

PUTTING THE MARKETS IN PERSPECTIVE

	YEAR-TO-DATE TOTAL RETURN*	WORST YEAR SINCE...	LONG-TERM RETURNS** 5-YR.	10-YR.	20-YR.
LARGE-COMPANY U.S. STOCKS	–1.1%	1990	8.9%	14.5%	14.4%
SMALL-COMPANY U.S. STOCKS	–0.1	1990	11.5	11.2	19.8
LONG-TERM U.S. GOVERNMENT BONDS	–9.1	1967	8.0	11.8	9.4
INTERMEDIATE-TERM U.S. GOVERNMENT BONDS	–5.3	1931	7.4	9.5	9.3
U.S. TREASURY BILLS	3.7	NA	4.8	5.8	7.3

*Bonds and T-bills through Nov. 30 **Annualized

DATA: IBBOTSON ASSOCIATES INC., DIMENSIONAL FUND ADVISERS INC.

Well, all that's history. You have a few weeks left to take your tax losses and wipe the slate clean. Now, it's time to get your portfolio in shape for 1995. And to help you, we bring you Where to Invest in 1995, BUSINESS WEEK's Annual Investment Outlook.

Before you take your money and squirrel it away in a bank account, let's put the wild, wild year in perspective. Hindsight shows that risk-free U.S. Treasury bills were the best place to be in 1994 (table). But as you can also see, T-bills are poor long-term investments. In fact, after inflation and taxes, they're surefire losers.

DEEP KEELS. That's why savvy investors take years such as 1994 in stride and just move on. The latest American Capital Index of Investor Intentions is a case in point: This index of "knowledgeable investors"—those who call themselves that and have investments in stocks, bonds, or mutual funds—has turned up sharply in the past month. The poll was taken during the week the Dow Jones industrial average slid 140 points, yet 52% of those polled said the next 60 to 90 days would be a good time to invest. Indeed, one thing a down market creates is a lot of opportunity.

Of course, just picking beat-up investments off the floor is no recipe for success. You might wind up with a portfolio worthy of a dustbin. First, you need an understanding of the investment climate. Then, some strategies for selecting the right investments.

So turn to page 94, where our economists take a reading of the outlook. The Federal Reserve's aggressively tight monetary policy assures that U.S. growth won't continue at its current pace. But there will be enough to keep employment growing and incomes rising without igniting inflation. And of course, investors must—more so than ever—keep a watchful eye on Washington, where the Republican takeover of Congress promises big changes and battles (page 100). Even President Clinton is bowing to the GOP's demand for tax cuts. The rub will come over how—or whether—Congress should make up the lost revenue.

Now that you're ready to invest, start with asset allocation, which identifies ways to spread your money around the world to maximize gain and minimize risk (page 106). Then, be sure to look at our newest feature, Best Bets, which highlights the top investment ideas unco ered by our team of writers and edito

Stocks? Over the long haul, they by far the best-performing asset. A they perform better if you buy them good prices (page 108). One importa target for 1995 will be companies th can capitalize on economic growth ou side the U. S. Many high-tech stocks w certainly fit the bill, since U. S. techn ogy companies are world leaders.

To fill out your portfolio, check t global stock market for t best non-U. S. buys (pa 118). Look to merger stoc (page 114) to get the insi line on next year's most lik ly takeover candidates. A check the portfolios reco mended by our four profe sional investors (page 12 Just as important as kno ing what to buy is knowi what stocks to shun (pa 116). If you prefer to inv through mutual funds, we fer suggestions for the ye to come and survey the n so-hot results of the ye gone by (page 132).

Yes, it may even be safe to return the bond market (page 138). And as f municipal bonds, financial crises—su as the debacle that made Orange Cou ty, Calif., seek bankruptcy protection often turn out to be great times to bu (page 140).

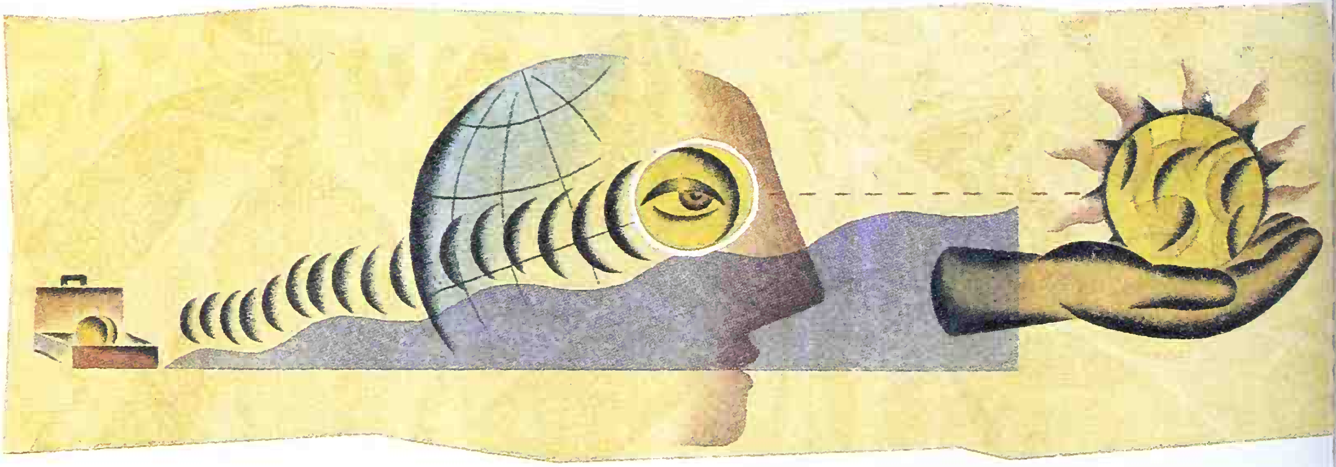
If you're still concerned about infl tion—and many are—you may want hedge your stock-and-bond bets. W take a look at a slew of investment alte natives that do a better job of protec ing against inflation: commodities (pa 142), gold (page 146), real estate (pa 148), and art (page 152). O. K., so you' not about to bid against Bill Gates f art treasures. But it's fun to drea about it just the same.

By Jeffrey M. Laderman in New Yo

ILLUSTRATIONS BY THOM SEVALRUD

Not Too Hot, Not Too Cold, But Just Right

Growth will ease a bit, keeping inflation at bay, but business should keep on humming



American businesses and consumers enjoyed economic nirvana in 1994: strong growth and low inflation. Will this euphoric state last another year? Don't bet on it.

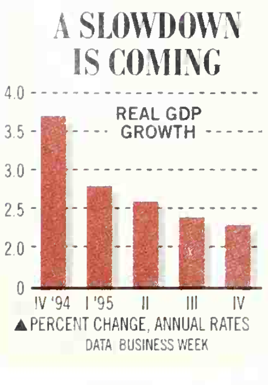
The Federal Reserve's aggressive interest-rate hikes will take their toll on domestic demand in 1995, particularly in housing and consumer spending. Corporate profits will slow sharply, especially compared with 1994's robust gains, and that will cool off the boom in business investment. The silver lining is foreign trade. A narrower trade gap will offset the softness in domestic spending.

BUSINESS WEEK expects the economy to grow 2.4% in 1995, down from a projected 3.8% pace in 1994. That's a shade below the average forecast of 50 business economists from across the nation surveyed in early December (chart). By yearend, we expect inflation to tick up to 3.5% from about 2.7% at the end of 1994, an inevitable result of cyclical price pressures as production capacity and job markets tighten. The jobless rate will slip to 5.3% from 5.6%.

Call it the Goldilocks scenario: growth that's not too hot to send wages and prices spiraling out of control, not too cold to cause a recession, but just the right temperature to keep payrolls rising, incomes growing, and businesses humming. The pace just won't be as vigorous as in 1994.

The Fed, in its quest to throttle down the economy and thus limit inflation's rise, will flatten the yield curve even more. The central bank has already jacked up the federal funds rate on overnight, interbank borrowings by a steep 2.5 points through mid-December, the third most aggressive rate hike in the past 40 years.

Most economists look for hikes in the funds rate totaling a full point above the current 5.5% level. Long rates will drift up as well, but not by as much. "The Fed will continue to tighten until growth is suppressed to a pace that they believe is consistent with keeping inflation under control," says Carol A. Leisenring of CoreStates Financial Corp.



▲PERCENT CHANGE, ANNUAL RATES
DATA: BUSINESS WEEK

The economy looks resilient right now because it is still feeling the stimulative effect of the Fed's big interest-rate cuts in earlier years, while the impact of rate hikes since Feb. 4 has barely begun to work its way through the system. "Next year, the economy will slow as the effect of those rate cuts fades at tl time when 1994's restraint kicks in says St. Louis consultant Laurence I Meyer. And that's not counting the 19 hikes.

The Fed's clampdown will squee housing and consumer spending th hardest. Already, mortgage applicatio to buy a home are down 38% since Fe ruary. And the consumer pullback cou begin as early as the first quarter, whe an avalanche of credit-card bills fall du following 1994's explosion of installme debt. Later on, adds John M. Godfre of Barnett Banks Inc.: "Higher intere rates will begin to hit many household discretionary income as adjustable-ra mortgages begin to reprice upward."

EXPORT CUSHION. But there's a brig side to the 1995 outlook. Exports wi accelerate from their already doubl digit pace, bolstered by 1994's weak dollar, a European recovery that's loo ing stronger by the month, solid grow in Latin America and Asia, and gai from the North American Free Trac Agreement. U.S. manufacturers wi reap huge benefits, especially make of capital goods, both high-tech and lo In the past year, factories have boost their productivity by 5.4% and r strained wage growth, resulting in 2.9% drop in unit labor costs. As a r sult, "the export boom will help man facturers to experience one of the be business years of the last decade," say

BUSINESS WEEK ECONOMIC FORECAST SURVEY FOR 1995

	PERCENT CHANGE IN REAL GROSS DOMESTIC PRODUCT 1995 I	II	III	IV	REAL GDP PERCENT CHANGE IV Q'94- IV Q '95	CONSUMER PRICES PERCENT CHANGE IV Q'94- IV Q '95	TREASURY YIELDS 3-MO. 1995 IV Q	TREASURY YIELDS 30-YR. 1995 IV Q	JOBLESS RATE 1995 IV Q
HAEL W. KERAN The Prudential Insurance Co.	3.5	3.5	3.5	3.5	**3.5**	3.0	7.00	7.50	5.5
RTON ZWICK Lord Abbett	3.5	3.4	3.0	2.8	**3.2**	3.5	6.60	8.00	5.3
BERT T. McGEE Tokai Bank	3.5	3.0	3.0	2.5	**3.0**	4.0	8.00	9.00	5.2
NALD RATAJCZAK Georgia State University	2.8	3.3	3.0	2.8	**3.0**	3.8	6.33	8.65	5.2
HELLE LAUGHLIN Sanwa Securities	2.5	3.5	3.0	2.5	**2.9**	3.6	6.70	7.75	5.5
SEPH LIRO S.G. Warburg	3.0	2.4	3.2	2.7	**2.9**	3.9	5.80	7.80	5.7
EN SINAI Lehman Brothers	3.0	2.3	2.5	3.4	**2.9**	3.3	6.23	7.70	5.3
SEPH CARSON Dean Witter Reynolds	3.7	2.9	2.3	2.5	**2.8**	3.4	6.05	7.50	5.7
HEATHER DILLENBECK U.S. Trust	3.0	2.5	2.5	3.0	**2.8**	3.7	6.50	8.50	5.2
LLIAM C. DUNKELBERG Nat'l Fed'n of Indep. Bus.	3.1	3.0	3.0	2.7	**2.8**	3.2	5.90	8.30	5.8
E FARRELL Aeltus Investment Management	3.4	3.2	2.4	2.1	**2.8**	4.4	7.10	8.60	5.6
ID L. LITTMANN Comerica Bank	3.4	2.8	2.6	2.5	**2.8**	3.7	6.50	8.25	6.0
IN O. MICHAELIS Weyerhaeuser	3.8	3.2	2.0	1.9	**2.8**	3.9	6.30	9.00	5.4
MES R. SOLLOWAY Argus Research	2.5	3.1	2.7	2.9	**2.8**	4.0	7.05	9.00	5.3
NSTANTINE G. SORAS NYNEX	2.6	3.1	3.0	2.4	**2.8**	3.1	5.75	7.90	5.6
F K. THREDGOLD KeyCorp	3.1	2.9	2.7	2.7	**2.8**	3.4	7.10	7.67	5.5
UREEN ALLYN Scudder, Stevens & Clark	4.0	3.2	2.2	1.6	**2.7**	3.7	6.50	7.30	5.3
RRIS COHEN Morris Cohen & Associates	2.8	2.0	2.4	2.8	**2.7**	3.2	5.00	7.80	5.5
NIEL E. LAUFENBERG IDS Financial Services	3.2	3.1	2.3	2.2	**2.7**	3.7	6.50	7.70	5.3
L McCULLEY UBS Securities	3.0	3.2	2.6	2.0	**2.7**	3.5	7.10	7.75	5.8
GENE SHERMAN M.A. Schapiro	3.0	2.5	2.7	2.6	**2.7**	3.5	7.25	8.50	5.2
RK ZANDI Regional Financial Associates	2.9	3.0	2.5	2.3	**2.7**	3.8	6.81	8.27	5.6
MUEL D. KAHAN Fuji Securities	2.0	3.3	2.5	2.6	**2.6**	4.0	6.25	7.75	5.7
RT E. KARL The WEFA Group	2.8	2.4	2.7	2.4	**2.6**	3.0	6.50	8.30	5.8
WARD McCARTHY JR. Stone & McCarthy	3.3	2.8	2.3	1.8	**2.6**	3.4	6.25	7.50	5.4
AN MUNROE Pacific Gas & Electric	2.6	2.6	2.4	2.5	**2.6**	3.3	5.90	8.00	6.1
MES F. SMITH University of North Carolina	2.2	2.6	2.4	2.6	**2.6**	2.2	3.20	5.65	5.4
HN R. WILLIAMS Bankers Trust	2.8	2.7	2.4	2.3	**2.6**	2.7	6.50	7.00	5.5
MES ANNABLE First Chicago	3.2	2.5	1.8	2.4	**2.5**	3.8	7.10	8.90	5.3
HAEL R. ENGLUND MMS International	3.0	2.0	2.5	2.5	**2.5**	3.6	6.50	7.75	5.4
ROL A. LEISENRING CoreStates Financial	3.0	2.8	2.4	2.1	**2.5**	3.5	6.60	7.80	5.4
ID C. MUNRO High Frequency Economics	2.5	2.0	2.5	3.0	**2.5**	3.4	5.50	7.50	5.9
EODORE H. TUNG National City	2.4	2.8	2.5	2.4	**2.5**	3.6	6.90	8.10	5.4
MES COOPER & KATHLEEN MADIGAN Business Week	2.2	2.6	2.4	2.2	**2.4**	3.5	6.40	8.20	5.3
RNARD M. MARKSTEIN Meridian Bancorp.	2.6	2.7	2.2	2.1	**2.4**	3.4	5.10	6.50	5.7
URENCE H. MEYER Laurence H. Meyer & Associates	2.4	2.6	2.4	2.3	**2.4**	3.3	6.10	8.00	5.4
HOLAS S. PERNA Shawmut National	2.7	2.1	2.4	2.5	**2.4**	3.5	5.70	7.20	6.0
SALIND WELLS Management Horizons	2.7	2.5	2.0	2.4	**2.4**	3.2	6.00	7.80	5.8
BERT G. DEDERICK Northern Trust	3.0	2.8	2.5	0.9	**2.3**	3.7	6.40	7.70	5.6
VIN L. KELLNER Chemical Bank	1.8	2.2	2.7	2.5	**2.3**	2.7	5.10	7.25	6.1
HN D. WALTER Dow Corning	2.7	2.5	2.1	1.8	**2.3**	2.8	6.60	8.00	5.5
RICK BRADLEY PNC Investment Mgmt. & Research	2.7	2.4	2.0	1.8	**2.2**	3.7	6.50	8.00	5.7
ID RESLER Nomura Securities Intl.	2.5	1.7	1.9	2.4	**2.2**	3.0	5.40	7.50	5.8
WORSECK A.G. Edwards & Sons	2.0	2.5	2.5	2.0	**2.2**	3.5	6.80	7.50	6.0
ERICH HEINEMANN Ladenburg, Thalmann & Co.	2.5	2.0	2.3	1.7	**2.1**	4.0	6.70	7.30	5.5
DOUGLAS LEE NatWest Securities	1.8	1.7	1.8	2.7	**2.0**	3.5	5.40	7.50	5.6
YD T. O'CARROLL Reynolds Metals	3.6	1.9	1.2	1.4	**2.0**	3.0	6.90	8.38	5.6
HN GODFREY Barnett Banks	3.1	1.4	1.2	1.9	**1.9**	3.3	5.28	7.52	6.0
RTIN REGALIA U.S. Chamber of Commerce	1.0	2.1	2.5	2.2	**1.9**	3.2	6.14	7.80	5.7
GER BRINNER DRI/McGraw-Hill	3.2	1.2	1.1	1.3	**1.7**	3.2	5.85	7.95	5.6
NSENSUS	2.8%	2.6%	2.4%	2.3%	**2.6%**	3.4%	6.27%	7.86%	5.6%

Allen L. Sinai of Lehman Brothers Inc.

At the same time, as domestic demand loses some of its pep, imports will slow, allowing the first improvement in the trade deficit in five years. That, plus higher interest rates, will buoy the dollar, perhaps even vs. the Japanese yen, now that Japan's global trade surplus is beginning to shrink. The trade turnaround will cushion the economy against the jolt from interest-rate hikes.

INFLATION DAMPERS. The Fed's bold, preemptive strategy against inflation will bear fruit in 1995: Fewer price pressures will build than in a typical expansion. Cost-cutting by U.S. businesses, stiff international competition, global monetary restraint—especially in Europe—and buyer resistance to higher prices here at home will moderate inflation's rise. Adds Samuel D. Kahan of Fuji Securities Inc.: "Most of the expected rise in inflation is already incorporated into the structure of interest rates." So the projected pickup in inflation will not, by itself, push up long-term interest rates.

The Fed's '94 rate hikes will take a toll on housing and consumer spending in '95

To be sure, economic forecasts, especially those for interest rates, should never be carved in stone. What could throw the economy—and the 1995 projections—off track? Economists see four things to keep a wary eye on. One is oil prices, which could surge as OPEC's power increases in a worldwide recovery. Another one: The Fed may overtighten, turning a soft landing into a crash. Also, the bankruptcy of Orange County, Calif., highlights the growing concern
over the possibility of a broader financ
shock, especially since more individua
own stock now compared with the 19
market meltdown.

But the No. 1 worry on economis
minds is fiscal policy, particularly wh
Paul McCulley of UBS Securities Ir
calls "tax-cutting gone mad." The fear
that congressional Republicans will sta
a tax-cutting game that is joined
scared Democrats, *á la* 1982. Unfund
tax cuts would sink the bond mark
and even with a balanced-budg
amendment, any near-term stimul
would complicate the Fed's efforts
slow the economy, resulting in ev
higher short-term rates.

But barring the unknowable, 19
looks like another good year. It may n
be nirvana, but if the Fed gets its wa
the mix of modest growth and low infl
tion will foster a healthy expansion th
could hang around for a long tim

By James C. Cooper and Kathle
Madigan in New York

JOSEPH G. CARSON

What 1994's Top Soothsayer Sees for '95

In economics, a data point outside the trend of other observations is labeled an outlier. In 1994, the outlier forecast of Joseph G. Carson, chief economist at Dean Witter Reynolds Inc., was the one that came closest to the bull's-eye.

Last December, Carson's forecast of 4.3% growth in gross domestic product for 1994 was way above the consensus of just 2.8%. And he expected the Federal Reserve to lift short-term rates by far more than the puny half-point foreseen by others. As the past year has shown, he was right on both counts, though even Carson underestimated the Fed's large 2½-percentage-point hike in rates. Others who scored high in anticipating strong growth and higher rates in 1994 included Morris Cohen, an economic consultant, and Charles Lieberman of Chemical Securities Inc. BUSINESS WEEK's own forecast ranked fifth among 50 economists.

RED FLAG: *Carson worries about tax-cut fever*

EDWARD SANTALONE

Carson feels tax-fearing businesses and individuals held off some spending in '93 while Washington hammered out its deficit-reduction plan. But the budget plan held few tax hikes, and its passage in August '93 "was the springboard that propelled growth in late '93 and into '94," says Carson. Other aids to growth: healthier corporate and household finances, low inventories early in '94, and a competitive dollar.

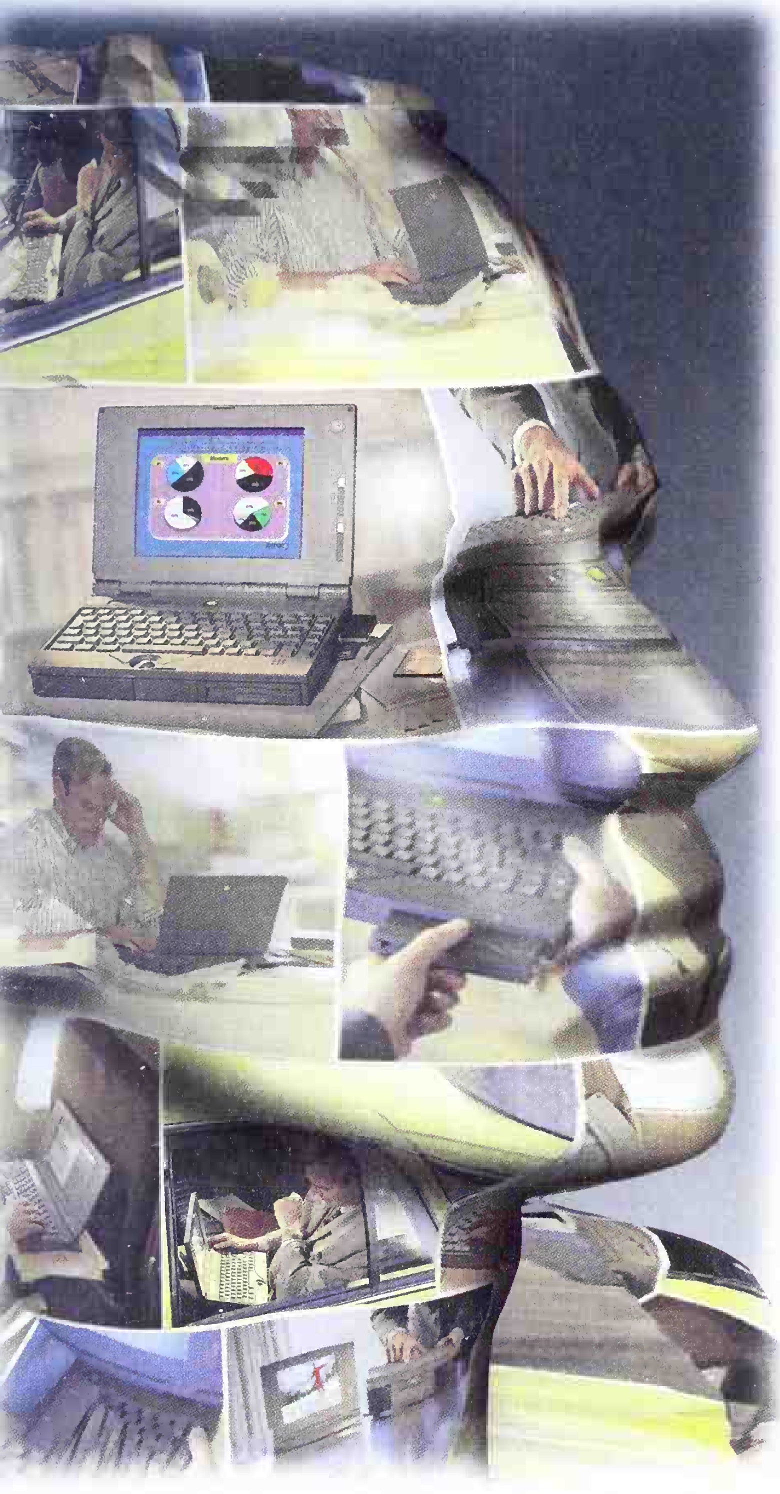
For 1995, Carson is more in the mainstream, projecting GDP growth of 2.8%. The key issue, he says, will be tax and spending changes coming out of Washington. But he adds: "We don't know the fiscal game plan yet."

BATTLING BLOWHARDS? For his forecast, Carson is betting that Congress will restrain spending first by eliminating some government departments and changing entitlement programs before pumping up growth with a tax cut. But he worries that the White House and Congress could fall into a tax-cut war: "Fiscal stimulus will make the Fed's job harder," he says. In the private sector, Carson sees further inventory-building and strong growth in exports and business investment.

To be sure, it's unusual for an extreme forecast to be correct. Nonetheless, consumers and businesses are both fortunate that Carson's outlier prophecy of strong growth—and not the one that envisioned recession—was the forecast that captured 1994 so well.

By Kathleen Madigan in New York

Z-NOTEFLEX. The One Computer For All Of You.



Decisions, decisions.

Finding a notebook computer is simple. Finding one to handle all the things you do, isn't.

Zenith Data Systems' Z-NOTEFLEX, however, delivers everything you need—high performance, long battery life, upgradability and modularity—in a notebook that won't be obsolete tomorrow.

For example, when you're away from the office, remove the floppy drive and insert a second battery pack and, wham, twice the computing time!

But that's ZDS for you. Who else would build a computer versatile enough to tackle every part of your job?

After all, Connected Computing—making computers and people work better together—is just what Zenith Data Systems is all about. Call now to learn why the Z-NOTEFLEX is the one computer for you, wherever you go, whatever you do.

Z-NOTEFLEX™
Up to IntelDX4™ 100MHz processor
Up to 700 MB hard drive
16-bit business audio
Active-matrix, color LCD
Two Type-II PCMCIA slots*

FLEXSITE
LCD video display stand

FLEXBAY
Battery charging bay
Floppy drive bay

FLEXDOCK
Enhanced port replicator
Two Type-III PCMCIA slots*

FLEXSHOW
MPC2-compliant
Double-speed CD-ROM drive
Amplified stereo speakers
Two Type-III PCMCIA slots*

intel inside®

1-800-289-1279, Ext. 5160

ZENITH
DATA SYSTEMS
Make The Connection™

pyright © 1994 Zenith Data Systems Corporation. Zenith Data Systems Corporation is a Bull company. *Z-NOTEFLEX supports two Type-I, two Type-II or one Type-III MCIA card and FLEXDOCK and FLEXSHOW support two Type-I, Type-II or Type-III PCMCIA card. Z-NOTEFLEX, ZDS and "Make The Connection" are trademarks of ith Data Systems Corporation. IntelDX4 is a trademark and the Intel Inside logo is a registered trademark of Intel Corporation. Specifications are subject to change

Extra Large.

Extra Innings.

INNING 1 2 3 4 5 6 7 8 9
VISITOR 1 0 0 3 0 1 0 1 1
HOME 0 2 0 0 4 0 0 0 1

Extra Helpings.

Extra Extra.

The Dai
HONDA UNVEILS NEW

Introducing the Accord V-6. The latest addition to the Accord line. With a highly advanced 170-horsepowe
V-6 engine that fulfills anyone's desire for more power. In fact, this car rises to a higher level in many ways. Refinement
throughout the body and chassis reduce noise and vibration even further. A distinctive chrome grille and wide

Accord EX V-6 Sedan model shown and described. ©1994 American Honda Motor Co., Inc.

PRODOTTO IN ITALIA
OLIO
Extra Vergine
DI OLIVA
ITALIAN Extra VIRGIN OLIVE OIL
NET 17 FL.OZ. (1 PT. 1 FL.OZ.) 500 ml

Extra Virgin.

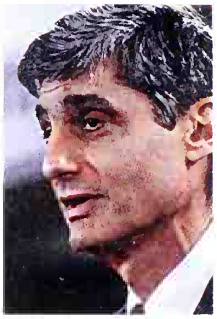
Extra Power.

es add to the aggressive appearance. And the very accommodating
ather-trimmed interior features an 8-way power driver's seat. Because
me people are just never satisfied. Our engineers, for example.

The New Accord V-6 Sedan
HONDA A Car Ahead

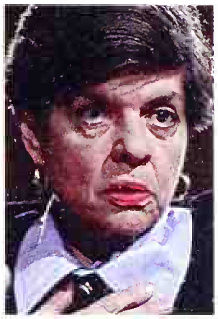
ALAN GREENSPAN

The prospect of higher deficits could unnerve the Fed chairman, who wants the expansion to come to a soft landing



ROBERT RUBIN

In his new post as Treasury Secretary, he'll push for fiscal responsibility, but he won't have the final say



ALICE RIVLIN

Clinton's bu
boss author
preelection
that sugges
tax boosts a
cuts in Soci
Security

One Way or Another, It Looks Like the Year of the Tax Cut

How will Clinton's team respond to GOP initiatives? Probably with reductions of their ow

If you forgot to mail a Christmas card to your accountant, you might reconsider. In fact, a nice bottle of wine might be in order as well, because chances are you'll have to compete with plenty of other clients vying for the attention of your tax planner next year.

The Republican takeover of Congress ensures that 1995 will be the busiest year for tax policy since 1986, when the tax reform act passed. Even if only a small portion of the House Republicans' Contract With America makes it into law, Americans should see significant changes in their tax bills, most of which will put more money in their pockets.

Among the best bets for passage: a long-awaited slashing of the capital-gains tax, more generous retirement savings accounts, a gradual phase-out of the marriage penalty, and a middle-class tax cut. Also on the GOP wish list but facing a tougher fight is a plan that would provide far more generous depreciation for business investments.

NAGGING QUESTION. Most of the tax cuts will be exceedingly popular on Capitol Hill. But there's one nagging question: How will they be financed? The breaks promised in the Contract could cost the Treasury Dept. $200 billion over five years, and current budget rules require that the lost revenue be offset with spending cuts or other tax hikes to keep the deficit from growing.

If incoming House Speaker Newt Gingrich (R-Ga.) is serious about balancing the budget in seven years, Republicans will need to find an additional $800 billion in spending cuts—even while meeting their other pledge to spare Social Security and defense the budget ax. A likely result: Many promised tax breaks will be sharply restricted. The $500-per-child tax credit earmarked for the middle class, for instance, may be reduced or limited only to households with, say, $80,000 or less in income.

A key question is how the White House will respond to these initiatives. With a shell-shocked President Bill Clinton already moving to the right to woo back conservative voters, you can expect the Administration to make a surprising number of accommodations with the Republicans. Clinton already has reversed course by seeking to boost military spending and has promised to support a middle-class tax cut. But it's also a good bet that he'll accede to the deficit hawks on his economics team. That's why his aides are demanding that the GOP find a way to pay for its tax hikes without phony accounting. Newly-named Treasury Secretary Robert E. Rubin, a former Wall Streeter, will push for fiscal responsibility. And Clinton budget czar Alice M. Rivlin will have the final say on budget scorekeeping.

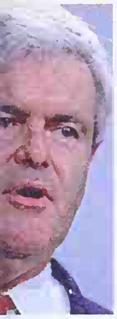
> Wall Street frets that a Clinton-GOP bidding war on tax cuts could send the deficit soaring

The President will surely avoid any big tax hikes of his own in the fiscal 19 budget that will be sent to Congress February. The midterm elections seal the fate of any plans to hike taxes aga even on the wealthy. And Republica are seeing to that by resurrecti Rivlin's leaked preelection memo, whi outlined ways of curbing the deficit wi tax boosts and Social Security cuts. " what we get is in any way reflective the memo, it will be a disaster," war incoming House Budget Committ Chairman John R. Kasich (R-Ohio). R publicans will propose cuts in welfa and government agency budgets.

On Wall Street, there is less conce that Clinton will try to raise taxes th that he will get into a bidding war wi the GOP on tax cuts that could send t deficit soaring and reignite inflatio "The risk that the Republicans, of people, may bust the budget is unse tling to the equity markets," says A len L. Sinai, chief economist for Glob Economic Advisers of Lehman Brot ers Inc. Preliminary estimates by t WEFA Group, Bala Cynwyd (Pa.) consu tants, show enactment of key portions the Republican Contract would increa the anticipated deficit for fiscal '96 nearly a third—to $230 billion.

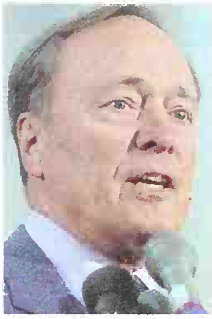
SOFT LANDING. The prospect of high deficits could also unnerve Federal R serve Board Chairman Alan Greenspa who would like to bring the sudden robust expansion to a soft landing late 1995. Most economists expect t central bank to continue raising intere rates so that current spot shortages commodity and labor markets don't gi way to widespread price hikes. T

PHOTOGRAPHS BY ROBERT TRIPPETT/SIPA, ALEX QUESADA/MATRIX, AL STEPHENSON/WOODFIN CAMP



NEWT GINGRICH

He wants a balanced budget in seven years. To do that, the GOP will have to find $800 billion in additional cuts



WILLIAM ARCHER

The incoming chairman of the House Ways & Means Committee wants to index investors' gains for inflation

JOHN KASICH

The House Budget Committee's new chairman says tax hikes or Social Security cuts would be "a disaster"

art money is betting that the Fed
raise the federal funds rate—which
ks charge one another for overnight
ns—from a current 5.5% to 6.5% by
t summer, which should slow eco-
nic growth from a heady 3.7% pace in
4 to around 2.5% next year.
f Congress exhibits fiscal restraint,
ssured Wall Street traders may hold
g-term bond rates steady at 8%
ough the next year. But if lawmakers
e in to the siren of tax cuts, WEFA
ieves the central bank would feel
npelled to push the fed funds rate to
or higher, shooting long rates above
. And inflation-phobic foreign ex-
nge markets might send the dollar
mmeting. But the Fed is confident
t GOP leaders will be mindful that the
tral bank stands ready to counter-
ance any inflationary tax cuts. "We
't have to weigh in on this issue," a
Fed official says confidently.
Republicans take umbrage at sugges-
ns that pursuing the Contract With
erica will bust the budget. Supply-
ers such as new House Majority
ader Richard K. Armey (R-Tex.) have
g contended that tax cuts would more
n pay for themselves by stimulating economic growth. Though Democrats reject this notion, many centrists in the party nevertheless seem ready to support passage of a 50% cut in the capital-gains tax on the grounds that it won't cost the Treasury a lot of money in the first few years.

FLAT TAX? But to minimize a growing revenue drain in later years, Democrats may try to limit the size of the tax break. What's more, they will probably mount a fight against a proposal by incoming House Ways & Means Committee Chairman William Archer (R-Tex.) to let investors index gains for inflation.

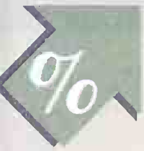
After Republicans take a pass at enacting the Contract, they'll turn in late 1995 to their next big goal: overhauling a tax code that Archer considers "a deterrent to our ability to compete in the world marketplace." Archer believes the U.S. tax system is inefficient and raises the cost of capital for American companies. It also encourages consumption at the expense of investment. So he favors a consumption tax on the difference between what people earn and save. But there is dissension within the Republican ranks. Armey, for instance, wants a flat 17% tax on income. Getting all lawmakers to agree on meaningful tax reform will take years.

Clinton and Republicans will slug it out over two other proposals as well: They will probably reach a consensus on a modest expansion of Individual Retirement Accounts, though it won't be far-reaching. But the White House will flatly oppose GOP plans for more generous business depreciation, arguing it will be expensive and encourage the use of new debt to purchase equipment.

It's a safe bet that such lofty goals will meet some fierce resistance, and the most ambitious proposals may well fail. But with Washington still feeling tremors from the political earthquake that rocked the Capitol in November, it's more likely that lawmakers will heed the voters' demands for bold change and adopt key elements of the Republicans' wish list. That's sure to force individuals to rethink their tax and investment strategies. If the end result is indeed a smaller government and a smaller burden on taxpayers, though, shelling out a few more bucks to their accountants will be a small price to pay.

By Dean Foust and Howard Gleckman in Washington

WHAT TO EXPECT FROM WASHINGTON IN 1995

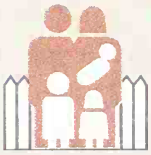


HIGHER INTEREST RATES

The Federal Reserve Board will continue to tighten credit, hoping to bring the economy to a soft landing in 1995. The federal funds rate, a key short-term rate, will be boosted from 5.5% to 6.5%—and higher if Congress enacts some budget-busting tax cuts.

CAPITAL-GAINS CUT

Congress will enact a capital-gains tax cut that could sharply reduce today's top effective rate of 28% for both individuals and corporations. Gains may be indexed for inflation.



MIDDLE-CLASS TAX CUT

Take it to the bank. Even Clinton will back some version. But it may be smaller than the $500-per-child credit being pushed by House Republicans.

TAX REFORM

The idea of replacing the current income tax system with a consumption-based tax will get more attention. But don't expect legislation before the 1996 Presidential elections.

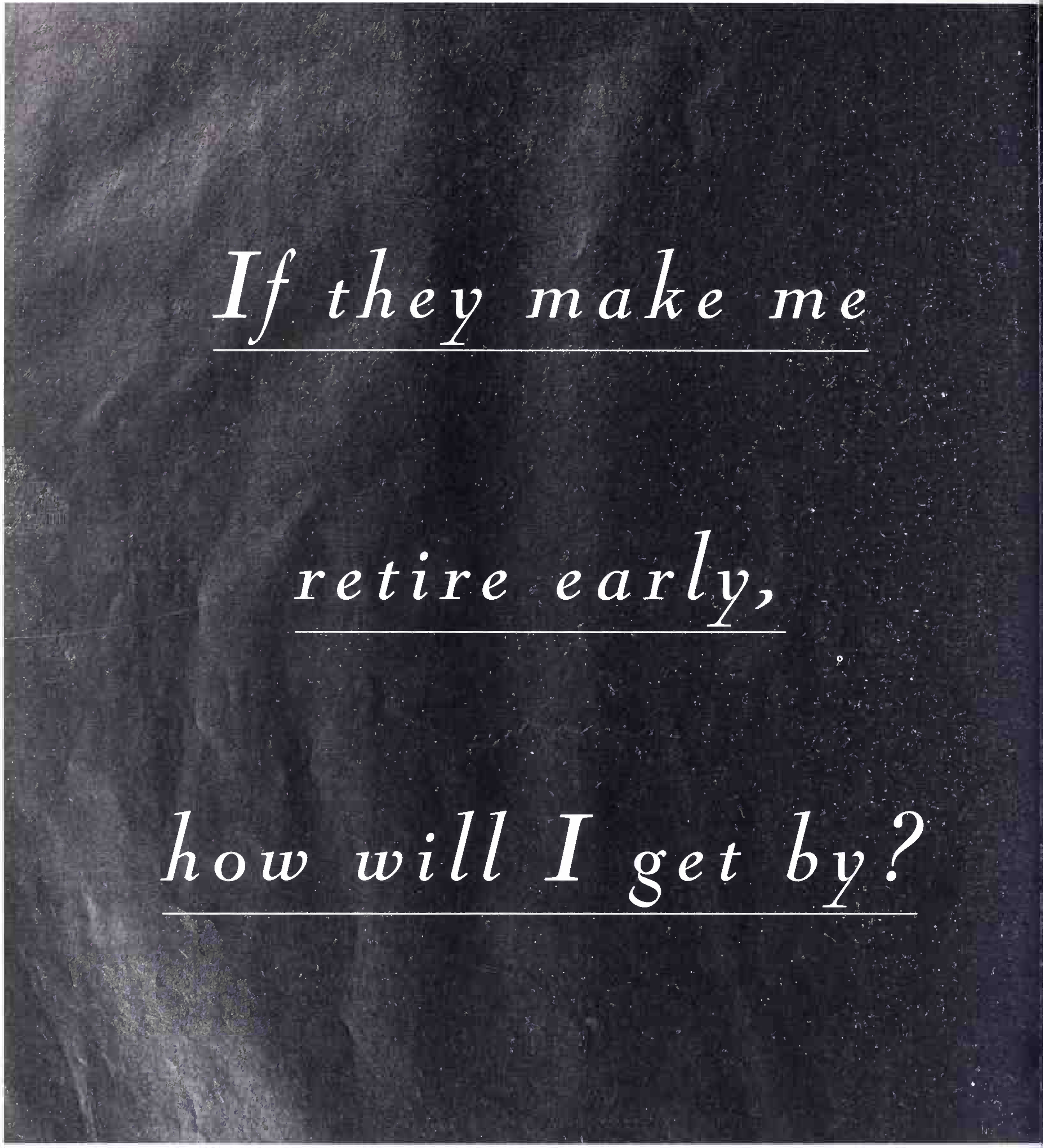
THE DEFICIT

Congress will send a Balanced Budget Amendment to the states for ratification. But will it produce enough spending cuts to balance the budget anytime soon? No way.

DATA: BUSINESS WEEK

(LEFT TO RIGHT) PHOTOGRAPHS BY GAMMA-LIAISON, JOHN DURICKA/AP/WIDE WORLD, MARTIN SIMON/SABA; ILLUSTRATIONS BY LISA KNOUSE BRAIMAN/BW

Equitable is The Equitable Companies Incorporated. Life insurance and annuity contracts, including variable annuities and variable life insurance, are issued by The Equitable Life Assurance Society of the United States or Equitable Va



Downsizing. Layoffs. There goes your paycheck. Maybe a chunk of your pension and profit-sharing too. Life gets less and less certain. Who can you count on?

Yourself. And Equitable. Let us show you an array of mutual funds, variable annuities and life insurance – ideas to help you plan the future – some that even help defer taxes.

To find out more about these products, including charges and expenses, ask your agent for a prospectus. Be sure to read it carefully before you invest or pay money.

And be sure to do it soon. Once, you could depend on your company for everything. Today, you've got to do some things for yourself. For tomorrow.

Company, New York, NY, which are subsidiaries of Equitable. Mutual funds, variable annuities and variable life insurance are distributed through Equico Securities, Inc. (Equico), New York, NY, and are offered by prospectus only. GE-94-197

EQUITABLE

Power over tomorrow

Our Seers Will Guarantee (Well, Almost) These Forecasts

Look for higher rates and lower taxes, and check out these investment tips

"What's your best bet?" That's the question BUSINESS WEEK addressed to its in-house savants in stocks, bonds, the economy, and Washington. What's the most likely investment-related news to come out of the capital? What are the most attractive global stocks? Tech stocks? Large- and small-cap stocks? And, lastly, what are the stocks that seem a tad overvalued?

Our reporters kept those questions in mind as they combed the investment world for this annual double issue. Here's how they responded:

THE ECONOMY

Facing gung-ho shoppers and profit-rich corporations heading into 1995, as well as uncertainty over fiscal policy, the Federal Reserve is sure to continue wearing its inflation-fighting mantle. So here's our best wager for the economy: higher short-term interest rates to keep business activity below the point where production bottlenecks and labor shortages put pressure on companies to mark up prices.

The odds-on favorite forecast among economists is that, even after lifting rates by 2.5 percentage points in 1994, the Fed will hike them twice more before the summer. So expect a federal funds rate of at least 6.5% by the time you thaw out those hamburgers for the big Fourth of July barbecue. Equally certain: You'll need a stopwatch to gauge the time between a Fed move and hikes in the prime lending rate by commercial banks. For short-term investors, that means payoffs will improve over the course of 1995, especially on Treasury bills. For borrowers, specifically those whose interest rates are tied to the prime or househunters looking at adjustable-rate mortgages, the best action is moving early to lock in the lower rate.

By Kathleen Madigan

WASHINGTON

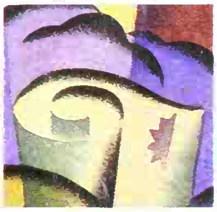
It has been a long wait, but investors are finally going to get a big new tax break on capital gains.

Since enactment of the 1986 Tax Reform Act, Republicans have been trying to restore higher tax incentives for gains. They have had modest success. For instance, gains are now taxed at a maximum of 28%, while ordinary income is taxed at a top rate of nearly 40%. But 1995 will bring even more generous tax treatment. In their Contract With America, House Republicans have proposed indexing all capital gains for inflation and cutting the top rate to a mere 14%.

President Clinton is toying with several alternatives. One would gradually reduce the rate over a period of several years. Another would limit the rate cut to those making less than, say, $80,000 or $100,000. The tax cut probably won't be enacted until next spring or summer. Meanwhile, you might want to take advantage of today's higher rates by accelerating losses into 1994. But financial advisers are wary of investors delaying sales until next year. There are too many uncertainties for that. Besides, tax consequences should be only a small part of any sophisticated investment strategy.

By Howard Gleckman

BONDS



Next year's best bet in taxable bonds is nothing fancy. You can bypass your broker and buy from Uncle Sam: the plain-vanilla two-year Treasury note. In the wake of the bond market bloodbath, and the near certainty of further hikes in short-term rates, the two-year note's safety and 7.66%
yield make it one of the few sure wi
ners on the fixed-income landscape.

For one thing, the note's real rate
return—the difference between th
yield and the inflation rate—of about
percentage points is approximate
triple the level of 12 months ago. B
purchasing two-year notes instead
one-year bills, buyers pick up more tha
35 basis points. And they give up les
than 20 basis points by going with th
two-year instead of the five-year note

And with rates predicted to rise, yo
can hedge your bets. By spreading i
vestments in two-year notes, or in shor
term funds of similar duration, over th
next year, you can increase your averag
yield without jeopardizing your princ
pal. Or your sleep.

By Phillip L. Zwe

MUNICIPALS

Go for the high
quality issues. Th
difference in yie
between A an
AAA munis is les
than a third of
point, but the ga
in safety is sub
stantial. Insured bonds are a partic
larly good buy: They trade at yield
slightly higher than uninsured bonds.

Among top-rated bonds, patient i
vestors should stick to long-term offe
ings. Yields on 30-year general oblig
tion bonds are now little more than
point below those on 30-year Treasurie
making the aftertax yield on the mun
much higher. Intermediate-term mun
make sense for shorter-term buyers.

Be prepared to stay invested for
long time, though. There could be per
ods of major volatility in the muni ma
ket in the wake of the Orange Count
mess. And diversification is crucial. A
holders of Orange County munis painfu
ly know, it doesn't pay to put your mu
bets in one basket—even an AA rate
one. Invest in a variety of bonds, eve
across state lines. A few bucks in stat
tax is well worth the reduction in ris

By Kelley Hollan

LARGE-CAP STOCKS

The long-overshadowed subsidiary of a much unloved corporate giant, GM Hughes Electronics Corp. has never sparked much interest from in-stors. Its stock, General Motors Cl. at 32, is down about 18% this year. t GM Hughes has a huge potential win- in DIRECTV—a satellite-to-home dig- broadcasting system that can deliv- 150 channels with better video and nd than conventional cable. The ser- e went nationwide a few months ago l has about 400,000 subscribers. But service should mushroom in 1995 and 6 as the cost of receivers, now at $699 l $899, comes down. Cash-flow watch- think DIRECTV will generate $150 lion a year in excess cash in a few rs. That's not factored into GM Hugh- low share price.

By Jeffrey M. Laderman

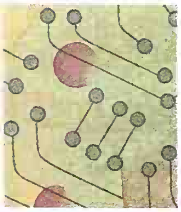
SMALL-CAP STOCKS

Your tap water may be fit to drink, but it's not fit to run through an industrial boiler. That's where U. S. Filter Corp. comes in. The company igns, builds, and operates large-scale ter purification and waste-water atment systems. One strong point: out a third of its revenues come from road.

The company is not well known on ll Street, and investors commonly ip it with the environmental services cks, which have been dismal per- mers for years. But U. S. Filter's iness is driven by industrial needs, environmental regulations. And the ck, at 14¼, trades at about half the uation of other water treatment com- ies. With luck, the stock could reach n 1995.

By Jeffrey M. Laderman

TECHNOLOGY STOCKS



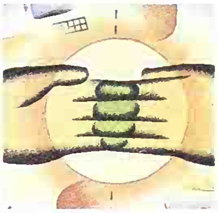
It's tough nowadays to find a safe bet among technology stocks. But a good, diversified tech selection is Motorola Inc., a low-cost producer omputer chips and telecommunica- ns devices that is trading at 55⅜. side from its traditional semiconductor business, Motorola is a leader in the rapidly growing market for global wireless communications. While the company's growth has been fueled by the domestic cellular market in the U. S., it also has good exposure to faster-growing international markets that yield higher profit margins. Prospects for growth in Japan and China are especially enticing.

Motorola's paging business is another part of its corporate strength. There is escalating demand for paging products in developing nations, which find the systems an easy and low-cost option. India is a potentially huge paging market. And there is a future technology that holds significant promise for Motorola: the move toward digital wireless communications.

Steady growth in revenues is a Motorola hallmark. Revenues were up almost 30% in 1994's third quarter, and fourth-quarter revenues are expected to grow at a similar rate. Investors who want to keep a close eye on the stock's progress can always call their broker's pager from their cellular phone.

By Suzanne Woolley

GLOBAL STOCKS



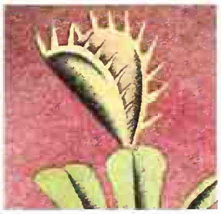
Combine an economy growing 5% a year and a newly privatized telecommunications colossus, and you may just have the global success stock of the year: Peru's CPT. On Dec. 31, CPT will merge with Entel, which offers long-distance service in Lima and basic service elsewhere in Peru. The combined company will provide all basic and long-distance service in the country.

Unlike its counterparts in Chile and Mexico, CPT, a former state-owned monopoly, was privatized only this year. So instead of worrying about competition, the company can concentrate on meeting pent-up phone demand and increasing efficiency. CPT will probably issue an American depositary receipt once the government sells its remaining stake later in 1995. The shares now trade locally at $1.27.

Telefónica of Spain, which controls the voting shares of both CPT and Entel, "has clearly gathered a lot of experience in Chile and Argentina. Now, it's applying those lessons to Peru," says Mickey Schleien, James Capel Inc.'s head of Latin America research. Profits at both companies are up 80% from a year ago, on a 24% increase in revenues. So CPT can look forward to reaping monopoly profits for a long time to come.

By Joan Warner

MERGER TARGETS



Keep your eye on Pet Inc. It is a hot merger candidate. Pet is a food producer with an assortment of brand-name products, including its line of Mexican foods under the Old El Paso label.

Pet, which declined comment, looks solid, but recent developments suggest the company could be takeover bait. For one thing, the food business is overcrowded. Further, Pet's chief rival, Pace Foods Inc., is outselling Pet's products with 26.6% of the Mexican-food market, vs. Pet's 19.2%. Campbell Soup Co. has decided to acquire Pace Foods for $1 billion. Pace-Campbell's deep pockets and extensive marketing and distribution clout could really hurt Pet. One recourse may be to sell out or merge with an equally large food company.

Pet's plate is brimming over with interested buyers, say speculators. Rumored to be eyeballing Pet: H. J. Heinz, RJR Nabisco, Unilever, and Nestlé. E. Michael Metz, chief investment strategist at Oppenheimer & Co. figures Pet, now trading at $17 a share, would fetch $25 to $30 in a buyout.

By Gene G. Marcial

SHORT SALES

There's nothing like a market mania to create opportunities for shorting stocks. Computer networking issues have enjoyed just such a runup, and FORE Systems Inc. is one of the highest flyers of the group. The Warrandale (Pa.) company went public last April at 16 a share and rocketed to a high of 63½ on Dec. 8. The stock is trading at 182 times current earnings and 130 times estimated 1995 earnings.

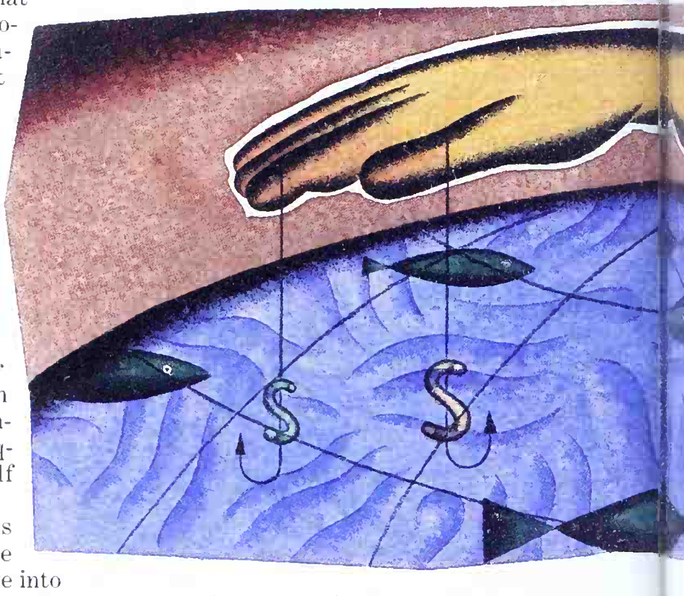
FORE Systems makes and sells computer networking products using groundbreaking asynchronous transfer mode (ATM) technology. Basically, ATM products allow networked computers to send much more information much faster, vastly improving transmission of video and sound.

While FORE's technology is impressive, the systems are pricey. Widespread use of ATM technology is still a few years away, and in the meantime competition is intense. For short sellers, it looks close to a slam dunk.

By Amey Stone

These Money Mavens Invite You To Shop The World

Diversifying to include global investments can bring good returns—and buffer shocks



As the U.S. recovery spreads to Europe and Japan, short-term interest rates are rising, stock prices are falling, and investors in many countries are running for shelter. But among one group of money mavens—global asset allocators—the mood is anything but glum. They're betting they can avoid much of the current market turbulence and leave investors well set for a global about-face in stocks and bonds that many think will unfold by late 1995 or 1996.

Their strategy? Add a healthy dose of international investments to the basic asset-allocation formula that divides savings up into set percentages to go into equities, bonds, and cash (charts). By spreading portfolios among a wide range of markets and instruments, global allocators figure they can earn decent returns while protecting their assets against shocks that could drag less diversified investors down.

In the past, that technique has been a winning one. Over the past five years, Bryan I. Ison, manager of the $7.7 billion Merrill Lynch Global Allocation Fund, has racked up an average annual return of 13.5%, more than three percentage points better than Standard & Poor's 500-stock index.

This year has been more difficult. With stock and bond markets surprising global investors by retreating in lockstep to a greater degree than anyone thought, Ison's fund is down about 1%. Still, Ison and other globalists are hardly abandoning their worldwide quest for values. They insist that you should build exposure to many companies and markets that may be able to produce a healthy stream of income and capital gains over the long haul. That approach, says Arthur A. Micheletti, strategist for San Mateo (Calif.)-based money manager Bailard, Biehl & Kaiser Inc., should still earn returns that are "comparable with U.S. equities, but with half the risk."

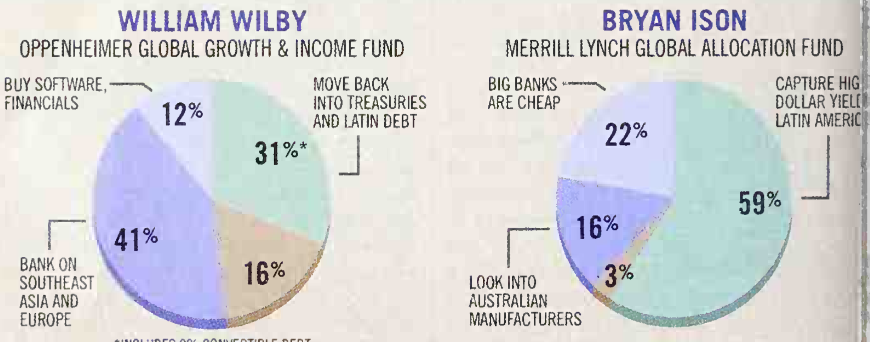
ON THE DEFENSE. As 1995 dawns, there are ample reasons to move into bourses and bond markets overseas (page 118). The decline of the dollar that so rattled investors in early 1994 seems to have abated for now. And, says Peter Mellor, Bank of Bermuda Ltd. senior vice-president for investments, "a benign global recovery" is taking shape. Europe will be entering its second year of recovery in 1995, and Japan's rebound is getting under way. With many economists seeing a U.S. slowdown by 1996, Mellor adds, "inflation will not be much of a problem."

With inflation subdued, equities in Europe and Japan could receive a lift if a widely expected upswing in corporate earnings finally kicks in during the coming year. European bonds could also rally from their depressed levels if the region's unusually high long-term interest rates retreat to normal levels. And the emerging economies of Asia, Latin America, and Africa should continue to post high growth and impressive profits.

If you want to diversify around the world, the easiest way to start may be by purchasing shares in a global balanced mutual fund that makes all the asset-allocation decisions for you. For Oppenheimer Global Growth & Income Fund manager William L. Wilby, that has meant moving 9% of his portfolio

HOW THE PROS PARCEL OUT THEIR GLOBAL ASSETS

- ● BONDS
- ● REAL ESTATE
- ● CASH
- ● INTERNATIONAL STOCKS
- ● U.S. STOCKS (INCLUDES CANADA)



DATA: BUSINESS WEEK SURVEY OF FUND MANAGERS

*INCLUDES 9% CONVERTIBLE DEBT

rom stocks to higher-yielding convert-ble debt in recent months. "It's a de-ensive way to play the equity market," e says. But Wilby is also keeping a efty portion of his fund invested around he world for growth.

Focusing on nine industry groups vhose earnings are likely to expand aster than the global economy, he has icked up a diverse array of stocks in uch areas as biotechnology, telecom-nunications, financial services, and en-rgy and environmental services. He ikes U. S. software producer Cisco Sys-ems Inc. and two issues that trade as American depositary receipts, the Netherlands' Philips and Argentina's PF. Electronics maker Philips is on the omeback from restructuring, yet it still an be had for a modest price-earnings atio (P-E) of 8. YPF, selling for a mere hree times cash flow, is "the cheapest il company in the world."

If you're willing to do a little more egwork, you might want to split up our portfolio between global bond and quity funds. Mark R. Richardson, chief nvestment officer at Chase Manhattan Bank's asset-management unit, thinks hat U. S. bonds are getting close to the oint where they will be "extremely bloody attractive." Until then, he is concentrating on "good values in Europe," primarily in the high-yielding government debt of Italy, Spain, Denmark, and Britain. But Richardson is not counting on earning easy capital gains via further depreciation of the dollar. To guard against losses if the dollar strengthens, Richardson is increasing his hedges against exposure to currencies abroad.

HEDGING BETS. Currency hedging is less important to equity investors. Foreign exchange losses stemming from a rise in the dollar's value are often wiped out by gains in the competitiveness and earnings of companies overseas. So even though the greenback might gain against the mark and other European currencies in 1995, Marnelle Marchese, a senior vice-president at San Diego-based Brandes Investment Partners Inc., is still focusing her global equity portfolio on solid Continental utilities and manufacturers that have fallen from grace.

Her top pick: France's Alcatel Alsthom. Although it's a world leader in the fast-growing global telecommunications equipment business, its "stock has been slammed" as scandals have swirled around its CEO. Down 50% since the beginning of 1994, Alcatel shares now trade at book value and fetch just four times cash flow.

Despite the allure of international growth, the globalists also caution investors not to go overboard on bourses overseas. Take Lehman Brothers Inc. chief global strategist Steven H. Nagourney. With markets so edgy right now, he thinks you should "hold a lot of cash"—a generous 20% of your savings. In fact, he expects equity markets worldwide to "correct about 20% from where they are now" over the coming year. That means keeping no more than 19% of your assets in U. S. stocks and 31% in equities abroad. But once the shakeout is over, "I would be a very big buyer," he says, with the emphasis on stocks of U. S. capital-goods and technology companies. Many of these companies, he adds, have slashed debts, boosted exports, and become among the most competitive manufacturers in the world.

Stocks of manufacturers aren't the only American investments that merit attention. Merrill's Ison is high on some of the major victims of 1994's interest-rate surge: money-center banks, insurers, electric utilities, and real estate investment trusts (REITS). And strategist Micheletti argues that commercial property now presents such "really compelling values" that he is urging clients to shift 20% of their global portfolios into an in-house REIT that invests in strip malls and apartment buildings.

Some brave bulls are even returning to U. S. Treasuries. With yields around 8%, observes Oppenheimer's Wilby, the bond market may have finally "found its footing."

Indeed, finding a firm footing is likely to be a dominant theme as globalists face 1995. After 1994's bond-market massacre and global equity malaise, you might expect the money mavens to revert back to cash in the mattress. But the year's travails have only strengthened their resolve. They may be more cautious than they have been for some time, but they are not counseling that you flee world markets, either. If you're prepared to stick it out, that might turn out to be sound advice.

By William Glasgall in New York

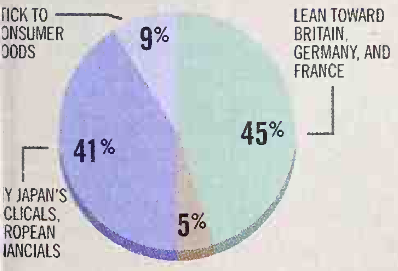
ACTION

A GOOD BET

Buying shares in a global balanced mutual fund is the easiest way to start

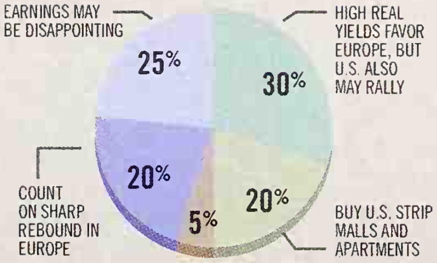
TER MELLOR AND PATRICK DELL

BANK OF BERMUDA



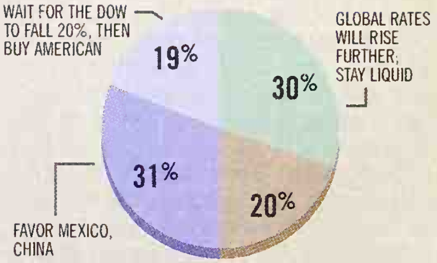
ARTHUR MICHELETTI

BAILARD, BIEHL & KAISER



STEVEN NAGOURNEY

LEHMAN BROTHERS



Astride an Interest-Rate Seesaw

The bulls won't be raging—but a slide isn't likely

Surveying the wreckage of the past six weeks' stock-market slide, money manager Kenneth S. Hackel says he has discovered "great companies that could not be recreated for anywhere near their current prices." So Hackel, whose Systematic Financial Management Inc. in Fort Lee, N.J., runs $1.3 billion in assets, hit the phones, urging clients to commit more money to their accounts. That's something he hasn't done since October, 1990, the end of the last bear market.

For sure, Hackel's unabashed bullishness—he thinks stocks will deliver a total return of about 13% next year—is a minority view. Bearishness is the order of the day. Advisers and newsletter writers cast a leery eye at stocks. The most recent Bullish Consensus survey showed just 1 in 3 stock-index-futures traders in the bullish camp. The public's appetite for mutual funds is waning: Weekly inflows to equity funds have declined from $2.25 billion to $500 million over the past 12 weeks, according to AMG Data Services. "This isn't the time to make a major commitment to stocks," warns Lawrence Rice, chief investment officer at brokerage firm Josephthal Lyon & Ross Inc. "I wouldn't get bullish until the Dow hit 3200."

The most likely outcome for stocks in 1995 is somewhere between Rice's gloom and Hackel's optimism—modest single-digit gains. No runaway bull market, a most important, there's little risk of big slide. "Stocks are not overvalued says Edward M. Kerschner, investme strategist at PaineWebber Inc. "Th problem is that high interest rates a drawing money away from stocks."

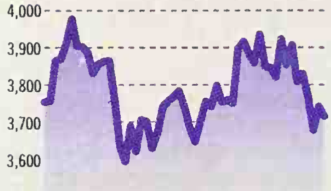
Indeed, the first half of 1995 ma seem familiar—a tug-of-war betwee strong corporate-earnings growth a rising interest rates. In 1994, the sto market rallied during the periods wh most companies report earnings. B once the upbeat profits reports ran th course, interest-rate worries dragge the market back down. As of Dec. 1 the Dow Jones industrial average sto at 3718, down about 1% for the yea and the level of the Standard & Poor 500-stock index was off 3.6%. Analys are forecasting a 26% year-over-ye gain in earnings in the first quarter, a the second quarter will probably come near 20%, according to Zacks Inves ment Research.

HEAVY HAND. Around the middle of th year, though, the stock market may fa the moment of truth. Earnings growt will likely slow, in part, because the Fe eral Reserve's aggressiveness in rai ing short-term interest rates this yea will start to bite. By that point, intere rates should start coming down. Indee long-term rates may have already star ed that decline. They're down 0.30 pe centage points from their peak las month. But most of Wall Street believ short-term rates still have a way to g from today's 5.5% to 6.5% or 7% befor they start to fall.

If short-term rates drop before ear ings growth slows, equity investors wi win big. But if earnings growth slow while rates are still rising, or the Fed heavy hand results in a recession, th outlook for stocks will turn grim. I deed, the most recent downdraft i stock prices seems to come more fro worries about recession than an upsurg of inflation.

If investors are going to make an money in stocks nex year, they're going t have to do it the har way—stock by stoc "Make a wish list, says Thomas L. Schl singer, equity strat gist at A. G. Edward & Sons. "Those ar stocks you wish to ow at prices you wish t pay." With stocks sti under pressure fro such seasonal factor as yearend tax sellin

STOCKS RISE, FALL, AND GO NOWHERE



DATA: BLOOMBERG FINANCIAL MARKETS

l such news events as the financial
sis in Orange County, Calif., there
l be chances to purchase stocks on
cheap.

'o start a wish list, investors might
t look at technology stocks, which
il a few weeks ago were stellar per-
mers (page 110). Even with their
lback, Michael Woodward, invest-
nt director for Ivory & Sime PLC in
nburgh, Scotland, finds tech stocks
most appealing in the U.S. market.
's Woodward: "There's been a lot of
nding on production-enhancing in-
tment, and it's all coming to the tech-
ogy area."

Still, opportunities abound in other
ners of the market:

HE FOREIGN PLAY. The U.S. economy
likely slow next year, but worldwide
nomic growth will be strong. That
es well for U.S. multinationals such
Coca-Cola, Gillette, Philip Morris, and
cter & Gamble, which manufacture
sell around the world.

But Arieh Coll, portfolio manager of
Fidelity Export Fund, says export-
—companies that manufacture in the
S. and sell abroad—make
n better investments, often
ause they have unique
ducts and high profit mar-
s. Coll's own portfolio is
vy on computer and medi-
technology stocks, such as
ital Equipment Corp. and
Jude Medical Inc., a manu-
turer of heart-replacement
ves. Analysts at S.G. War-
g & Co. recommend Com-
Computer, Dow Chemical,
International Paper, large-
on the likelihood of strong
ropean sales.

Portfolio managers also rec-
mend Caterpillar, Foster
eeler, and McDermott
ernational, which provide
equipment and the know-
v to participate in the huge
astructure building boom
Asia. Masao Maeda, a fund
nager at Dai-Ichi Kangyo
estment Management Co.
Tokyo, says he likes growth
spects in Europe and Asia,
he sometimes passes over
al companies in favor of U.S.
orters that sell there.
merican companies have
re competitive power than
npanies in the other coun-
es I follow," says Maeda.

EALTH CARE REDUX. Health-
e stocks have been on the
nd since the collapse of the
nton reform plan, and the
publican sweep of Congress
ther assures Washington won't mess much with the health-care system.

But even without the government, the industry is restructuring. Columbia/HCA Healthcare Corp., the nation's largest hospital operator, is an aggressive acquirer and is one of the driving forces behind the industry's consolidation. Analysts forecast the company's earnings will grow at a 17% rate, yet it sells at only 12 times 1995 earnings. Some investors have come back to such big drug companies as Bristol-Myers Squibb, Merck, and Pfizer. But PaineWebber's Kerschner is wary of that move. Says Kerschner: "Pricing power is shifting to the buyers of drugs, not the sellers."

■ **FINANCE AND UTILITIES.** Rising interest rates have devastated finance and utility stocks—and investors in those sectors have the scars to show it. But the damage has been severe enough, and the recent signs of stability in the bond market strong enough, to create attractive buys. Among the financial stocks, portfolio managers recommend Northern Trust Corp., which has a lucrative global-custody business, and Republic New York Corp., the Big Apple outpost of banker Edmond J. Safra's international empire. Safra is seeking to boost his holdings up to 31% of the company—a bullish sign for the stock.

The hope for lower interest rates has led a rebound in electric utilities. But even if rates subside, many utilities face problems meeting the challenges of deregulation and competition. So investors still have to choose carefully among these stocks. Among the stronger companies are Duke Power, FPL Group, and Wisconsin Energy.

ACTION

BE PICKY

Make a list of stocks you want —and wait for bargains

■ **CASH COWS.** Forget the S&P, and follow the cash. Systematic's Ken Hackel says investors can't go wrong buying companies that generate an ample amount of free cash flow (FCF)—discretionary money that can be used to pay dividends, buy back stock, or finance growth. Two of the biggest cash generators are check printers Deluxe Corp. and John H. Harland Co. Another is Tecumseh Products Co., a manufacturer of refrigeration products, small engines, pumps, and auto parts, which Hackel says sells for a rock-bottom 11 times FCF vs. 22.5 for the S&P 500.

Perhaps the most promising of the cash cows is the often-overlooked GM Hughes Electronics Corp., whose GM Class H stock, at 32, sells at a cheap 12 times FCF. Hackel believes Hughes's DIRECTV unit, which uses satellites to broadcast 150 channels to small in-home dish antennas, will be a big hit and generate prodigious amounts of cash. Says Hackel: "This business in itself will be worth at least $10 a share within three years."

Whether investors use cash flow or some other analytical tool, the message is the same: If you choose stocks carefully, you will have little to fear in a sometimes rocky market. Invest in stocks, not the stock market.

By Jeffrey M. Laderman in New York, with Bill Javetski in Paris and Larry Holyoke in Tokyo

SHOPPING FOR STOCKS?

	PRICE	52-WEEK RANGE	P-E RATIO*
THE FOREIGN PLAY			
CLARK EQUIPMENT	52½	71⅛ - 45⅛	6.7
COMPAQ COMPUTER	39	42⅛ - 23⅜	10.2
FOSTER WHEELER	27¼	45⅛ - 26⅝	13.0
PROCTER & GAMBLE	62	64⅝ - 51¼	14.7*
U.S. FILTER	14¼	16⅝ - 12⅛	17.8*
HEALTH CARE REDUX			
BEVERLY ENTERPRISES	14⅜	16⅛ - 11¾	14.8
BRISTOL-MYERS SQUIBB	58⅛	60¼ - 50	12.1
COLUMBIA/HCA HEALTHCARE	34¾	45¼ - 30⅜	12.0
HOMEDCO	34⅜	39 - 26	13.2
ST. JUDE MEDICAL	38½	41 - 24¾	14.6
FINANCE & UTILITIES			
DUKE POWER	41¼	44 - 32⅞	13.5
FPL GROUP	35⅜	39⅞ - 26⅞	11.8
NORTHERN TRUST	33⅛	43¼ - 32¼	8.9
REPUBLIC NEW YORK	43⅞	52¼ - 41⅞	6.9
SAFECO	49⅝	59¾ - 46¾	8.4
CASH COWS			
DELUXE	26⅝	38 - 25⅝	13.1
GENERAL MOTORS CL. H	32	42⅜ - 31	11.6
HARLAND (JOHN H.)	19¾	24¾ - 19⅜	10.7
LUKENS	27⅜	39¾ - 26⅛	12.1
TECUMSEH PRODUCTS CL. A	40¾	55½ - 40¾	7.7

* Based on 1995 earnings estimates,
except P&G and U.S. Filter, which use fiscal 1996.

DATA: BUSINESS WEEK INTERVIEWS WITH ANALYSTS AND PORTFOLIO MANAGERS, BLOOMBERG FINANCIAL MARKETS, ZACKS INVESTMENT RESEARCH, NELSON'S RESEARCH, I/B/E/S

A Surge of Power for High-Tech Plays

Profitability and growth rates are up. But volatility, while lessening, won't go away

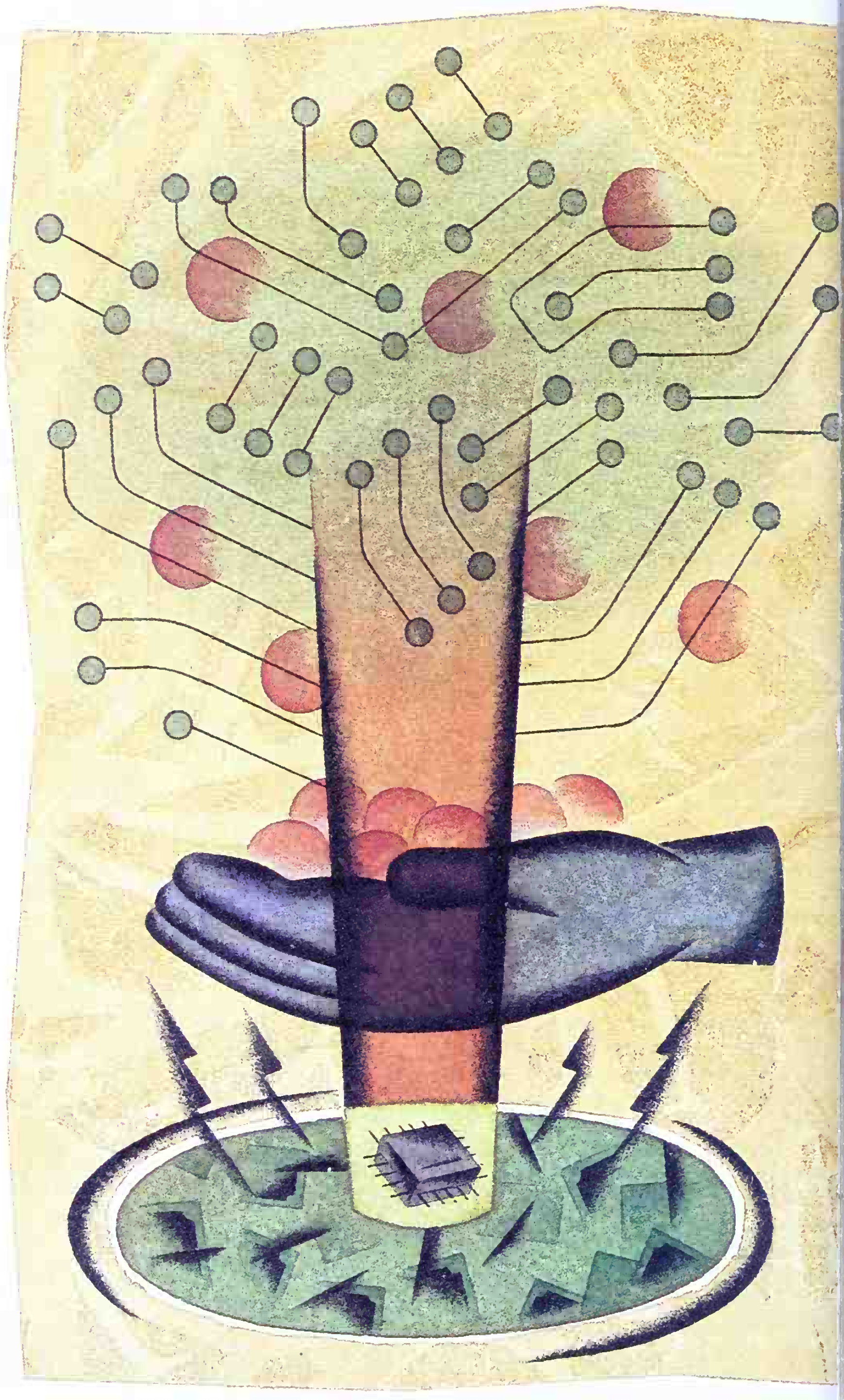
After ending 1994's first half with a whimper, technology stocks finished the year with a bang. The Standard & Poor's 500-stock index was down 3.65% as of Dec. 12, but the Hambrecht & Quist Technology Index, despite a recent setback, was up more than 9%. Solid business fundamentals, as well as strong industry trends, point to a very prosperous New Year.

Technology is one of the few hot-growth stories in today's economy. The fast-growing home-computer business and the increasing reach of technology into consumers' daily lives are trends that will support many tech stocks in the coming year. Add in the strong demand for U.S. technology from fast-growing international markets, and the prospects for tech stocks get even brighter. "People keep predicting a slowdown, but the industry keeps surprising itself, and I think [strong growth] will go on for a long time," says Paul G. Wick, manager of the top-performing $350 million Seligman Communications & Information Fund.

SHARP SWINGS. At the same time, investors cannot escape tech stocks' notorious volatility. Just look at last year. Hambrecht & Quist's Technology Index gained 7% as of the end of February, only to fall 6.5% by the end of June. After June, the index recovered, bounding up 14% as of Sept. 30. Tech stocks continued to rise into December, then lost some ground at mid-month.

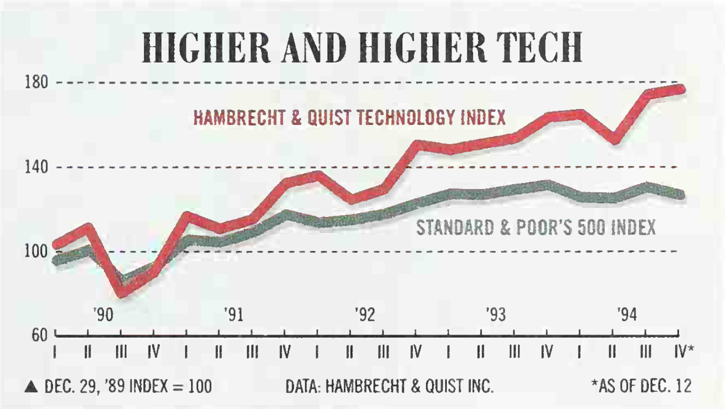
Still, tech's volatility may be mitigating. According to Alexa McCloughan, a vice-president with market researcher International Data Corp., technology industries such as computers are becoming increasingly mature, which could temper some of the sharp swings. "Some of the players feel the need to reduce volatility because they've grown a lot bigger," she says. "If you have a solid market presence, you spend more time figuring out how to enhance the predictability of your business."

For instance, semiconductor stocks are expected to have a soft first half in 1995. But "I'd argue that the volatility of future cycles may be less than in previ-



us cycles," says Vadim Zlotnikov, tech- ology analyst at Sanford C. Bernstein Co. That's because price cuts in those dustries are sparking more new or- ers. "Semiconductor companies get a t more volume for a smaller price hange," says Zlotnikov. Companies, fur- ner, now produce a broader range of roducts in factories and are able to witch more easily between high- and w-margin products.

While much of the technology indus- y is bullish, the optimism is not univer- l. Dan Hutcheson, president of San ose (Calif.) market research firm VLSI esearch Inc., thinks tech ocks are at their peak and xpects a major correction. he personal computer busi- ess drives the high-tech in- ustry, he reasons, and any itches that develop in the ansition from machines owered by Intel Corp.'s 486 faster chips could be mag- fied by a slowing economy. LSI expects the electronics ector to slide from 9.1% rowth in 1994 to 1.7% in 995. And it sees semicon- uctors falling from 30% rowth in 1994 to 3.4%.



▲ DEC. 29, '89 INDEX = 100 DATA: HAMBRECHT & QUIST INC. *AS OF DEC. 12

ONSUMER-DRIVEN. But if individuals ave the stomach for technology invest- g, they may be able to cash in on ends such as the changing role of the ersonal computer and the consumer- ation of technology. The growing home arket for PCs has Ronald E. Elijah, ortfolio manager of the $103 million obertson, Stephens & Co.'s Value + rowth Fund, hot on Compaq Comput- Corp. "They're the best company at nderstanding and succeeding in the ome PC business," says Elijah. "Com- aq will grow 20% easily, and it's also a quid stock." Trading at about 40, the ock sells at around the same multiple the S&P 500—13 times earnings—"and is company will grow way faster than e S&P."

The technology industry's move into ore consumer-oriented markets has hn Jones, technology analyst at Salo- on Brothers Inc., praising Hewlett- ackard Co. "Of its group, Hewlett- ackard is the best-positioned to cceed in those markets," he says. 'hey have more revenue today in those arkets than any of their competitors." nat's probably why the stock is expen- ve—about 93. Yet Jones feels Hewlett uld trade between 115 and 120 over e next 6 to 12 months and go up to 0 to 135 during the next 12 to 18 onths. "You don't find many $25 bil- on companies that can grow in excess 20%, and they've been doing that for o years now," says Jones.

Daniel L. Klesken, senior semiconductor analyst at Robertson, Stephens & Co., says his "single best bet" is the company behind the new Pentium chip: Intel. Its stock traded sideways in 1994 and has slid recently because of a potentially serious flaw in the Pentium chip. Klesken, though, insists the problem is "much ado about nothing." He expects Intel's earnings to pick up in 1995, reaching $7.25 per share or better from 1994's estimated $5.85. And he thinks the stock, trading at 60½ as of Dec. 12, could move to the 80 or 90 range in the next few months. Klesken is also a fan of chipmaker Cypress Semiconductor Corp. He cites good revenue growth, rapid new-product development cycles, and a lower-cost business structure. The stock is now trading around 21½, and Klesken expects it to approach 30 this year.

A PC play that John C. Levinson, senior vice-president at New York-based investment adviser Lynch & Mayer Inc., likes is Micro Warehouse Inc., a fast-growing distributor of personal computers, PC add-ons, and software in Norwalk, Conn. But the stock rose almost 44% in 1994, and some analysts question whether it's due for a fall.

As both businesses and home users try to do more with their computers, the need for more memory is growing. That makes Elijah feel "very secure" about the prospects for Micron Technology Inc., which manufactures memory chips. "The need for more memory in computers is almost insatiable," says Elijah. "The more memory you get, the more you want." At about $42, the Boise (Idaho) company is selling at 11 times the company's earnings for the previous 12 months.

As more info is zapped over growing webs of computers, the need for data storage will grow. That's why Seligman's Wick has 5% of his fund in EMC, based in Hopkinton, Mass. It designs storage subsystems for data centers. In its usual market, mainframe computers, the company has been taking market share from IBM, but it also recently released its first product for the nonmainframe environment. The company has been growing at a rate north of 50%, and Wick says EMC will likely have earnings of $1.15 in 1994 and $1.45 to $1.55 in 1995. Wick considers the stock, which is trading at 20⅝, to be cheap at about 14.5 times estimated 1995 earnings.

ACTION

LOG ON

Watch for companies keyed into the PC's changing role and new wireless communications

OVERPRICED? Another trend investors can buy into is the growth of new wireless communications systems. Such systems are taking off in rapidly industrialized nations. Lynch & Mayer's Levinson likes a San Diego-based company, Qualcomm Inc. The company has developed a technology called code division multiple access, or CDMA, a digital technology that allows wireless systems to have 10 times the capacity of the old wireless systems, as well as better sound. "Qualcomm will become the industry standard, and it owns most if not all of the patents," says Levinson. The stock is trading around 28, and Levinson, while loath to give a price target, notes that it "could benefit hugely if its technology is adopted."

For a diversified play on technology, there are always mutual funds. The technology funds tracked by Morningstar Inc. had returns ranging from –1.7% to 26.6%, with an average year-to-date return of 3.5% as of Dec. 9. The group leader: Seligman Communications & Information Fund, followed by the Merrill Lynch Technology A Fund, up 22.7%. By contrast, the average diversified U. S. equity fund was down 5.4%.

There's a potential spoiler to the technology stock boom: Some market mavens feel many issues are overpriced and that the mid-December sell-off could lead to a much broader correction. But if investors can endure the exaggerated price swings that are the industry's hallmark, they may enjoy the outsize returns that often follow.

By Suzanne Woolley in New York

ROB DOYLE/BW

The Dodge "Thanks A Million" Celebration.

We sold
over 1,000,000 new Dodge
cars and trucks
in 1994.* To celebrate our
best retail sales
year ever, we'd like to
say thanks
with these special offers.

Dodge Ram Diesel

***Get a $700 diesel discount** off MSRP when you buy the truck that's breaking all the rules.*[†]

Dodge Intrepid

***Get up to $1,147 in total savings & package value discounts** on the car that changed everything.*[**]

Dodge Caravan

***$500 cash back** on America's #1 selling minivan.*[†]

The Dodge "Thanks A Million" Celebration – Hurry In Soon.

The New Dodge

See The Friendly Dodge Dealer Near You.

*Over 1 million retail/fleet sales. **$100-$750 option savings plus $138-$397 discounts from pkg. values, based on value of pkg. items vs. pkg. MSRPs. †On select models. Ask dealer for details.

Tasty Morsels at the Feeding Frenzy

It looks like another bumper year for takeovers

If you failed to catch 1994's fast-moving takeover express, make sure to be around for 1995's big ride. The coming year will witness yet another wave of buyout deals, regardless of how the stock market swings. So say some smart-money pros, who expect action in the banking and retailing, health-care and pharmaceuticals, and food and entertainment sectors. Ditto for aerospace, gaming, and technology.

Takeovers will continue, "but in a more frenzied and bigger way," argues E. Michael Metz, chief investment strategist at Oppenheimer & Co. What fueled mergers and acquisitions in 1994—pressure on companies to widen distribution networks, increase product lines, and expand technological reach—are still factors, Metz says. This time, the pace will accelerate even more to surmount the stiffening competition worldwide. "Many companies that have been building up cash hoards and sprucing up balance sheets consider it still strategically sound to buy other companies as a means of expanding their horizons," explains Metz.

PICANTE PLAY? In foods, his buyout pick is Pet Inc., a worldwide producer of bakery and frozen products. Campbell Soup Co.'s proposed acquisition of Pet's major rival, Pace Foods Inc., is expected to intensify the pressure on Pet to either sell out to or merge with a larger company. Pace makes hot-selling Mexican sauces such as picante and salsa. On the other hand, Pet's Mexican salsa, including Old El Paso and Progresso, has been losing market share, analysts say. Based on Campbell's offer for Pace, Pet, now trading at $17 a share, is worth between $25 to $30, figure Metz and other analysts. Food companies rumored to be interested in Pet: RJR Nabisco, Unilever, Nestlé, and H.J. Heinz.

Aerospace is one area where takeovers have, well, taken off. One of the biggest deals would be Lockheed Corp.'s proposed merger with Martin Marietta Corp. Metz believes the next one to bet on is E-Systems Inc., a major manufacturer of electronic devices for military and commercial security systems. With E-Systems' healthy cash flow, strong balance sheet, and stable earnings' growth, "it makes sense for a larger company in the consolidating defense industry to acquire E-Systems," s
Metz. He says acquisitive Loral Co
which makes electronic surveillance s
tems for the military, is said to be on
the companies interested in E-Syste

In retailing, Metz is keen on Merc
tile Stores Co., which owns 99 depa
ment stores in 16 states in the Midw
and South. The company is rumore
be a target of both Dillard Departm
Stores Inc. and May Department St
Co. Metz says Mercantile has hi
Goldman, Sachs & Co. to formulat
plan of maximizing shareholder val

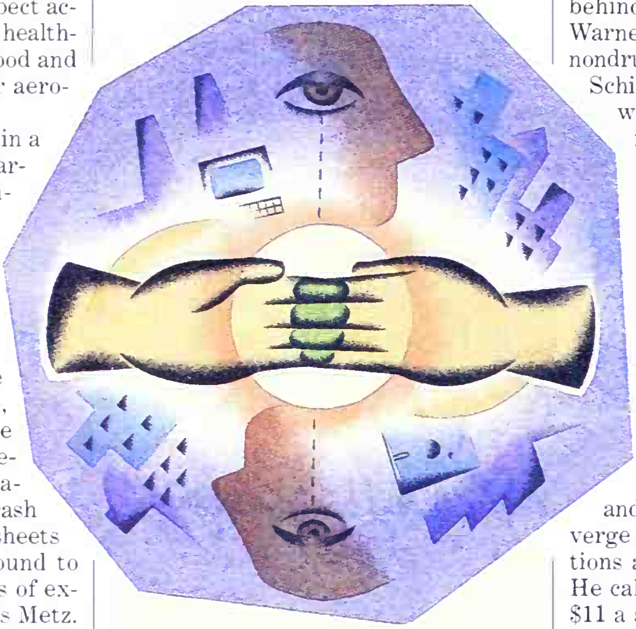
In health care, the top picks of M
are Upjohn Co. and Warner-Lamb
Co., both of which have attractive
sets. But their stocks have been trail
behind those of their peers. Based
Warner-Lambert's assets, including
nondrug products such as Dentyne
Schick razors, and Listermint mou
wash, its stock, now at $75 a sh
is worth $110 a share, figu
Metz. Upjohn is equally under
ued. he says. Its distribution n
work in the U.S. is its biggest
peal to foreign companies.

Oil has come back, but the b
companies to bet on, says A
D. Gaines, president of Gai
Berland Inc., a New York inv
ment firm, are the little-kno
small-cap stocks. He's very
beat on Lomak Petroleum I
which operates oil wells and p
vides related services to the
and-gas companies. "Lomak is on
verge of being recognized by the insti
tions as a takeover play," says Gain
He calculates that its assets are wo
$11 a share. The stock is trading at
Lomak has been smartly acquiring co
panies with oil and gas reserves at v
low prices, Gaines says.

Another company he's high on is P
aco Inc., an explorer and producer
gas and oil in Oklahoma, Texas, Kans
and Louisiana. "It's one of the cheap
stocks I track in the industry," sa
Gaines. He estimates Panaco's assets
be worth at least twice the price of
stock, now at 3⅞ a share. But the st
could be worth $10 a share, says Gain
if it succeeds in obtaining deep drilli
rights at various sites in the Gulf
Mexico.

The resurgence of takeovers is qu
a welcome event, especially since t
stock market has been treading wat
almost all year. Will the market he
south in 1995, or will it break new b
riers? With takeovers in vogue, sm
investors should be able to bag so
winners, regardless.

By Gene G. Marcial in New Yo



TAKEOVER BETS FOR 1995

STOCK	52-WEEK HIGH	52-WEEK LOW	RECENT PRICE	TAKEOVER VALUE
ACTV	7¾	4¼	4⅝	10
CAESAR'S WORLD	59⅛	35¾	42¼	60
E-SYSTEMS	46¾	36⅜	38⅞	55
FIRST CHICAGO	55½	41⅛	46⅜	70
KING WORLD	44⅛	32½	32⅛	55
LOMAK PETROLEUM	9½	6⅝	6⅝	11
MERCANTILE STORE	57	30½	37¾	55
MEDI-MAIL	4⅜	2⅛	2 13/16	7½
PANACO	4⅝	2¼	3⅞	6
PET	20¾	15¾	17	30
UPJOHN	37⅛	25¾	31½	50
WARNER-LAMBERT	86¾	60	76½	110

DATA: BLOOMBERG FINANCIAL MARKETS, BUSINESS WEEK SURVEY

NOW YOU CAN

- Revolutionize the way you work.
- Print, copy, and fax without leaving your desk.
- Optimize productivity and performance.

Canon
GP55
LETTER

Canon has created a totally new concept in digital office equipment systems that redefines productivity and performance. The Digital Imaging System GP55 Series. It's the culmination of Canon's technological vision that is designed to meet your needs now and in the future. It functions on your network as a 30-ppm, 400 dpi laser printer that can staple, sort, and duplex. It's also a digital copier and can serve as a Group 3 Fax. All this without ever having to leave your desk.

The GP55 Series does it all — with a unique, optional Multi-Device Controller (MDC) that gives you the flexibility to configure function boards to suit your needs. And since the GP55 Series utilizes parallel processing technology, it can perform more than one function at a time. But best of all, the GP55 Series interfaces with standard network protocols and page description languages. So now everyone on your LAN can sit behind their desk and benefit from the power of Total Document Management. Which makes this a true instrument of efficiency and productivity — with the reliability you've come to expect from Canon.

As usual, Canon's advanced technology moves you further ahead. When the rest say you can't, Canon says you can.

For more information, call **1-800 OK CANON.**

© 1994 Canon U.S.A., Inc.

Canon

With Bumpy Times Ahead, Just Say No to Risk

Cyclicals, "concept" stocks, and other potential potholes

Stock market averages may have only declined a few percentage points this year, but that doesn't begin to describe all the pain investors have suffered. An overwhelming number of issues dropped 20% or more, often while maintaining heady profit growth. Best Buy Co., for example, a hot consumer-electronics retailer, fell 26% on Dec. 1. Its sin: The company announced it wouldn't meet third-quarter earnings estimates. "Any slight earnings disappointment, and investors absolutely kill them," says James L. Melcher, president of Balestra Capital Management in New York City.

How can you avoid debacles like this in 1995? It'll be tough. The economy will be slowing from its current robust pace. Many of the companies that stayed the course through this turbulent year are overpriced, often ridiculously so. And stocks that took big hits may not yet be ripe for the picking—especially those depending on the strength of the domestic economy for growth.

For starters, in 1995, avoid cyclicals—that's any company that performs well in a strong economy, and includes homebuilders and building companies, auto makers and suppliers, and some commodities. It's not that they have much further to fall, says Ronald E. Elijah, manager of the Robertson Stephens Value + Growth Fund. After all, the Morgan Stanley Cyclical Index has fallen about 10% in the last three months. But unless cyclicals can participate in the global economic recovery, they aren't likely to do well. Elijah started selling cyclicals in July and had sold them all by the end of August. "I'm just staying away from them right now. That doesn't mean I always will," he says.

FLEEING EXCELLENCE. Arthur J. Bonnel, manager of the Bonnel Growth Fund, is avoiding companies he sees as excellent—Allegheny Ludlum, a manufacturer of specialty steel and metal, homebuilder Centex, and Bombay Company, which operates chains of furniture stores—until interest rates stabilize and their earnings prospects improve.

Investment pros are leery of the brokerages. Many of these firms recently hit 52-week lows: They began falling because of rising interest rates and then got walloped by concerns over losses from loans to Orange County, Calif., which filed for bankruptcy on Dec. 7. Michael Murphy, editor of *The Overpriced Stock Service* newsletter in Half Moon Bay, Calif., is shorting Piper Jaffray, Waterhouse Investor Services, Merrill Lynch, and even Charles Schwab, which has outperformed the rest of the brokerages. These four share one problem: In a down market they make less money because trading volume slows, the number of new accounts drops, underwriting markets close up, and, worst of all, the value of their inventory declines.

Even though many banks have held up so far this year, interest-rate increases have dented their bottom lines. Rate increases squeeze "net interest margins," or the spread between the amount banks earn on loans and the amount they pay to depositors. Banc One, KeyCorp, and PNC Bank are three regional banks that have been hardest hit this year, each stock dropping roughly 20% or more. "These three are the most glaring examples of what the problem is within the group," explains John A. Heffren, NatWest Securities Corp.'s regional banking analyst. "If short-term rates continue to rise, oth-

THE PROS ARE AVOIDING THESE STOCKS

	STOCK PRICE*	52-WEEK HIGH	P-E RATIO
ALLEGHENY LUDLUM	18⅛	24⅞	76
AMERICA ONLINE	45	46	100
BOMBAY CO	9⅛	32¾	19
CKE INT'L RESTAURANTS	7 5/16	14⅜	46
DIGITAL LINK	22¼	25¾	64
FANNIE MAE	69⅝	90⅜	9
FORE SYSTEMS	61¾	63½	182
KEYCORP	24⅞	33¾	8
MERRILL LYNCH	33⅞	47⅝	6
OUTBACK STEAKHOUSE	25⅛	32	32
VANGUARD CELLULAR SYSTEMS	25½	29¼	77**
WATERHOUSE INVESTOR SERVICES	12⅞	27	8

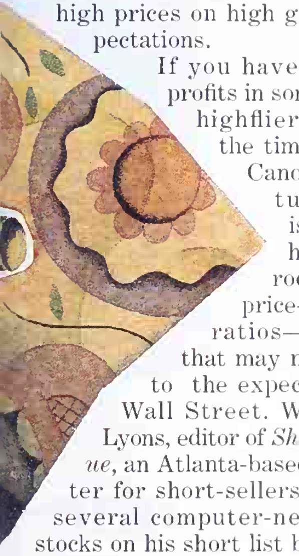
*As of Dec. 12, 1994 **1995 Estimated earnings
DATA: ANALYSTS SURVEY, BLOOMBERG FINANCIAL MARKETS

banks will begin to show up on the st.”

Peter Canoni, who heads the U.S. eq- ty investment group for Aeltus In- stment Management, warns people to ay away from the Federal National ortgage Assn., or Fannie Mae. “The indfall of securitization of mortgages is er,” he says.

Just because downtrodden sectors of e market are still to be avoided does t mean you should rush into areas at have performed well. Here, too, are enty of companies to avoid.

Technology issues have led the market is year and should continue to do so 1995. But within this broad category are numerous companies trading at high prices on high growth expectations.



If you haven't taken profits in some of your highfliers, now is the time, advises Canoni of Aeltus. Avoid issues that have skyrocketing price-earnings ratios—the ones that may not live up to the expectations of Wall Street. William D. Lyons, editor of *Short on Value*, an Atlanta-based newsletter for short-sellers, includes several computer-networking stocks on his short list because he thinks expectations are too high. Dig- tal Link, FORE Systems, and Strata- om have price-earnings ratios that ange between 64 and 182. Cellular and her wireless technologies are also ar- as he believes are overvalued and head- l for a fall. Vanguard Cellular Systems, entennial Cellular, and Nextel Com- unications made his list.

Will demand for comput- r-related technology last? ot only has the market riced these stocks high on xpectations that it will, ut there is a lot of com- etition among companies. sales at the likes of Dell omputer, Gateway 2000, nd Apple don't keep rowing rapidly, the stocks ould plummet, Melcher arns. “It may work out .K., but basically, the isk-reward equation is errible,” he says.

Any company where the rice is based purely on ex- ectations that its products ill do well is a “concept” tock—something most money managers eschew, especially when the market is turbulent. Douglas K. Raborn, a Delray Beach (Fla.) money manager, puts America Online Inc. in this group. It's a fine company, he says, but it's selling at a p-e ratio of 94. “The concept is that everybody is going to use an on-line service at their house.” (America Online formed an alliance with BUSINESS WEEK in October to provide subscribers with access to the magazine electronically.) Competition from Microsoft Corp. could be damaging. “We feel that sticking with stocks whose p-e ratios are half their growth rates gives us as much upside opportunity as momentum stocks, but a lot more safety on the downside,” he says.

HIDE AND SEEK. Although the rapid growth of some specialty retailers and restaurant chains is hardly conceptual—many are opening hundreds of new franchises yearly—and that growth may not last. Many of them are trading at high multiples and will be brutally punished on any slight disappointment in earnings, as was Best Buy. Similarly, Landry's Seafood Restaurants and Outback Steakhouse Inc. have been on short lists. Bonnel is also avoiding CKE Restaurants Inc., which operates Carl's Jr. restaurants and plans to open 300 Boston Chickens in California over the next five years.

Looking for someplace to hide? Should you take shelter in large-growth stocks that have held up so far this year? Food, beverage, and drug companies are considered defensive moves, on the theory that people will always buy their products no matter how bad things get. Household names like Clorox Co. and Quaker Oats Co. are getting a lot of attention these days. “Institutions have flooded into such stocks for their safety,” Melcher says. “Even for these stocks, if you're paying high prices, you're really taking a risk.”

You can avoid much of the market's mayhem by diversifying and taking a long-term view. Most market strategists are qualified bulls—that is, if interest rates stabilize, they think the market will resume its upward course. You can ride out rough patches like we're in now by choosing good companies with solid earnings at reasonable prices. And you may even be able to escape much of the market's wrath if you listen to some of the lessons the market taught in 1994.

By Amey Stone in New York

ACTION

RED FLAGS

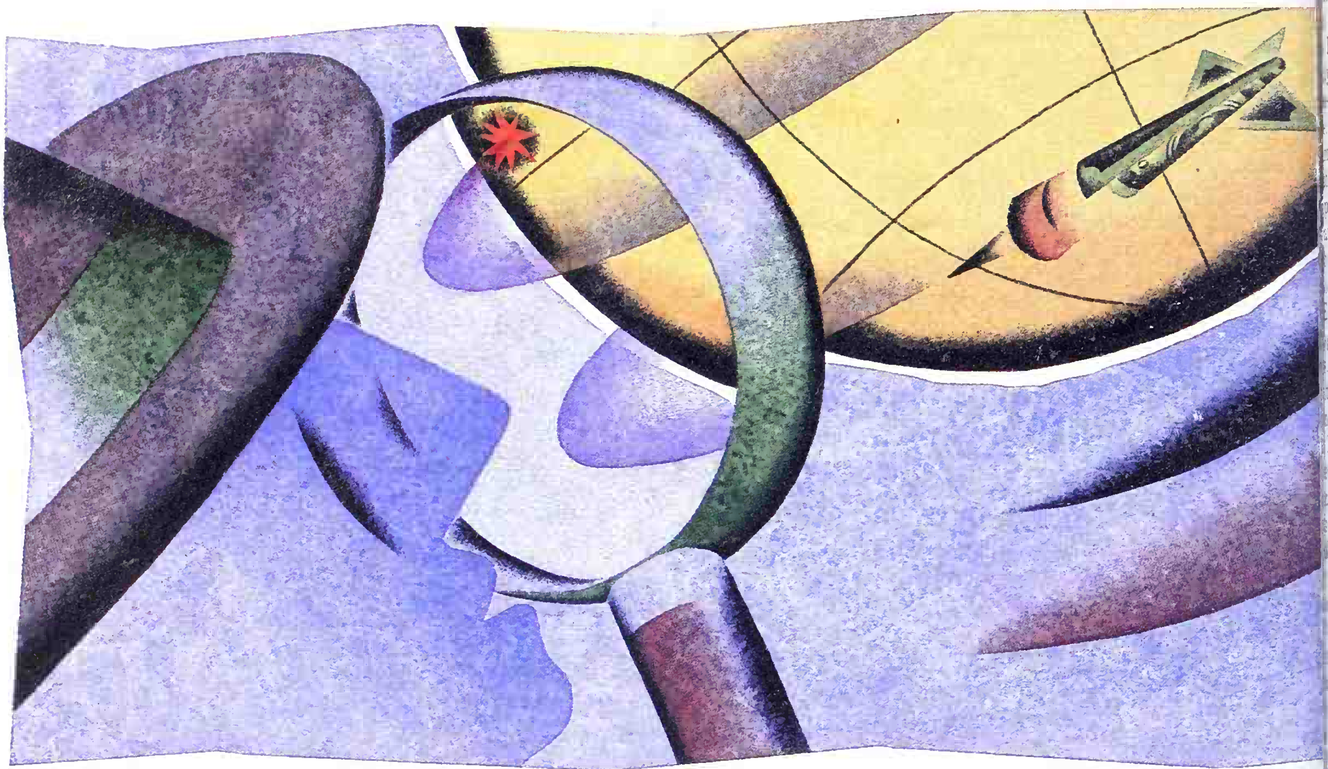
Some strong performers may be due for a fall: Cellular stocks and specialty retailers

3M is the brand business demands.

Rated number one in reliability, it's no surprise 3M diskettes and quarter-inch cartridges are preferred over other brands. Now our new go-anywhere diskettes give you enhanced performance so you can take your work anywhere. Another reason why more businesses protect important information on 3M brand storage products than any other brand in the world. You should, too. Find out more. Call 1-800-888-1889, ext. 1703.

3M Reliability

3M diskettes require compatible drives. Preference and reliability ratings based on independent research. ©3M 1994



The Gung-Ho Days May Be Gone—But Not the Good Values

Although emerging markets won't offer easy money, they'll outgrow the developed world

Stock investors have a habit of reacting to news before it happens—sometimes long before. This "discounting" pattern is one reason stock-market performance is a leading indicator of a country's economic health. It's also why, despite the long-awaited global economic recovery, the major developed-country markets are languishing now and are widely expected to continue their uninspiring drift through 1995. Instead of focusing on improving corporate earnings, investors are preoccupied with rising interest rates that could slow economic growth and make fixed-income instruments more appealing than stocks.

The recent jitters don't mean stock-pickers should spend the coming year on the sidelines, though. For one thing, the emerging-market economies promise to continue expanding faster than those in the developed world. Average gross domestic product growth rates in Latin America, Southeast Asia, and Eastern Europe are forecast at 5% to 7% next year, vs. the industrial economies' 2% to 3%. As these countries evolve, they are attracting huge flows of equity that in time will buoy their stock markets.

A PARADIGM. The likelihood that emerging markets will outrun the rest of the world doesn't make global stock investing for 1995 a no-brainer. After soaring in 1993, many emerging markets stalled or dropped last year, notably in Southeast Asia. That frightened some investors but also created values for those willing to shop more carefully. In the developed countries, meanwhile, agile players have a chance to pick up the underpriced instead of the merely battered. The controversy over Japan's market outlook (page 120) may provide a paradigm for next year's global strategy: With few obvious plays on sectors and little conviction about the major markets' momentum, investors need to look for value stocks rather than bet on an entire country index.

Europe, whose markets fell an avera
of 7% in 1994, is a case in point. "The
are very few singular themes to produ
dramatic outperformance in 1995," sa
Guy Stern, chief portfolio manager
Deutsche Asset Management in Fran
furt. Stern says European markets a
likely to be volatile, severely punishi
earnings disappointments and shruggi
off all but outstanding surprises. In Ge
many, where the Frankfurt bourse wa
off about 10% in 1994, Stern favors suc
cyclicals as chemical makers Hoechs
Bayer, and BASF—all three of which hav
gone through extensive restructuring
that are paying off in earnings result
He is relatively enthusiastic abou
France, off 13% in 1994, on the groun
that conservative monetary policy wi
prevail, holding down inflation. His pick
Peugeot and auto-parts maker Valeo. H
also likes cement company Lafarge Co
pée as a play on infrastructure spendin
in developing countries.

Like Stern, Merrill Lynch & Co. Eur

equity strategist Peter Sullivan be-
s in cyclicals, even though doubts
t the economic upturn could give
a rough ride in the short term. He
Finnish mobile-phone maker Nokia,
ly because of its valuation. Should
-to-earnings ratios collapse in Eu-
, as Merrill is predicting, Nokia's
nultiple of 15.2 times next year's es-
ted earnings per share
pares well with a glo-
verage of 20 to 30 for
ile-phone makers.
me people are picking
urostocks as a play on
growth emerging mar-
. Lehman Brothers Se-
ies analyst Theodore
egran likes Britain's
Industries because it's
sting heavily in Viet-
, India, Russia, and
tern Europe, where
kers can now afford to
higher-quality cigar-
s. Similarly, says Mer-
s Sullivan, France's
H Moët Hennessy
s Vuitton now derives
of its revenues from
booming Far East,
e retail chain Carrefour dedicates
of its capital investments to open-
ts sprawling *hypermarchés* outside
nce, including places such as Latin
erica, Turkey, and Taiwan.

IG, HARD SLOG." Of course, you can
the middleman and invest directly
merging markets. But there's no
antee of quick returns. "Gone are
lays when you could buy anything in
n America and it would rise 100%,"
Tamzin Hobday, Baring Securities
's Latin America strategist in Lon-
In many cases, investors already
bid up share prices based on their
idence that governments are on a
d path toward economic vitality.
, says Hobday, stock selection has
me more important than sentiment.
ake Brazil. "The easy money has been
e," says Robert J. Pelosky Jr., direc-
f Latin America research and strat-
at Morgan Stanley & Co. Fernando
rique Cardoso's presidential victory
hed an initially nervous market in
and helped stock investors to more
75% returns in the first 11 months.
now it's a long, hard slog to get all
reforms in place that will ensure
ility," says Pelosky. Investors may
mpatient at the pace of privatization;
ct, money already is flowing out of
e, state-owned companies into pri-
-sector issues. Pelosky's picks include
lmaker Acesita, papermaker Suza-
nd Banco Bradesco.

fter a turbulent year, Mexico's econ-
is forecast to grow by 4% to 5% in
1995. Many believe its market, with an average p-e of 13 on estimated 1995 earnings, doesn't reflect companies' true potential. Despite Mexico's link to U. S. interest rates, both Hobday and Pelosky are bullish on an infrastructure-led recovery. Pelosky favors such stocks as cementmaker Cemex and builder Grupo Ica; Hobday also likes conglomerate Desc and Cifra, a retailer. But the real moneymaker in 1995 could be Peru. Even with the market up 56% in 1994, many analysts feel predicted growth isn't fully reflected in stock prices. "It's still the most aggressive success story in Latin America," says Pelosky.

ACTION

ASIA PLAY

Hong Kong was hurt by rising rates but could pay off in 1995—if you avoid the property sector

Investors' love affair with Asia cooled this year. Fears of an overheating Chinese economy and the impact of rising interest rates on Hong Kong and other dollar-linked economies took their toll on most of the region's major markets. But the corrections have led some to seek values in the rubble. Mark Mobius, who runs some $7 billion in emerging-market investments for Franklin Templeton funds, remains a true believer in Hong Kong—mostly as a China play. "It also happens to be one of the cheapest places to invest," he says.

With an average p-e of 10 on forward earnings, Hong Kong stocks could deliver value in 1995, provided you avoid the vulnerable property sector. Janice Wallace, executive director of research and head of Hong Kong research at Goldman, Sachs & Co. in Hong Kong, favors such conglomerates as Hutchison Whampoa, CITIC Pacific, and Swire. She also likes banks and forecasts that their earnings will grow by 15% next year.

HUGE RUNUP. China no longer is seen as the region's winning lottery ticket, but it still has champions. In answer to inflation worries, Frederick K. Zhang, who co-manages a $5 million China fund at Claflin Capital Management Inc. in Boston, notes that personal income among urban Chinese grew 40% in the first 10 months of 1994, exceeding inflation by 12%. So he picks stocks that will rise in response to domestic demand, such as Qingling Motors and Hai Xing Shipping.

Eastern European markets remain widely perceived as overvalued since their huge runup of 1993. A safer way to invest in the new world order might be to shop the South African stock market. Under the government's Reconstruction & Development Program, an estimated $22 billion will be spent over the next 10 years on building the infrastructure for a unified nation. Sean O'Connor, managing director of Standard New York Inc., recommends steel and construction stocks. And while South Africa is considered an emerging market, its mining and other commodity stocks are bets on the recovery in Europe—yet another example of the abundance of global plays that remain undiscounted.

By Joan Warner in New York, with Bill Javetski in Paris, Elisabeth Malkin in Mexico City, and bureau reports

A WORLDWIDE ARRAY OF AUSPICIOUS PROSPECTS

EUROPE			
B.A.T. INDS.	$14**	Britain	Wooing smokers in India, Vietnam, Russia, and Eastern Europe
LAFARGE COPPEE	$72	France	Selling its cement to "transition" economies
L'OREAL	$206	France	Growing popularity in Asia's markets
NOKIA	$135	Finland	A dominant player in mobile phones
NON-JAPAN ASIA			
CITIC PACIFIC	$2.30	Hong Kong	The bank is now bargain-priced
HAI XING SHIPPING	17¢*	China	Strong market share in domestic coastal transport
LAM SOON HUAT	$9.35	Malaysia	Lending to the newly wealthy for land purchases
QINGLING MOTORS	30¢*	China	Cars for the masses
LATIN AMERICA			
ACESITA	$77	Brazil	A world-class steelmaker
BANACCI	$5.67	Mexico	Moderating interest rates will benefit banks
CPT	$1.27	Peru	Could be this year's Latin telecom play
SUZANO	$6.84	Brazil	Tissue and writing paper for growing domestic consumption

Prices as of Dec. 13 *"H" shares trade in Hong Kong **American Depositary Receipt

DATA: BUSINESS WEEK SURVEY OF ANALYSTS AND FUND MANAGERS

Should You Simply Steer Clear of Japan?

Some pros think so–but most advocate cautious buying

Rarely do opinions about investment opportunities diverge more sharply than about Japan's stock market prospects for 1995. Bessemer Trust Co., which manages $1.5 billion, is 0% invested in Japan, and Managing Director John Trott declares he will mostly steer clear of the country until after the millennium. Meanwhile, Charles I. Clough Jr., chief investment strategist at Merrill Lynch & Co., is overweighting Japan in his model global portfolio. Some fund managers are too insecure even to venture an opinion. "There's a huge debate going on," observes Kathy M. Matsui, chief strategist at Goldman Sachs (Japan) Corp.

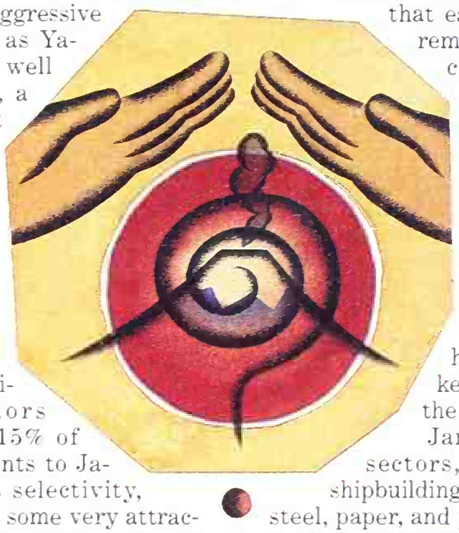
In their disagreement over whether the Nikkei stock index can rise above its current 18,875 level, the experts are focusing on such key fundamentals as the strength and sustainability of Japan's economic recovery, the health of next year's corporate earnings, the richness of price-earnings ratios, and the yen-dollar drama. All but the grumpiest Japan bears, though, agree that global investors should allocate at least some of their money to Japan. It has, after all, the world's second-largest economy and stock market, and inflation is almost nonexistent.

DOOM MERCHANT. Japanese investors remain generally cautious about shares—one reason trading volume on the Tokyo Stock Exchange was depressed for most of 1994. But their Western counterparts tend to be more sanguine. Foreigners have been net buyers of Japanese shares this year, to the tune of $40 billion worth. And Matsui thinks they will sit tight. "None of the world's other markets look like safe havens," she says. "Japan looks to have the least downside risk."

Kiyoshi Imai, senior managing director at NCB Investment Management Co. in Tokyo and one of Japan's most prominent doom merchants, still advises foreigners to put 7.5% to 15% of their money in Japan. He prefers bonds to equities because he thinks Japan's low interest rates are set for a further fall. But he has a handful of stock picks, too. They include such aggressive discount retailers as Yamaya and Sari, as well as Riso Kagaku, a maker of low-cost copiers and other office equipment. All three stocks trade over the counter.

Despite her equivocation on the Nikkei, Goldman's Matsui recommends that individual investors allocate 10% to 15% of non-U. S. investments to Japan. She stresses selectivity, though. "There are some very attractively valued stocks in Japan," she says, but notes that she would opt for issues whose prices haven't fully discounted the recovery she expects. And Matsui would avoid mutual funds, which tend to be too broadly invested. Her picks include Honda Motor Co., which has the highest operating-profit margins in Japan's auto industry, plus low price-to-cash-flow and price-earnings rat
retailer Ito-Yokado, whose sha
haven't appreciated much since su
mer despite improved consumer spe
ing; and Onward Kashiyama, a luxu
apparel maker. Matsui thinks Japan
consumers are ready to buy higher-cl
clothes "after the fatigue of barg
basement goods."

NIKKEI NOTIONS. Strategist Jason
James at James Capel Pacific Ltd
moderate bull, says he expects the N
kei to stay in the 19,000-to-21,000 ra
for the first nine months of 1995. T
index won't break out of this box, Jan
says, until Japanese investors are c
vinced that recovery is sustainable a
that earnings growth
remain strong for the
cal year endi
March, 1996. Bas
on Capel's assum
tion that gross n
tional product w
grow by 2.8% in t
next fiscal yea
with an avera
60% gain in non
nancial indust
earnings per sha
he forecasts the N
kei will reach 23,000
the end of 1995.



James favors cycli
sectors, such as shippin
shipbuilding, department stor
steel, paper, and pulp. But, like Gol
man Sachs's Matsui, he says it's impo
tant to be choosy. In shipping, whe
rates are soaring as world trade e
pands, he likes Nippon Yusen. In shi
building, where prices are starting
rise and a tanker-replacement cycle
under way, he picks Sasebo Heavy I
dustries Co. and Hitachi Zosen Co
Among Japan's languishing departme
stores, he thinks prestigious Takash
maya is best-positioned to cash in
an expected rise in luxury consumpti
and corporate gift-giving. Its price
also the lowest in its sector, he say
Steelmakers Sumitomo Metal Indu
tries Ltd. and Nippon Steel Cor
should benefit from aggressive cost-cu
ting and rising demand both domestic
ly and internationally.

The Japan debate could continu
throughout the year, and prudent inve
tors probably wouldn't want to pla
most of their marbles there. But even
the broader outlook defies generaliz
tions, investors who spend time searc
ing out values could wind up profiti
while the market forecasters sta
stumped.

By Robert Neff in Tok

BETTING ON A RECOVERY

SASEBO HEAVY INDUSTRIES SHIPBUILDING Demand for ships booms as shipping rates rise	$3.55
SUMITOMO METAL INDUSTRIES STEEL Sales and prices will rise with domestic and global demand	3.07
YAMAYA FOOD AND LIQUOR DISCOUNTER Bargain-hunting is all the rage	40.02
TOKYO ELECTRON SEMICONDUCTOR PRODUCTION GEAR Chipmakers are still investing in new equipment	30.22
ONWARD KASHIYAMA LUXURY APPAREL Consumer confidence and incomes are improving	13.61

Prices on Dec. 12

DATA: BUSINESS WEEK

THE MERRILL LYNCH CLIENT COMMITMENT

CLIENT DEDICATION

Our clients' interests come first. By serving them well, we will also succeed.

PERSONAL SERVICE

Our clients are entitled to the personal advice and counsel of professional Financial Consultants whose philosophy and style of doing business are compatible with their own.

A FINANCIAL PLAN

Our clients have the benefit of a personal financial plan to identify their long-term financial goal, and a strategy for implementing their plan.

SUITABLE RECOMMENDATIONS

Our financial recommendations are consistent with our clients' long-term goals, financial circumstances and risk tolerance.

FULL DISCLOSURE

We inform our clients of the costs and benefits of doing business with Merrill Lynch.

THE INTEGRITY OF MERRILL LYNCH

Our principles, financial strength, service quality and market leadership provide comfort and security to our clients, through good times and bad.

WHY MORE PEOPLE TRUST THEIR FUTURE TO MERRILL LYNCH THAN TO ANY OTHER FIRM

Over the years, more people have entrusted more of their assets to Merrill Lynch than to any other securities firm. Because our clients know we have always been guided by certain principles that have allowed us to help our clients succeed.

These principles are the foundation of the *Merrill Lynch Client Commitment:* A statement of what our clients can expect from us.

For more than 100 years, we have had a unique partnership with our clients. Because they expect more from us than they do from other firms, our clients have rewarded us in the best way possible: with their trust.

It's our way of doing business. And for our clients, it makes all the difference.

The difference is Merrill Lynch.

Merrill Lynch

A tradition of trust.

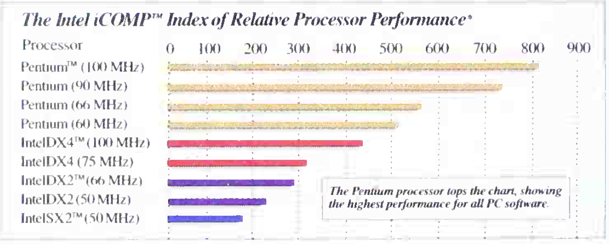
994 Merrill Lynch, Pierce, Fenner & Smith Inc. Member SIPC

What's th

intel inside

pentium PROCESSOR

PC software is really going places. And it's going to one place in particular. To PCs with the Intel Pentium™ processor inside. The fact is, all PC software runs better on a Pentium processor-based PC. But the more incredible the software, the more it demands Pentium processor performance.


*The Intel iCOMP™ Index of Relative Processor Performance**

The Pentium processor tops the chart, showing the highest performance for all PC software.

©1994 Intel Corporation. *Source: iCOMP: A Simplified Measure of Relative Intel Microprocessor Performance, Intel Corp., 1992.

intel inside
pentium
PROCESSOR

ig attraction?

And there's another reason to make sure the Pentium
rocessor is inside your next PC: economics. A more pow-
rful PC lasts longer, since it will still have plenty of horse-
ower when tomorrow's applications come along. That,
lus the fact that these PCs are now so affordable, makes
oday the right time to buy a Pentium processor-based PC.
So look for the Intel Inside® Pentium Processor symbol on your next PC. Because nothing runs today's PC software better. For more information, call 1-800-333-4161, Ext. 209.

intel®

And Now the $100,000 Question...

Four experts share their top 10 picks for the next year

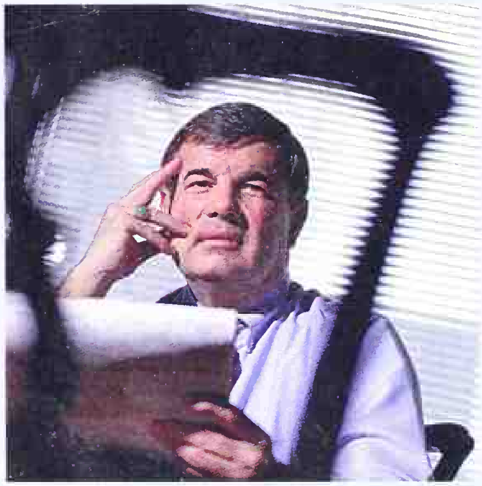
It's an opportunity not many investors would pass up. Someone hands you a hypothetical $100,000 and tells you to spend it all in one place: the stock market. That is essentially what BUSINESS WEEK does once a year when we ask four investment professionals to pick 10 stocks and create a portfolio for the coming 12 months.

The four pros who participated in 1994 faced less-than-ideal market conditions. The Standard & Poor's 500-stock index moved sideways for much of the year and was down 3.6% through Dec. 12. None of the four managers beat this benchmark.

Joe Scott-Plummer, chief investment officer of Martin Currie Investment Management Ltd. in Edinburgh, Scotland, had a 4.9% loss—excluding dividends—with a mix of obscure foreign stocks from Malaysia to Peru. Runner-up was Peter C. Bennett, chief investment officer of State Street Research & Management Co. His mix of high-tech and cyclical stocks declined 12.5%.

Biotech stocks tripped up our other pros. The portfolio of Michael Murphy, the California-based high-tech specialist, declined 18.5%, and Warburg Pincus Emerging Growth Fund Manager Elizabeth B. Dater was felled by Gensia Pharmaceuticals Inc., down 80%. Her portfolio declined 20.1%.

This year's contestants face an even more difficult investment climate. A four-year bull market may be over, interest rates may continue to rise, at least for part of the year, and many experts are worried about the possibility of a slowing economy that will dampen corporate profits. Accordingly, 1995's investment pros selected relatively conservative stocks, many with well-known names. Some managers are counting on dividends to bolster what they expect to be lackluster gains in the market at best.



JOHN S. GARDNER

Van Liew Capital

STOCK	PRICE
AVON	60⅝
DISNEY	42½
EQUITY RESIDENTIAL PROPERTIES (REIT)	28½
EXXON	62
FLUOR	43¼
INTEGRATED HEALTH SERVICES	34⅞
MOTOROLA	55⅞
NEWBRIDGE NETWORKS	31
PLACER DOME	20
VODAFONE (British-based—ADR symbol VOD)	30⅝

JOHN S. GARDNER: CASH IS KING

This seasoned investment pro has managed money at Home Life Insurance in New York, a private money-management company in Kansas, and at Drexel Burnham Lambert Inc., where he ran three different mutual funds. Now at Van Liew Capital in Providence, he manages some $90 million for mainly institutional investors. He describes himself as a technician who looks for momentum stocks and trends across all sectors. His picks take into consideration concerns that "it's quite conceivable we could have a bear market" next year, with the Dow Jones industrial a erage ending lower than in 1994.

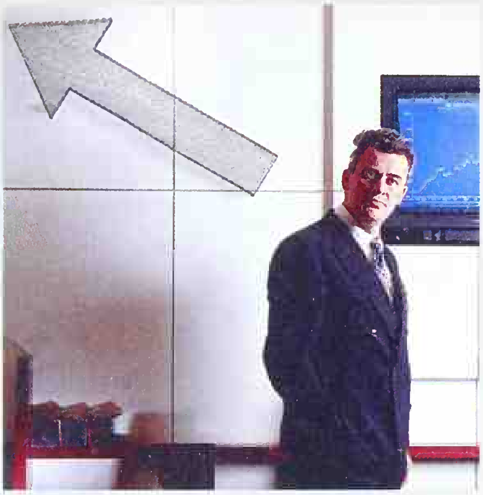
Companies with cash will be king 1995, Gardner says. For that reason, h first pick is Avon Products Inc., whi generates substantial cash flow it ca use for expansion, raising dividends, repurchasing shares. Another big cas generator he likes is Walt Disney C which is using some of its cash to bu back some 90 million shares, Gardn says. The company's problems wit EuroDisney, includi the personnel turmo are behind it, and has great products the pipeline, he say

His next pick is yield play. Equit Residential Prope ties in Florida ow apartment building in 29 states and has strong balance shee He's looking for yield of 7.7% to ris to 8.8% next year— the stock stays fla "It's a solid single, n a home run," he say

He also likes tw energy stocks: Exx Corp. and Fluor Cor When it comes to Exxon, he thinks th stock has been held back by the Vald fiasco, but expects a pickup in Europea demand in 1995 to reverse that. He als expects Exxon to raise its dividend. Fl or is a play on economic growth in th Pacific Rim and Latin America. Gar ner is also eyeing the company's $20 million annual excess cash flow and th likely sale of a coal subsidiary that h values at more than $1 billion, but whic is carried on the books at $500 million

Gardner's next three picks are i health care and technology. He likes In tegrated Health Services Inc., a Hun Valley, Md., nursing home provider tha is converting homes to subacute-care fa cilities, a low-cost alternative to hospital for many patients. Even though the com pany has a highly leveraged balanc sheet, he sees earnings rising 30% to 35 xt year thanks to her profit margins the new business. Among technology cks, Gardner likes torola Inc. because its leading position the fast-growing lular telephone in- stry. He also likes wbridge Networks ., a leader in elec- onic networking thin companies, ose stock dropped m a high of 70 to out 20 in 1994 when ofits fell short of ll Street estimates, t whose earnings rdner thinks will w at least 30% in 1995. His last high- h pick is British cellular telephone npany Vodafone Group PLC, which is ling at a 35% discount to U.S. cellular ephone companies, pays a small div- end, and may soon make inroads into ina.

Gardner's last selection is gold-mining npany Placer Dome Inc. It generates 0 million a year in cash and "is a good y in case the world comes to an end e everyone's predicting," he says.



JOHN HORSEMAN

Global Asset Management Ltd.

STOCK	PRICE
CANON	17
COCA-COLA	49⅞
FORTIS AMEV (Dutch Bank)	41¾
KONINKLYKE PTT NEDERLAND (Dutch telephone company on Dutch exchange)	25½
LUOYANG GLASS (China)	½
McDONALD'S	28½
QUEENS COUNTY SAVINGS BANK (New York Thrift)	24¼
SHANGHAI PETROCHEMICAL (China)	25¾
SINGAPORE PRESS HOLDINGS (Singapore exchange)	17¼
UNION DES ASSURANCES FEDERALES (France, insurance company)	106¾

OHN HORSEMAN: N 'UNINSPIRING' YEAR

As investment director of London's obal Asset Management Ltd., Horse- an oversees GAM International Fund, hich is down 3.7% over the last 12 onths but which has been a top per- rmer over the last three years. He de- lops a macroeconomic view of the mar- t, then identifies promising sectors and aluates companies within them. Horse- an predicts it's going to be an "uninspiring" year for U.S. stocks, with interest rates rising in the first half.

For that reason, he is choosing well-established industrial, financial, and consumer companies around the globe. "They're a bit duller than I would usually pick, but less likely to fall through the floor," he says. Singapore Press Holdings Ltd., that country's largest publishing company, fits the bill. As a monopoly, it passes on rising paper costs, and the country's growing economy should boost ad revenues, he says.

In China, he likes two big industrial companies benefiting from the country's blazing economic growth. Shanghai Petrochemical Complex, China's largest energy company, fell out of favor with foreign investors this year, but its earnings could rise 20% in 1995, he says. Horseman also likes Luoyang Glass Co., China's largest glass company, for which he expects earnings growth of 30%.

As for Europe, Horseman likes Koninklyke PTT Nederland, Holland's telephone and postal service; Fortis Amev, a Dutch bank and insurer; and French insurer Union des Assurances Fédérales. He thinks Dutch mail volume will grow rapidly, and Fortis Amev and Union des Assurances will benefit from pension privatization in Europe.

Horseman also likes three big consumer stocks: Canon in Japan and Coca-Cola and McDonald's in the U.S. He says Canon has strong growth prospects in printers and color copiers and expects earnings to grow 30% in 1995. In McDonald's and Coke, he sees two strong and undervalued U.S. companies that have excellent growth prospects abroad. He predicts both companies' profits will be between 10% and 15% in 1995.

His final pick is Queens County Savings Bank, a small New York thrift. The company knows its market well enough to avoid making too many bad loans.

DOUGLAS JOHNSON: AN ECLECTIC MIX

At Safeco Asset Management Co., Johnson manages the red-hot $457 million Safeco Equity fund, a top-performing fund with a year-to-date return of 10.1%. Johnson focuses on undervalued stocks that are near their 52-week lows. He describes his favorites as those that blend good growth prospects and value. His outlook for the market? "I don't have one," he says, explaining that he buys underpriced stocks and tries to stay fully invested.

Johnson's picks are an eclectic mix of

DOUGLAS JOHNSON

Growth & Income fund manager Safeco

STOCK	PRICE
CALLAWAY GOLF	33⅛
DATA BROADCASTING	3⅞
EQUITABLE LIFE INSURANCE	17
EVANS & SUTHERLAND	12¼
GENZYME	28
GIDDINGS & LEWIS	13¹⁵⁄₁₆
GRUPO TELEVISA (Mexico)	40¾
MAYBELLINE	16¼
PARAGON TRADE BRANDS	16½
ZURN INDUSTRIES	17⅛

(TOP TO BOTTOM) PHOTOGRAPHS BY MARK HARRISON/KATZ/SABA, CHRIS SCHRAMECK

technology stocks, capital-goods companies, and consumer staples, many selling near their 52-week lows. His top pick, which is also the largest holding in his fund, is Callaway Golf Co. Johnson says he's expecting strong growth from its new irons. "History has shown that innovators in golf do well over time," he adds, citing Ping and Taylor Made.

Among capital-goods companies, Johnson likes Evans & Sutherland Computer Corp., a down-and-out maker of flight simulators with a diversified mix of customers. He also likes Zurn Industries in Erie, Pa., which produces water-pollution control equipment and power plants, and owns the Lynx brand of golf clubs. Johnson thinks that both E&S and Zurn would benefit from an improvement in any one of their businesses, and their diversification improves their chances for such an upturn.

In technology, Johnson likes Data Broadcasting Corp., a maker of portable stock-quote machines selling at half its 52-week high of $8. His sole foreign pick is Grupo Televisa, Mexico's dominant media company. Johnson says it is priced like Disney and Time Warner Inc. but should grow faster, and the stock is trading near its low for the year.

Paragon Trade Brands Inc., the largest maker of private-label disposable diapers, is Johnson's favorite consumer stock. At about $16 a share, it is selling near book value. "I don't see much downside risk," he says. Another consumer stock he likes is Maybelline Inc., whose shares are down this year because of the poor showing of a new line of cosmetics targeted at yuppies.

Johnson likes just one cyclical stock for next year: Giddings & Lewis Inc. The machine tool company generates lots of cash and is selling slightly above book value. His final pick is biotech powerhouse Genzyme Corp., whose stock was hit this year. Johnson says Genzyme is a good acquisition candidate with strong products in the pipeline.

JUSTIN S. MAZZON: THE BIGGER THE BETTER

As senior portfolio manager for American Blue Chip Investment Management in Larkspur, Calif., Mazzon manages about $50 million and has racked up a strong record among mo ey managers specializing in large-c stocks. For the three-year peri through June of this year, he was t top-ranked large-cap value equity ma ager among 53 tracked by Nelson's I vestment Manager Database. Mazz says his basic value approach is co pled with a strategy of buying comp nies showing good sales and earnin growth. He expects the market to tra in a tight range all year.

With that in mind, Mazzon select nine stocks that pay dividends. He al chose to weight his investments: He putting 75% of his $100,000 into his t five picks, and the rest equally amo the others. His first selection is Chevr Corp., yielding 4.5%. Mazzon expec the company's stock to get a boost ne year from both higher oil prices a higher natural gas prices, combined wi additional cost cutting. Next is emba tled Woolworth, which is restructurin Mazzon says Woolworth shares are se ing only slightly above book value, a will benefit from higher consume spending on apparel and soft goods, well as strong sales in Germany, whe it is a major retailer.

Mazzon also likes Eastman Koda

Ask About A Scudder No-Fee IRA!

"Today's global investment opportunities look especially attractive to me— that's why I own this Fund."

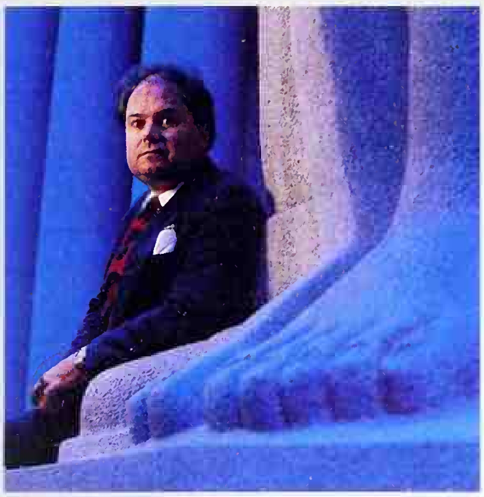
Looking for global diversification? Then consider Scudder Global Fund. This *pure no-load*™ Fund invests primarily in stocks of U.S. and foreign companies that can help you take advantage of investment opportunities the world over. Because Scudder Global Fund invests without respect to national boundaries, your investments aren't tied to any single country's economic climate. This approach can help reduce the risks of international investing, such as currency-exchange fluctuation, while increasing your long-term return potential. The Fund's share price fluctuates. Call today.

Scudder Global Fund
1-800-225-2470 ext. 7886

SCUDDER
STEVENS & CLARK, INC.

Celebrating 75 years of serving investors

Contact Scudder Investor Services, Inc., Distributor, for the Fund's prospectus, which contains more complete information about management fees and other expenses. Please read it carefully before you invest or send money.



JUSTIN S. MAZZON

American Blue Chip Investment anagement

RICHARD MORGENSTEIN

STOCK	PRICE
CHEVRON	43⅜
EASTMAN KODAK	45¾
3M	52¾
SEARS	44¾
WOOLWORTH	13⅞
AMERICAN EXPRESS	29⅜
NATIONSBANK	45
SAFETY-KLEEN	14⅛
WEINGARTEN REALTY (REIT)	33⅝
TOYS 'R' US	34¼

Mazzon gives 15% weightings to the first five and 5% weightings to the rest

a perennial turnaround story. "I've confidence [new CEO George M.C.] er will get the company focused and e up for lost time," Mazzon says. on Mazzon's list is 3M, which he had lower-than-expected earnings year but should bounce back next . 3M may also benefit from a flight to ty by investors if the economy s, Mazzon says. The last of Maz- top five is Sears, Roebuck & Co. ch has already begun to see the s of a major restructuring.

Among the five stocks Mazzon gives a 5% weighting is Safety-Kleen Corp., a little-known Chicago-based recycling company. Mazzon says its profits have been depressed due to a switch to lower-cost machinery, but they should rebound with a 20% rise next year. He also likes Toys 'R' Us Inc., which pays no dividend but may expand overseas.

Mazzon rounds out his portfolio with three financial stocks. One he considers a conservative pick: Weingarten Realty Investors, a real estate investment trust (REIT) in Houston yielding about 7%. The trust owns strip malls in the South and is a good value because its earnings will be up about 25% next year and its stock is off, Mazzon says. The others are NationsBank Corp. and American Express Co. Mazzon expects NationsBank to have strong loan growth next year, and he says the stock is now a steal at six times his estimated 1995 earnings. He likes American Express because it is picking up U.S. customers again for the first time in years, it has a strong position in key markets, and the stock is selling about nine times his estimated 1995 earnings of $3.25 a share.

These big, well-established companies tend to generate fewer of the stock-market home runs money managers dream about. But for Mazzon and the other pros, they are solid craft in a potentially treacherous market.

By Geoffrey Smith in Boston

You Need More Than An MBA To Succeed In Global Business

THUNDERBIRD

teaches that success on an international level requires more than financial, marketing and operational skills.

THUNDERBIRD

the leader in global education, offers:

- The Master of International Management degree, which requires courses in international management, international business environments and foreign languages
- Executive Master of International Management degree
- A Post-MBA degree program

MASTER OF INTERNATIONAL MANAGEMENT DEGREE
INTERNATIONAL EXECUTIVE MASTER'S PROGRAM
POST-MBA DEGREE PROGRAM

THUNDERBIRD
THE AMERICAN GRADUATE SCHOOL OF INTERNATIONAL MANAGEMENT

You will be able to:

- Use your business skills beyond your home country.
- Be flexible in changing global markets.
- Speak the language of your client and associates.
- Manage a culturally diverse team.

Join the network of over 27,000 alumni who hold leadership positions in business, industry and government in every state and more than 133 countries.

Office of Admissions • 15249 North 59th Avenue • Glendale, Arizona • 85306-6000 • 602-978-7210 • Fax: 602-439-5432 AACSB ACCREDITED

BY GENE G. MARCIAL

A Catalog of Mail-Order Buys

A raging bull Mark Boyar isn't. But the stock market, he argues, is the place to be in 1995. Anybody who insists on bailing out isn't looking hard enough for bargains. "In five years, I have never seen so much real value," says Boyar, who heads a New York investment firm that specializes in investing in companies with unrecognized "intrinsic value."

One group he thinks has been unjustifiably bludgeoned on the Street is mail order. He says his favorite such stocks—Hanover Direct, Lands' End, and Spiegel—have suffered from two events: the market's overall slide and investors' concern about the impact of the first-class postage hike scheduled to take effect on Jan. 1, 1995. But Boyar thinks the increase won't much affect earnings, since catalog companies deal mainly in bulk mail.

Hanover Direct (HNV), whose shares have skidded to 3, down from 8 in March, publishes 14 catalogs (furnishings, giftware, and men's and women's clothes). It expects sales of $800 million in 1995 and $1 billion in 1996. Yet its market capitalization, notes Boyar, is just $315 million. "It's a great bargain for a company in the fastest-growing segment of retailing," says Boyar, who figures the stock is worth 8. In addition, he sees Hanover as a takeover target. Chairman Alan Quasha controls some 40% of the stock: At some stage, Quasha will want to cash out, says Boyar. In a buyout, he figures the stock will be worth at least 10.

BOYAR'S PICKS FOR 1995

STOCK	52-WEEK HIGH	LOW	PRICE (DEC. 12)	P/E RATIO
HANOVER	$8	$$3\frac{3}{16}$	$$3\frac{5}{16}$	14
LANDS' END	27¾	14⅛	14¾	10
SPIEGEL	26¾	8¾	11¾	11

DATA: BLOOMBERG FINANCIAL MARKETS, ZACKS INVESTMENT RESEARCH

Just before Lands' End (LE), slipped from its high of 27¾ on Mar. 29, Boyar sold part of his holdings and took profits. But when the stock plunged to 14, he bought again: He thinks the shares are worth 30, based on the company's consumer franchise. Its catalog offers clothes, shoes, and bedding, and the company also operates 13 discount outlets. Earnings, however, have been disappointing. President and CEO Bill End resigned on Dec. 5, mainly because of a disagreement with the board over the reason for the drop in its earnings. Boyar thinks Lands' End will continue to surge in the long run.

BOYAR: *There are bargains galore*

Spiegel (SPGLA) is a well-known name, but the stock got way ahead of itself through premature bullish projections by analysts, says Boyar. The stock, which has tumbled from 26 in March to 9, is worth more than twice its current price, Boyar believes. The company sells apparel and furnishings through its Spiegel catalog. Its Eddie Bauer unit has some 295 retail stores that sell sportswear and shoes. The stores have suffered from the mild winter, which has dampened Spiegel's earnings outlook. "The Street understands little about mail-order companies, which care more about building business for the future than quarter-to-quarter earnings," says Boyar.

A Springy Floor Under Sun Coast?

It's nothing to do with the sun. Sun Coast Industries (SN) makes plastic consumer products: melamine tableware and caps for packaged food and beverages. Ho-hum? Maybe not. Otherwise, why would the smart-money crowd be snapping up the stock?

Here's why: After chugging along for five years at 5% annual growth, Sun Coast sales jumped by 9% in 1993, 16% in '94, and should boil to 25% in '95. Earnings have also been popping, up an estimated 30% this year from fiscal 1994. But that's not all: Sales and earnings are expected to climb even further by 1996 because of a "revolutionary" new floor material that will hit the market in 1995.

CEO R. Carter Pate, hired in April, 1993, is responsible for Sun Coast's turnaround. He confirms that a new product is in the pipeline but declines to describe it, other than to say that it's a flooring product. It's unbreakable, lighter than rival products, and 50% cheaper. Jessica Tully of Equitable S curities Research figures Sun Coas will earn $1.11 in the year ending Ju 30, 1995, and $1.30 next fiscal year, from 84¢ in 1994. She sees the share now at 16, hitting 21 in a year. Th projection may be modest, in light the new product. Sun Coast Treasur and CFO Cynthia Morris admits th this product will make a big differen in its bottom line.

How Cooper May Make Tracks

Tiremakers haven't burned muc rubber on Wall Street lately: Thei stocks have been, well, flattish One reason is the 30% jump in the pric of natural rubber. Even so, some pro think Cooper Tire & Rubber (CTB) i ready to snap back. The shares, whic have fallen from nearly 30 in March t 22 lately, are clearly undervalued, say analyst Nicholas Lobaccaro of S. G Warburg.

In spite of investor worry about rising prices, Lobaccaro expects Coope to match, if not outpace, analysts' estimates for the fourth quarter. Concer about rising raw-material prices, h says, "has greatly overshadowed man positive fundamentals," such as the ris in the price of tires and Cooper's increasing share of the U. S. and expor markets.

The analyst discounts the impact higher prices on earnings. He note that natural rubber constitutes onl 7% of tire costs, while synthetic rubbe whose price is up about 9%, account for about 12%. So the combined effec is modest. As a result, Lobaccaro i sticking with his earnings estimate o 45¢ a share for the fourth quarter vs 33¢ a year ago. As for the company' yearly results, he foresees $1.85 fo 1995 vs. $1.53 for 1994.

One big investor who has bee scooping up stock reckons it's worth a least 30. He is also upbeat about Cooper's recent alliance with Autobacs Seven of Japan—that country's No. 1 auto-parts retail chain, with sales of $1. billion. The agreement for Cooper t supply Autobacs with certain tires "could lead to further cooperation that may enhance Cooper's share of the Japanese market," he says. Lobaccar agrees: "Cooper's export prospects and global low-cost-producer status have been largely ignored by the financial community," he says.

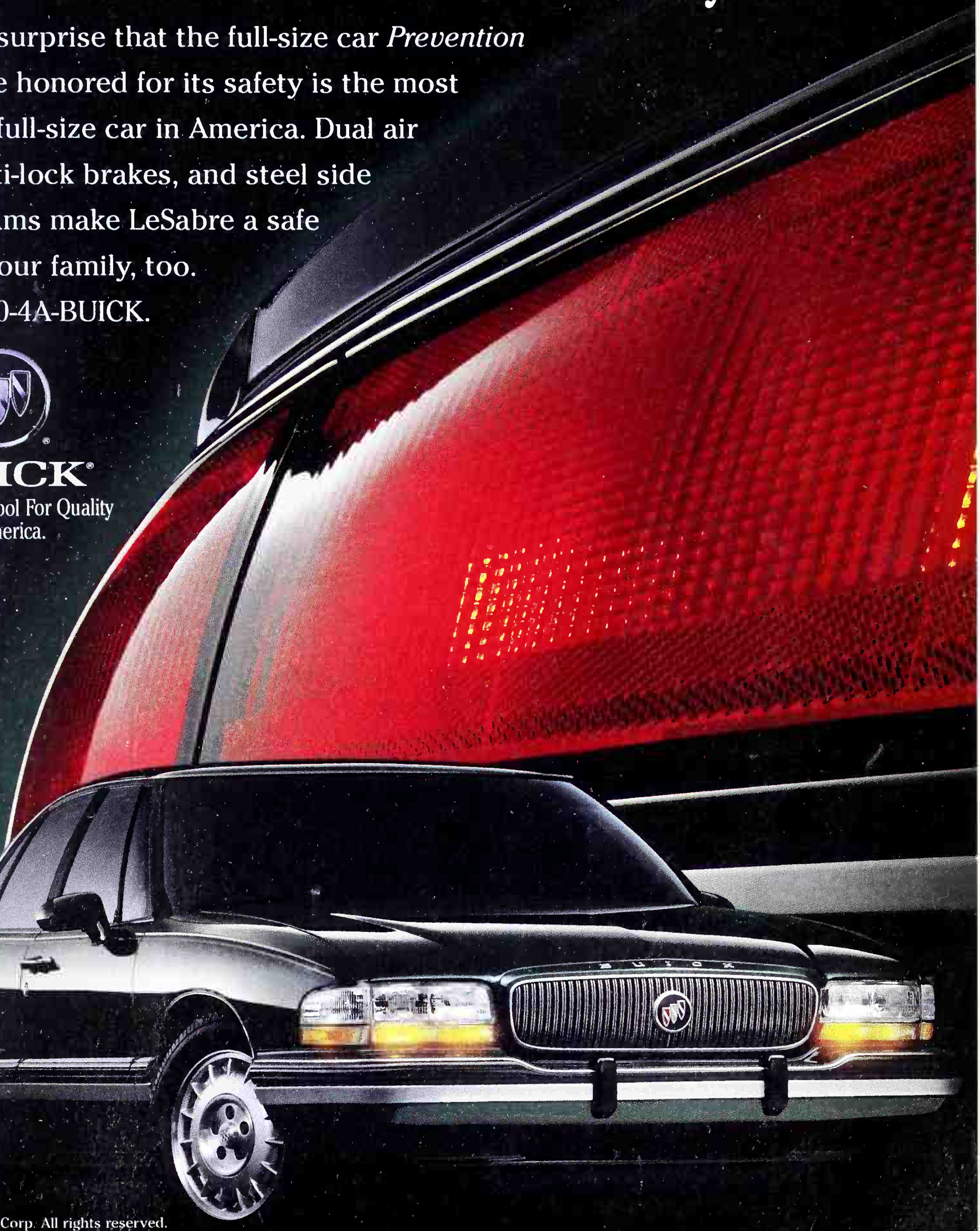
Prevention magazine chose LeSabre for its "Safe Car Achievement Award." America hose it as their favorite full-size family car.*

It's no surprise that the full-size car *Prevention* agazine honored for its safety is the most pular full-size car in America. Dual air ags, anti-lock brakes, and steel side oor beams make LeSabre a safe et for your family, too.

all 1-800-4A-BUICK.

BUICK®

e New Symbol For Quality
In America.



©1994 GM Corp. All rights reserved.
LeSabre is a registered trademark of GM Corp.
ckle up, America!

*Based on 1992 through 1994 model year sales.

Panasonic
KWN
KID WITNESS NEWS
Panasonic
KWN
KID WITNESS NEWS

What is our technology doing for your kids' education? You might be surprised.

It's 3:00 and the school bell rings. But instead of the mad dash for the door, something surprising happens. Your children stay seated. In fact, they're on the edge of their seats because today they're getting a new assignment.

They will probe a variety of topics from complex social issues like community violence to heartwarming stories about local heroes. But instead of doing research in the library, they will interview experts, handle camcorders, edit tape and even act. Instead of writing a paper, they will be writing a script for a documentary, news feature or public service announcement. And along the way they'll build self-esteem, learn teamwork and communications skills as well as the ability to think and reason critically.

They're participating in an innovative program developed and supported by Matsushita Electric. It's called Panasonic Kid Witness News. The program provides over 200 schools with video equipment, educational materials and support to help students and teachers create video productions. It's just one of many Matsushita educational programs, which range from working with school districts for public school reform to supporting universities.

At Matsushita we believe that, of all the things technology can accomplish, equipping our children for the future is one of the most important.

Matsushita Electric

Panasonic Technics Quasar

Don't Hit the Ejection Button Just Yet

Funds are still treacherous. But junk, small-caps, and bonds could have their charms

No, it's not one of those nasty accounting errors in mutual funds that you've been reading about lately. The awful figures on these pages are all too true. Whether they invested in big- or small-cap stocks, government bonds or munis, mutual funds posted losses across the board. Fund losses were even worse than the overall market, despite the cash cushions in many fund portfolios. Yet month after month, through stormy and fair weather alike, investors doggedly poured money into funds.

Clearly, mutual fund investors are not giving up. It is a strategy of "Patience Pays" — and so far, it hasn't quite paid off. As Don Phillips, editor of *Morningstar Mutual Funds*, somberly notes: "Investors got conditioned in the 1987 crash, and in 1989 and 1990, to buy on dips. And that suddenly didn't work in 1994."

This, in a nutshell, is the somber question facing fund investors: Is it finally time to cash out of mutual funds? Will patience begin to pay off—or will investors get another slap in the face in 1995? It's a question that can't, of course, be divorced from the fate of the equity and bond markets. Still, even the most risk-hating investors can ride out the stormy markets without pulling out of funds entirely. And for the more venturesome, fund investing is actually more attractive than ever. Some of the most bedraggled funds, such as grow
stock portfolios and or
sensitive to interest rat
would look mighty attr
tive if the market begins
turn. Even if it doesr
there are safe harbo
aplenty for more risk-ave
investors.

Pretty much any ventu
into the plus column wou
be attractive after the n
diocre showing funds r
corded in 1994. Throu
Dec. 9, diversified equi
funds recorded a decline
5.36%, nearly four percer
age points worse than t
1.6% drop in the Standa
& Poor's 500-stock inde
Among the laggards was t
very biggest fund, $36 b
lion Fidelity Magellan, wi
other growth-stock fun
such as Twentieth Centu
Ultra Investors turning in some of t
sorriest results.

Only one stock-fund category made
into the plus category—the worst sho
ing since 1990. Technology stocks turn
in a 3.5% gain that would have seem
anemic in years when the market w
well into the double-digits. The only ot
er category to come close to breaki

HOW STOCK FUND CATEGORIES PERFORMED IN 1994

	TOTAL RE TURN*/PERCENT		TOTAL RETURN*/PERCENT
SPECIALTY-TECHNOLOGY	3.49	EQUITY FUNDS	–5.39
SPECIALTY-HEALTH	–0.42	GROWTH	–5.63
EUROPE	–1.14	SPECIALTY-FINANCIAL	–6.18
FOREIGN	–2.74	SMALL COMPANY	–6.26
EQUITY-INCOME	–4.06	MAXIMUM GROWTH	–8.09
GROWTH & INCOME	–4.14	SPECIALTY-UTILITIES	–8.70
INTERNATIONAL EQUITY	–4.31	SPECIALTY-MISCELLANEOUS	–9.82
WORLD	–4.47	PACIFIC	–11.34
BALANCED	–4.56	SPECIALTY-PRECIOUS METALS	–16.28
ASSET ALLOCATION	–4.72	ALL EQUITY FUNDS	–5.30
INCOME	–4.83	DIVERSIFIED U.S. EQUITY	–5.36
SPECIALTY-NATURAL RESOURCES	–4.86	S&P 500 INDEX	–1.64

*Appreciation plus reinvested dividends and capital gains through Dec. 9
DATA: MORNINGSTAR INC.

THE 25 LARGEST EQUITY FUNDS

	ASSETS* BILLIONS	TOTAL RETURN** 1994	5-YR AVG.
Fidelity Magellan	$36.0	–6.79%	11.08%
Investment Company of America	19.2	–1.98	8.55
Washington Mutual Investors	12.6	–1.34	8.01
Fidelity Asset Manager	11.6	–5.39	11.45
Fidelity Puritan	11.5	0.37	10.54
Vanguard/Windsor	11.4	–1.65	8.01
Income Fund of America	10.5	–3.81	8.28
Twentieth Century Ultra Investors	9.7	–8.70	15.07
Vanguard Index 500	9.5	–1.65%	8.21%
Janus	9.4	–2.94	10.55
Fidelity Growth & Income	9.1	–1.27	11.98
Vanguard/Wellington	8.9	–2.83	7.76
Fidelity Contrafund	8.5	–5.30	16.64
Vanguard/Windsor II	8.2	–2.97	7.48
EuroPacific Growth	8.2	–0.15	11.06
Fidelity Equity-Income II	7.6	0.37	NA
Fidelity Equity-Income	7.3	–2.08	8.82
Dean Witter Dividend Growth Secs	6.6	–5.45	6.94
Merrill Lynch Global Allocation B	6.5	–2.89%	11.12%
New Perspective	6.4	0.47	10.36
T. Rowe Price International Stock	6.2	–2.30	7.64
Vanguard/Wellesley Income	5.9	–5.14	8.49
Putnam Fund for Growth & Income A	5.8	–2.87	8.77
Templeton Growth	5.5	–0.32	10.87
Growth Fund of America	5.3	–3.59	9.10

*As of Sept. 30
**Includes dividends and capital gains; all 1994 return data through Dec. 9

DATA: MORNINGSTAR INC.

n was health care. Among the losers
'e precious metals funds, down 16.3%,
utility funds, which were heavily pro-
.ed earlier in the year as a wager on
er rates. There was no refuge abroad,
n overseas funds turning lower as the
)al market rally cooled off. Funds spe-
izing in Pacific Rim exchanges, espe-
ly once-hot Japanese funds, were mer-
ssly pummeled.

.ikewise, bond funds were victims of
interest-rate climb, as every fixed-
me category recorded a decline. Junk-
d funds, high-quality corporates,
ni-bond funds, and global-bond funds
h recorded the almost eerily similar
; of anywhere between 2% and 4%.

)ne fundamental rule of fund investing
articularly worth emphasizing nowa-
s: Stellar performance by a given fund
up is hard to sustain. The investment
ices of '94 are more than likely to be-
e toads in '95, and history has shown
t laggards often turn up in the follow-
year. One notable exception to that
e is likely to be gold funds, which post-
trocious results in '94 and are unlike-
o stage a rebound in the coming year.

S VOLATILE. With fixed-income mar-
s turning in their worst performance
ce the double-digit inflation of 1980,
d funds may well provide some of the
st intriguing opportunities of all funds.
e comparatively safe way of playing
bond market is via short-term bond
ds, which provide comparatively hand-
ne returns with minimal volatility.

)ne advocate of that strategy is Kurt
ouwer, president of Brouwer & Jana-
wski, a $350 million money-manage-
nt firm specializing in mutual funds.
ouwer favors the PIMCo Low Duration
d, whose manager, William H. Gross,
lescribed by Brouwer as the "best
d-fund manager in the country." This
d caters mainly to institutions, and
re is a hefty minimum investment of
0,000. However, Brouwer notes that
just $1,000 if purchased through the
count broker Charles Schwab Corp.
ouwer also likes the Vanguard Short-
m Fixed Income fund, which has a
-year average duration and a 6% cur-
t yield. "If rates go up," Brouwer says,
won't be hurt too badly."

The Vanguard funds are also noted for
of the no-brainer investments of the
l market: index funds, which aim to
sely track market indices. Such funds
popular among institutions but less so
ong individual investors—a shame,
haps, because most funds have not
n able to match or beat the market
ecent years. If you believe the market
oing to stage a broad advance, the in-
funds are for you. Otherwise, stay
ay. Such funds discourage market tim-
and are tough to swiftly redeem if
want to cut your losses during a

EQUITY FUNDS: 1994's WINNERS AND LOSERS

THE BEST	TOTAL RETURN*/PERCENT	THE WORST	TOTAL RETURN*/PERCENT
Seligman Communications	26.66	Monitrend Gold	–52.38
DFA Japanese Small Company	22.94	Steadman American Industry	–40.38
Merrill Lynch Technology B	21.74	Wright EquiFund-Hong Kong Natl Fid Eq	–39.92
Capstone Nikko Japan	20.68	Steadman Ocean Technology & Growth	–36.29
Alliance Technology A	18.99	American Heritage	–35.95
Fidelity Select Health Care	18.78	Steadman Investment	–34.51
Govett Smaller Companies	18.09	BJB International Equity A	–32.93
Robertson Stephens Value + Growth	15.93	Capstone Balanced	–32.02
Fidelity Select Computers	15.81	Invesco Strategic Gold	–31.56
Montgomery Growth	15.05	Oppenheimer Global Emerging Growth	–28.95
Janus Mercury	13.94	Rydex Precious Metals	–28.61
PBHG Emerging Growth	13.49	Fidelity Southeast Asia	–25.53
Fidelity Japan	12.74	Bull & Bear Special Equities	–25.36
Fidelity Select Medical Delivery	12.04	CGM Capital Development	–25.26
Fidelity Select Electronics	11.85	EV Marathon Greater Cina Growth	–25.02
T. Rowe Price Japan	11.24	Fidelity Select Air Transportation	–25.02
G.T. Latin America Growth A	10.85	EV Classic Greater China Growth	–25.02
Franklin CA Growth	10.76	59 Wall Street Pacific Basin Equity	–24.23
Putnam Health Sciences A	10.65	Gintel ERISA	–24.11
Perkins Opportunity	10.64	Excel Value	–24.02
Strong Growth	10.40	Excel Midas Gold	–23.37
Pioneer Capital Growth A	9.78	Van Eck Asia Dynasty A	–23.17
G.T. Global America Growth A	9.72	T. Rowe Price New Asia	–22.85
Morgan Stanley Instl Intl Equity	9.60	OVB Emerging Growth A	–22.56
Fidelity Select Chemicals	9.60	MFS Gold & Natural Resources B	–22.47
Franklin Global Health Care	9.30	G.T. Global New Pacific Growth A	–22.19
Clover Capital Equity Value	9.17	Merrill Lynch Dragon B	–21.76
DFA Continental Small Company	9.11	United Services World Gold	21.36
Berger Small Company Growth	9.00	Dean Witter Pacific Growth	–21.36
Vanguard Intl Equity Index Pacific	8.49	Fidelity Select Brokerage & Investmnt	–21.26
Wright EquiFund-Dutch Natl Fid Equity	8.48	BT Investment Pacific Basin Equity	–21.15
T. Rowe Price Science & Technology	8.44	Aetna Asian Growth Sel	–21.10
Fidelity Select Paper & Forest Prod	8.35	Victory Special Growth	–21.01
ONE Fund International	7.72	Dreyfus Special Growth Inv	–20.96
BT Investment Small Cap	7.65	First Mutual	–20.54
Fidelity Select Developing Comm	7.34	Fidelity Select Biotechnology	–20.52
Scudder Latin America	7.29	Fidelity Select Construction&Housing	–20.49
Invesco Balanced	7.23	Morgan Stanley Instl Asian Equity	–20.39
Safeco Equity	7.16	Benham Gold Equities Index	–20.34
Crabbe Huson Special	7.02	United Gold & Government	–19.91
SoGen Overseas	6.87	Bull & Bear Gold Investors	–19.71
Vanguard/Primecap	6.74	Gintel	–19.46
Quantitative International Eqty Ord	6.70	Steadman Associated	–19.28
BT Investment Latin American Equity	6.58	Weitz Hickory	–19.12
AIM Aggressive Growth	6.50	Fidelity Select American Gold	–19.11
Japan	6.49	Van Eck Gold/Resources	–19.09
Waddell & Reed Growth	6.31	Morgan Stanley Asian Growth B	–19.05
Yacktman	6.29	Scudder Pacific Opportunities	–18.88
Parnassus	6.16	Keystone Precious Metals Holdings	–18.87
FPA Paramount	5.98	Fidelity Select Automotive	–18.67

*Appreciation plus reinvested dividends and capital gains, through Dec. 9, 1994

DATA: MORNINGSTAR INC.

sharp market setback. But with the markets behaving inconsistently, fund investors may be better off latching on to a smart stock-picker. Norman G. Fosback, editor of the *Mutual Fund Forecaster* newsletter, says that one fund family noted for its canny stock picks is the low-volatility Mutual Series funds, run by noted value-stock buyer Michael Price.

Like many market observers nowadays, Fosback is wary about the market and has recommended that investors put 60% of their assets into cash. However, he feels that investors with a longer time horizon and more bullish stance should go into the Mutual Series or even more aggressive funds. Among the growth funds he favors are Twentieth Century Ultra and Fidelity Magellan, despite their less-than-glowing performance this year. Such funds should do especially well if the prevailing sentiment turns out to be wrong—as it often does—and the economy shows signs of persistent strength, thereby boosting earnings and share prices. (The conventional wisdom nowadays is that the economy will soften.)

Bond funds offer some of the best opportunities in mutuals—and short-term-bond funds deliver both handsome returns and minimal volatility

Junk-bond funds are another way of playing the contrarian game of betting on a continuing robust economy. Junk funds were mediocre performers this year, falling 4.7%, but, unlike other bond funds, should prosper if the economy remains strong. "If defaults are low, and rates turn down, these funds should do well—there's every reason to expect double-digit returns," Fosback asserts. Among the junk funds, he favors the Northeast Investors and Invesco High Yield funds, which both yield 10%.

Investors with a really adventurous perspective may take a flier on small-cap funds. With the exception of funds that invested in technology and some health-care stocks, small funds were crummy performers in '94, with a 6.3% decline. Brouwer likes a new fund called Royce Premier, managed by Charles M. Royce, who runs an old small-cap standby, the Pennsylvania mutual fund. Brouwer notes that Royce Premier is a "more c
centrated, smaller" version of Penns
vania. Sheldon Jacobs, editor of the
Load Fund Observer newsletter, fav
the Burger Small Company fund amo
his roster of small-cap picks.

Another risky, super-contrarian m
neuver is to buy into bond funds wh
portfolios have long durations, such
zero-coupon ones. Those are especia
volatile, and thus present a big payof
long-bond rates fall—and a major d
ger if they climb. Which way will th
move? Economists surveyed by BUSINE
WEEK came to no broad consensus,
though they do believe that the Fed w
tighten, causing an increase in short rat
in the first half of 1995.

GO GLOBAL. Interest-rate hikes wou
of course, continue to put under pressu
rate-sensitive stocks as well as bon
Income-oriented mutual funds produc
a 4.8% decline, only a tad better than t
average fund, during 1994. However, th
will swiftly revive at the first sign o
bond market revival. One stock fund f
vored by the bearish Fosback is Lindn
Dividend, a venerable income fund.

Global funds didn't provide much pr
tection from the travails of the U. S. ma
kets in '94, being fairly miserable in th
own right. But smart investors w
haven't taken the plunge into intern
tional and global funds (ones that can b
both overseas and in the U. S.) should
so now. Jacobs, at the *No Load Fund O*
server, favors two old standbys in th
international investing set: Fidelit
Worldwide and Janus Worldwide. A
other one widely favored by professio
al fund pickers is Tweedy Brown Glob
Value, a New York-based fund with
strong value orientation that it applie
to investing in the more-liquid stock ma
kets overseas. Brouwer also favors th
Warburg Pincus International Equit
fund, which has broad experience in th
overseas bourses and invests in emergin
markets as well as established one

None of these strategies will work,
course, if the domestic and global market
stage a bone-crunching decline. But mu
tual fund investors have been "knee-jer
contrarians" in the past—and they hav
been rewarded. Betting against the ex
perts was smart in '89 and '90—and it'
just as smart today.

By Gary Weiss in New Yor

THE BEST BOND FUNDS

1994'S BEST TAXABLE BOND FUNDS

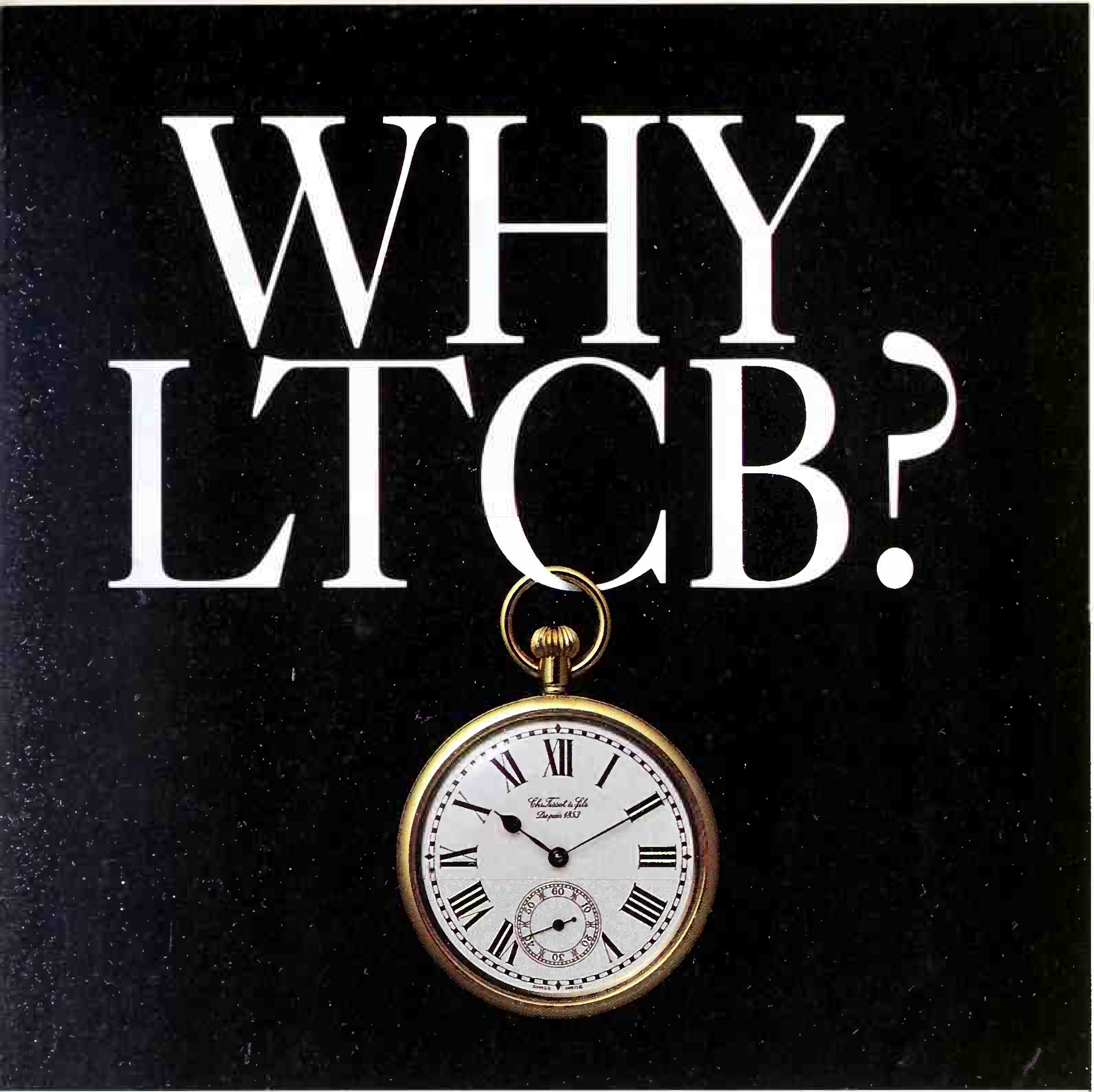
	TOTAL RETURN*
Fidelity Deutsche Mark Performance	14.11%
Franklin/Templeton Hard Currency	13.28
Fidelity Yen Performance	12.24
Fidelity Sterling Performance	9.21
Franklin/Templeton High-Inc Currency	8.96
Franklin/Templeton German Govt Bond	8.15
Franklin/Templeton Global Currency	7.03
Hotchkis & Wiley Low Duration	4.34
MetLife Portfolios Intl Fixed-Inc C	3.75
Seven Seas Yield Plus	3.70
Smith Breeden Short Dur U.S. Govt	3.55
Benchmark Short Duration	3.43
Smith Breeden Short Dur U.S. Govt Ser	3.40
Strong Advantage	3.39
FFTW U.S. Short-Term Fixed-Income	3.38
Regis Sirach Short-Term Reserves	3.34
Eaton Vance Short-Term Treasury	3.22
RSI Retirement Trust Short-Term Invmt	3.12
Permanent Portfolio Treasury Bill	3.05
First American Managed Income A	2.98
Average of 987 funds	–3.72%

1994'S BEST TAX-FREE BOND FUNDS

	TOTAL RETURN*
Hanifen, Imhoff CO BondShares	5.70%
Calvert Tax-Free Reserv Limited-Trm A	2.31
Twentieth Century Tax-Exmpt Short-Trm	2.20
Venture Muni (+) Plus B	1.49
Vanguard Municipal Short-Term	1.42
Merrill Lynch Municipal Ltd Maturity A	1.00
Colonial Short-Term Tax-Exempt	0.84
Merrill Lynch Municipal Ltd Maturity B	0.68
Dupree KY Tax-Free Short-to-Medium	0.68
USAA Tax-Exempt Short-Term	0.43
Pacifica Short-Term CA Tax-Free	0.41
T. Rowe Price MD Short-Term Tax-Free	0.29
Kent MI Muni Ltd Maturity Bond Instl	0.01
Kent MI Muni Ltd Maturity Bond Invmt	–0.09
59 Wall Street Tax-Free Sh-Interm F/I	–0.17
Vanguard Municipal Limited-Term	–0.21
T. Rowe Price Tax-Free Short-Interm	–0.26
Merrill Lynch NY Ltd Maturity Muni A	–0.31
Average of 891 funds	–7.08%

*Appreciation plus reinvested dividends and capital gains through Dec. 9

DATA: MORNINGSTAR INC.



Because while others watch the clock, we know that time is money

Speed is often the difference between success and failure. And as a wholesale bank with a full range of financial and investment banking services, we routinely deliver fast, innovative answers to corporate financial needs. We'll give you support for the long term, too. We're The Long-Term Credit Bank of Japan.

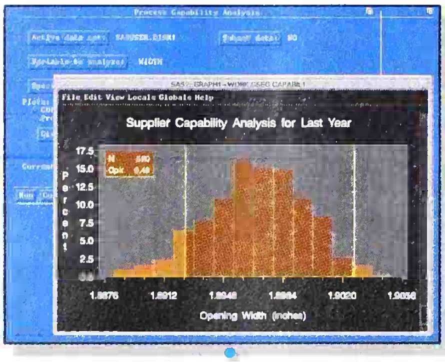
LTCB

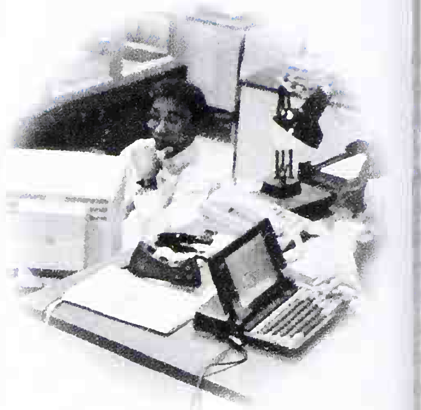
The Long-Term Credit Bank of Japan, Limited

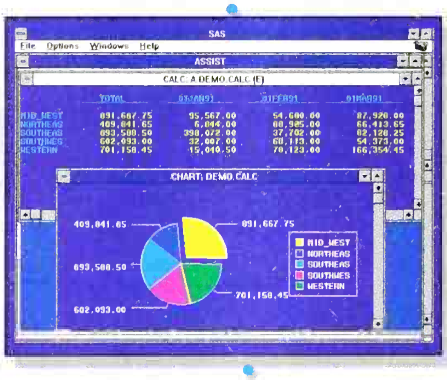
Tokyo, London, Paris, Brussels, Frankfurt, Zurich, Milan, Madrid, New York, Chicago, Los Angeles, Greenwich, Philadelphia, Toronto, Atlanta, Dallas, Mexico City, São Paulo, Hong Kong, Singapore, Seoul, Bangkok, Labuan, Beijing, Shanghai, Guangzhou, Kuala Lumpur, Jakarta, Sydney, Melbourne

The Client/Server Solu

The SAS System for Information Delivery is a new concept in client/server software. It provides workable strategies for overcoming the barriers that stand between people and the information they need. For instance, the SAS System strategy for **universal data access** makes it easy to reach all your diverse "islands of information"— including host system files, flat files, and corporate DBMS's such as DB2®, ORACLE®, and dBASE®.

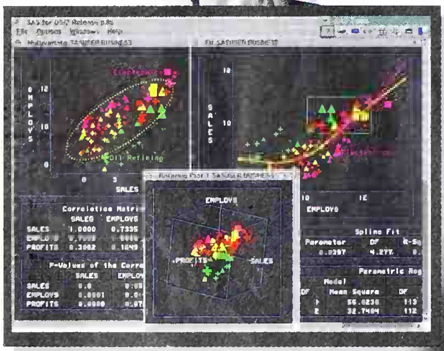

Process Capability Analysis
File Edit View Locals Globals Help
Supplier Capability Analysis for Last Year
Opening Width (inches)

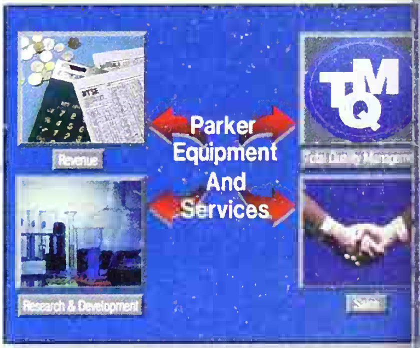



SAS
File Options Windows Help
ASSIST
CALC: A DEMO.CALC (E)
CHART: DEMO.CALC
MID_WEST
NORTHEAS
SOUTHEAS
SOUTHWES
WESTERN

An exclusive MultiVendor Architecture is behind the SAS System's strategy for **hardware independence**. Application run the same way across PCs, workstation and host systems — making true client/ser computing a reality while exploiting the particular strengths of each platform.

Address the needs of users at every lev with the SAS System's strategy for **interfa versatility**. An EIS interface puts decisio makers in command of the facts — when t need them. There's also a task-oriented menu-driven interface for business


EMPLOYS
SALES
PROFITS

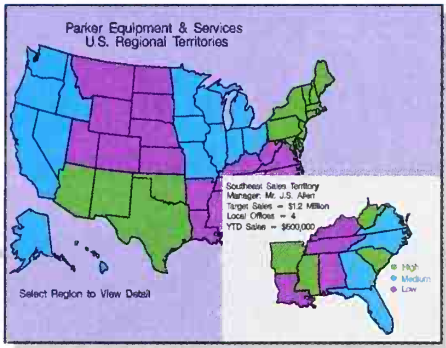

Parker Equipment And Services
Revenue
Research & Development
TQM
Sales

The SAS

Enterprise Wide I

on for EIS and Beyond

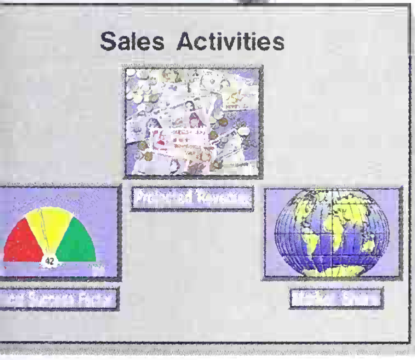
alysts… plus object-oriented and full-
nction programming environments for
plications developers.
The SAS System's **applications**
tegration strategy provides one seamless
ution for virtually any application that
volves accessing, managing, analyzing, or
esenting data. Choose integrated tools for
cision support, reporting, financial
alysis, market research, project
nagement, quality improvement,
d more. All backed by SAS Institute
., a vital force in the information


Parker Equipment & Services
U.S. Regional Territories

Southeast Sales Territory
Manager: Mr. J.S. Allen
Target Sales = $1.2 Million
Local Offices = 4
YTD Sales = $600,000

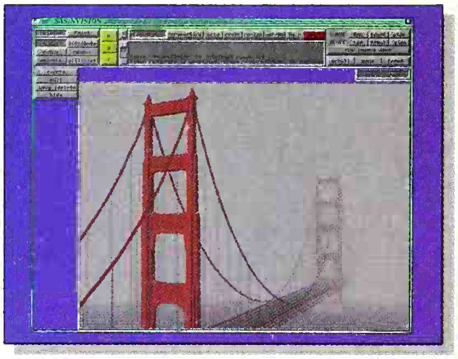
High
Medium
Low
Select Region to View Detail

Customer Management
Current Order
Customer Profile
Correspondence
Parker Equipment & Services


Sales Activities
Projected Revenue
42

industry with a strong commitment to helping you succeed—and an unrivaled dedication to training, documentation, technical support, and consulting services.

See for yourself how the SAS System of software brings out the best in your hardware and the people who use it. Just give us a call at **919-677-8200** for a free video, plus details about a free software evaluation.



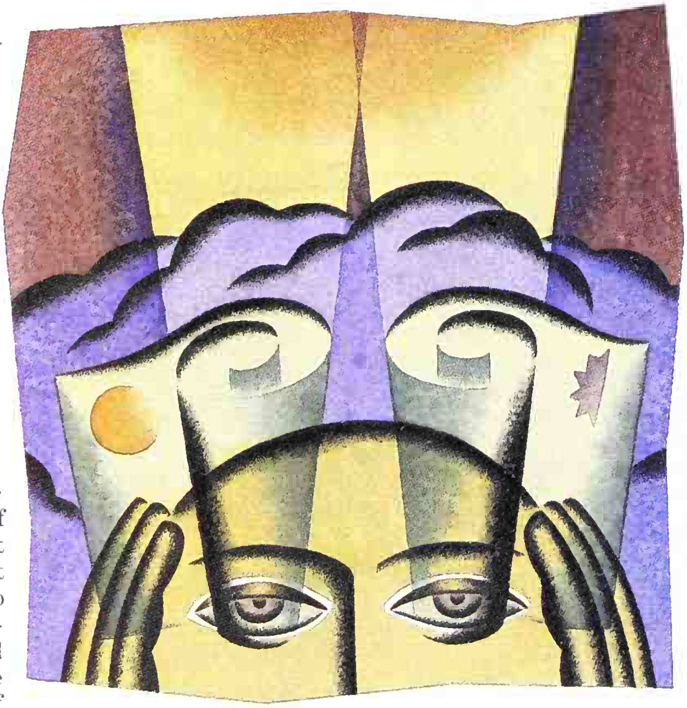
SAS Institute Inc.
Phone 919-677-8200
Fax 919-677-8123

SAS is a registered trademark of SAS Institute Inc.
Copyright © 1994 by SAS Institute Inc.

System
ormation Delivery

Sweet Yields Are Starting To Make Bonds Look Very Tempting

Treasury payouts are about 5 percentage points higher than the inflation rate



Now may be the time for bond investors who remained on the sidelines during the great bond crash of '94 to start creeping back into the market.

Many economists and fixed-income experts offer this advice, even though they expect the Federal Reserve to push short-term rates up by as much as 200 basis points or more by mid-1995.

So why even think about bonds if interest rates are headed still higher? The simple answer is yields. Yields on 2-to-10-year Treasuries are currently about five percentage points higher than the rate of inflation, now running at about 2.7% annually. That means that even if short-term rates keep rising, further eroding principal, investors in short- and intermediate-term fixed-income securities will be better off than if they had stayed in money-market funds yielding an average of 4.74%. "1995 will be the year of the coupon," declares Ian A. MacKinnon, fixed-income chief at Vanguard Group.

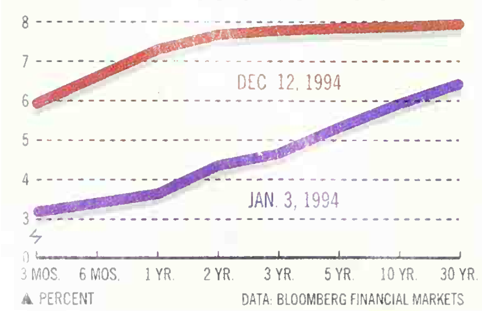
A PEAK? Fixed-income specialists, though, caution investors against trying to outguess the market by plunging back in when they think rates have peaked. The better strategy, they say, is to seek a good average yield by adding to portfolios every month over the next year or so. Many strategists think two-year Treasury notes, or fixed-income funds with a similar duration, are a good bet. They yield just 17 basis points less than five-year notes and are less likely to be whipsawed as rates rise. In fact, some experts, pointing out that further hikes in short-term rates could dampen inflationary expectations and drive down long-term rates, suggest using the averaging technique to create a "barbell" portfolio, consisting of 2- or 3-year securities on the one end and 10-year securities on the other. That way, investors can position themselves for capital gains when and if long-term rates fall without exposing their entire longer-term portfolio to principal erosion should the opposite happen. "Late this year or early next year is the time to start nibbling away," says Leslie J. Nanberg, head of fixed income at Massachusetts Financial Services (MFS).

While most economists agree that short rates will rise, they are divided on how much the Fed will have to tighten to keep inflation in the desired 2.5%-to-3% range. In one camp are those such as Paul Mastroddi, economist at J. P. Morgan & Co. who believe that the continuing vitality of the U. S. economy hasn't yet been reflected in the inflation numbers. Moreover, he predicts that U. S. exports, which have been growing at a 10% sustained annual pace, will surge when the European and Japanese economies begin to hit on all cylinders. That will press already strained U. S. industrial capacity and prompt the central bank to push Fed funds as high as 8%. "The economy's still galloping forward," he says. Mastroddi thinks the long bond will top out at 8.5% by midyear and decline to 7.5% in 1996. In 1995, he says, a higher-than-expected Fed funds rate could produce an inverted yield curve for the first time since 1989. Robert T. McGee, chief economist at Tokai Bank, concurs with Mastroddi on short-term rates but says: "We'll probably see a 9% long bond before it's over." Accordingly, he'd wait until the 30-year Treasury hits 8.5% before buying longer-term issues.

In the other camp is Allen L. Sinai, chief global economist at Lehman Brothers Inc., who thinks that impressive productivity gains, the Fed's aggressiveness, and declines in federal spending should offset the inflationary effects of an export boom. He expects Fed funds to hit 6.25% by April, and for the 30-year Treasury bond to reach 8% to 8.25% in the first quarter and fall to 7.5% or lower later in the year.

After 2- and 10-year Treasuries, some think that longer-term municipals are very attractive—the fiasco in Orange County, Calif., notwithstanding (page 140). Margaret D. Patel, portfolio manager at the Advantage funds, favors Ginnie Maes, which are yielding one point more than 10-year Treasuries

THE YIELD CURVE'S BIG SHIFT



DATA: BLOOMBERG FINANCIAL MARKETS

just half the volatility, she says.
phisticated investors prepared to
me homework should consider col-
alized mortgage obligations (CMOs),
h are trading at bargain prices. Ac-
ing to Michael R. Marceda, vice-
dent at Halpert & Co., a Milburn
.) bond firm, the plain vanilla CMOs
beaten up along with the more ex-
ones in the spring 1994 bloodbath.
"cleaner, stable-type bonds that
fluctuate widely are trading at un-
l-of levels," he says.
gh-yield bonds are still a good buy
pared with investment-grade issues,
gh spreads between junk and Treas-
s have narrowed in the last few
ths, says Kingman D. Penniman,
of high-yield research at Duff &
ps Corp. Experts generally advise
iduals against buying single issues.
Bradley C. Tank, portfolio manager
rong Funds, likes Viacom Inc. and
thtrust Inc., which has agreed to
quired by Columbia/HCA Health-
Corp. Both are candidates for up-
es, he says.
GES. Some see pockets of opportu-
next year in the international bond
kets. But experts say that because
J. S. dollar is expected to strength-
nvestors should stick to funds that
edged against that possibility. Bra-
onds, especially the Mexican varie-
ok promising, because many expect
ico will soon be blessed with an in-
ment-grade rating. And Margaret
raddock, vice-president at Scudder,
ens & Clark Inc., likes Australian
New Zealand issues and thinks a one-notch upgrade is in the cards for both.

Now may also be a good time for long-term investors to consider 10-year zero-coupon Treasury bonds, which can be bought for about $460 per $1,000 face value, resulting in a yield of nearly 8%. Because zeros tend to be volatile and are taxable even though no income is received until maturity, they're best for investors
o want to put them away [in a tax-
npt retirement account] and forget
ays MFS's Nanberg.
ontemplating these alluring oppor-
ies for 1995 may help investors for-
he bond massacre of 1994.

y Phillip L. Zweig in New York

CTION

BELLS'
te a
nced
folio of
or
e-year
s and
ear
es

Looking For *more* From A Money Market Fund? *Check out* Kemper.

☐ *Yield potential.* Only Kemper consistently ranked in the top 15% of all general money funds– 17 of the 19 years since our inception.*

☐ *A high degree of security.* No speculative high risk derivatives: Kemper puts safety before yield.

☐ *Convenience.* Kemper offers free checking; direct deposit; an 800# for yield and balance, and more.

☐ *Tell me more.* Call a friendly Kemper Money Fund Specialist and check it out. Ask for a prospectus containing more complete information including management fees and expenses. Read it carefully before you invest or send money.

Call **1-800-537-6001, Ext. 55** Today For Your *free* Kemper Money Market Fact Kit.

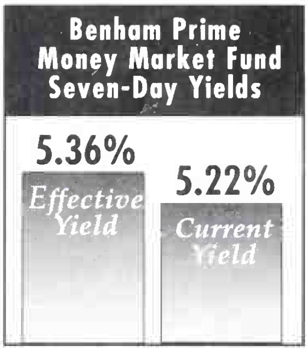
Kemper MUTUAL FUNDS We're Building Tomorrows Today℠

The Fund is neither insured nor guaranteed by the U.S. Government. There's no assurance that the Fund can maintain a $1.00 share value. Yields will fluctuate.
*Kemper Money Market Portfolio ranking is based on annual total returns with dividends reinvested for calendar years 1975-1993. Number of funds ranged from 10 to 228. **YTD ranking as of 9/30/94: top 10% of 253 funds.** Source: Lipper Analytical Services, Inc. Past performance does not represent future results. ©1994 Kemper Financial Services, Inc.
233111

One of America's top money market funds...

High Current Yields. No Risky Derivatives.

Benham Prime Money Market Fund has consistently ranked among the highest-yielding money market funds in America—without investing in risky derivatives. We're committed to maintaining the high degree of safety that is so important in a money market investment.



Call 1-800-331-8331

The Benham Group®
True no-load mutual funds

You will receive a prospectus describing management fees and expenses to read carefully before you invest. As of 11/1/94, the Fund ranked #2 of 468 general taxable money market funds based on its 7-day current yield (source: IBC/Donoghue's Money Fund Report®, a service of IBC/Donoghue, Inc.). Yields will vary and do not guarantee future results. We are temporarily waiving expenses; otherwise, the Fund's effective and current yields would have been 4.83% and 4.72%, respectively, and its ranking might have been lower. An investment in the Fund is neither insured nor guaranteed by the U.S. government, and a $1.00 share price is not guaranteed. Benham Distributors, Inc.
M4BWD

Time to Sift Through the Muni Wreckage?

Investors can find good values if they're willing to ride out the market swings

It was bad enough being a municipal-bond investor during the first 11 months of 1994. With the Federal Reserve pushing up interest rates six separate times, munis were hammered: The *Bond Buyer* muni index dropped from 104.1 on Jan. 1 to 82.9 on Nov. 30. But on Dec. 1, when Orange County, Calif., disclosed that it had lost $1.5 billion in its investment fund, the earlier part of the year started looking like a walk in the park.

Trading dried up, and bids on many muni bonds dropped like stones with every bit of news out of California. The state's bond and bond-fund prices were hit particularly hard as Orange County filed for bankruptcy. On the county's own bonds, bids dropped as low as 30¢ on the dollar, although virtually none traded. The mess, says James A. Lebenthal, chairman of the brokerage Lebenthal & Co., "leaves investors with one more hit on the head, sock in the jaw, knee in the groin."

With the pounding munis have taken, is it time yet to venture into the battered market? For long-term investors, absolutely, say a chorus of experts. Muni bonds are trading at yields unusually close to those on Treasury bonds, so aftertax yields for many long-term muni buyers are roughly one-third higher. Bond prices will also be bolstered by a decline in the number of issues coming to market in 1995 and redemptions of many of the bonds that are now outstanding.

FEW NEW BONDS. That's not to say there won't be some bumps in the road. Orange County itself must deal with investor lawsuits, questions about the legality of its bankruptcy filing, and payments to school districts and other investors in the county's investment fund. As these issues get resolved, the market may face further waves of fear and uncertainty.

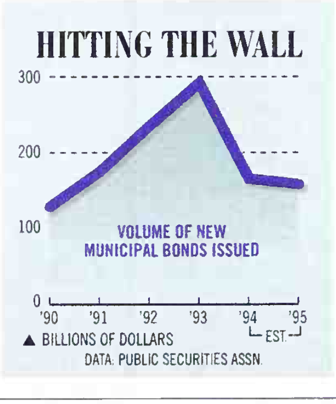
Worse, Orange County may not be the last major muni debacle. Thanks to the repeated rate hikes this past year, muni issuers in California, Texas, Maryland, and Ohio have disclosed losses of millions of dollars on investments. But for careful investors who are prepared to keep their money in the market and ride out short-term upsets, the potential rewards are great.

One reason for optimism: a dearth of new bonds. After record muni issuance in 1992 and 1993, volume has dropped and will reach just $157.5 billion in 1995, according to the Public Securities Assn. (chart). And redemptions of outstanding bonds are expected to reach $191 billion, outstripping the new issues, the association says. Upshot: The supply of outstanding muni bonds should drop. As munis become more scarce, their value will ris

Also helping the outlook is that mu
have been hit harder than taxable bon
in recent months. Yields on AAA-rate
20-year general-obligation bonds are n
84% of yields on comparable Treasu
bonds. Usually, that percentage gap
less than 80%. To reach that point, bo
prices would have to rise marked

INSURANCE POLICY. To find t
best values, many experts recom
mend longer-term bonds for i
vestors with the flexibility to w
out market swings. The pick
in yield on long-term munis
6.6% for a 20-year, AAA gene
al-obligation bond, vs. 5.4% f
a five-year bond—provides ge
erous compensation for t
added potential price volat
ity. For investors with sho
er time horizons, interme
ate-term bonds make mo
sense than short-term one
James Cooner, senior vic
president at Bank of New Yo
Co., points out that their yiel
are substantially higher th
those on very short-term mun
Currently, a one-year, AAA gene
al-obligation bond is yielding ju
under 4.5%.

It's also advisable to stick to hig
quality munis. Thomas C. Spalding Jr.
vice-president at John Nuveen & C
who manages $30 billion in tax-exem
bond funds, says the large number
high-yield muni funds chasing lowe
quality bonds has pushed up prices
those securities, leavi
higher-quality bonds re
atively cheap. Insure
bonds are a particular
good idea. While insure
AAA-rated bonds yie
less than bonds wit
lower ratings, they ar
nonetheless trading
yields slightly highe
than uninsured or "nat
ral" AAA bonds. Spal
ing says he would like t
move his funds' cash p
sition to as low as 1%



HITTING THE WALL

▲ BILLIONS OF DOLLARS

DATA: PUBLIC SECURITIES ASSN.

end of next year, down from as much %, adding to his holdings of long- n insured bonds. "If we can find ds we like and get them insured, we ık it makes all the sense in the ld," he says.

's a good idea to get into the market ore January, according to Hugh R. ıle, executive vice-president of M. D. s Investors Services Inc. A huge ıber of muni bonds will be maturing paying coupons in the first weeks 995, and that will leave many muni stors looking to reinvest—and push- prices up.

iversifying investments, even across e lines, is critical. Investors in high- states such as California and New k often tend to stick to bonds issued heir own states in order to avoid ing state taxes on their investment.

CTION

I MAZE
ent
stors
ıld
heir
ts on
-term,
-quality
ds

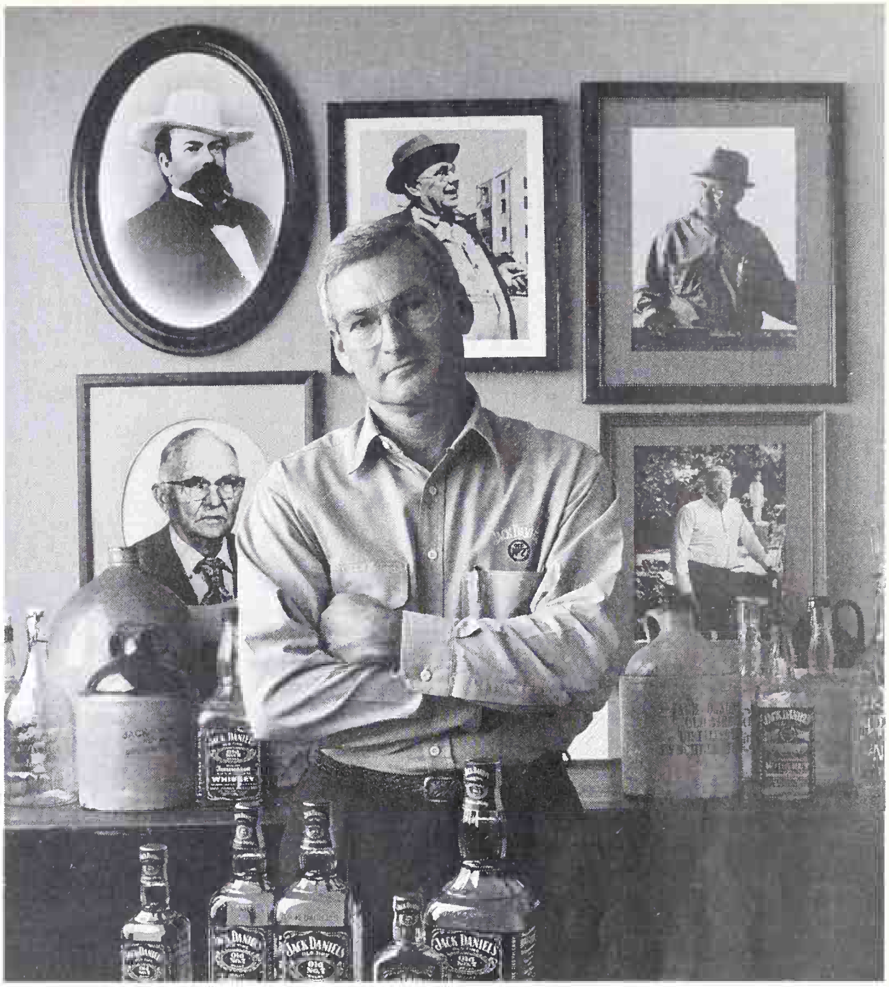
But the lower risk provided by diversification—particularly in the wake of the Orange County fiasco—may be worth the sacrifice of a few percentage points of state tax.

HEADACHES. Many bonds trading at a discount to their face value should be avoided, analysts say. An obscure provision in the tax-reform legislation of 1993 makes gains on some discount bonds taxable as ordinary income, le for other bonds these gains and es are taxable as capital gains—a er rate, if the new Congress has its . The difference in taxes is general- mall, but the potential for headaches n deciphering the appropriate tax tment is scaring away investors and ling prices down.

ven apart from Orange County's s, negative crosscurrents will contin- o buffet the muni market. Tops on list is the overall outlook for inter- rates, which could continue to rise ough much of 1995 before heading n. Potential tax cuts are another factor: Numerous newly elected ernors have pledged to reduce state es, and if they are successful, that ld reduce investors' appetite for tax- bonds.

or hardy souls, though, the time is . Despite the volatility, brave inves- who venture into munis today— wait out any big swings in the mar- —stand to reap munificent rewards.

y Kelley Holland in New York



Clockwise from top left, that's Jack Daniel, Jess Motlow, Lem Tolley, Frank Bobo and Jess Gamble. (Jimmy's in the middle).

JACK DANIEL'S HEAD DISTILLER, Jimmy Bedford, has lots of folks looking over his shoulder.

Since 1866, we've had only six head distillers. (Every one a Tennessee boy, starting with Mr. Jack Daniel himself.) Like those before him, Jimmy's mindful of our traditions, such as the oldtime way we smooth our whiskey through 10 feet of hard maple charcoal. He knows Jack Daniel's drinkers will judge him with every sip. So he's not about to change a thing. The five gentlemen on his wall surely must be pleased about that.

SMOOTH SIPPIN'
TENNESSEE WHISKEY

Tennessee Whiskey • 40-43% alcohol by volume (80-86 proof) • Distilled and Bottled by Jack Daniel Distillery, Lem Motlow, Proprietor, Route 1, Lynchburg (Pop 361), Tennessee 37352
Placed in the National Register of Historic Places by the United States Government.

JACK DANIEL'S
OLD TIME
Old No. 7
BRAND
Tennessee
SOUR MASH
WHISKEY
BOTTLED AT THE DISTILLERY

For Swingers Only, a Wild and Crazy Market

From coffee beans to zinc, the only sure thing will be volatility

Commodity investors are thankful for the little things: coffee beans, nuggets of copper, strands of cotton. Tiny markets dwarfed by Treasury bonds, Eurodollars, and other financial futures were the favorite playground of hot money in 1994. And in 1995, traders expect even wilder action, with plenty of volatility and trading opportunities.

While global trading giants were blowing fortunes in the choppy interest-rate and currency minefields, nimble investors venturing into grains, energy, industrial metals, and "soft" commodities such as sugar and cocoa were rewarded with big moves. A speculator holding long positions in coffee futures enjoyed a runup of more than 200% between January and July (chart). Aluminum and copper soared by better than half, and sugar and cotton posted double-digit gains. In agricultural markets, bumper crops and glutted slaughterhouses forced grain and meat prices down, bestowing manna on those who sold the market short in anticipation of such abundance.

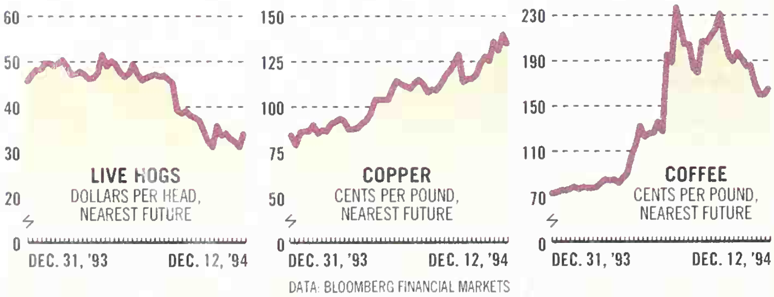
SWING SHIFT. Commodity markets have a newfound cachet. Their casino image has given way to unaccustomed praise: They're a useful asset class, with low correlation to other investments. They're an effective inflation hedge in a world of expanding economies. They're ideal fodder for financial engineers creating commodity-linked securities. As a short-term investment during an economic recovery, commodity markets have performed well. But as 1995 opens, one possible fly in the ointment may be a shift of capital from commodities to fixed income if bonds stage a rebound. If so, "investors won't have to chase fringe markets like commodities," cautions Union Bank of Switzerland analyst Andy Smith.

Even small capital shifts could lead to big price swings, since commodity markets have such low margins—the downpayments required to trade. Less than $150 million could control the entire open interest in coffee futures, which
amounts to $1.8 billion wo
of beans. If fund manag
sour on commodities, wa
for gyrating prices—and
quidity squeezes. Volatility
the one certainty for 1995,
clares University of Chica
Economist Merton Miller
Nobel laureate: "You will
even more volatility as peo
worry about whether t
economy will continue o
growth path." And each m
ket will respond to its own
culiar fundamentals, maki
broad predictions unreliab

EAR ACHES. Since investors l
a rally—and since chasing m
kets that have already soar
can be hazardous—analysts
vise keeping an eye on two th
ended 1994 in the dirt: corn a
live hogs. While U. S. farme
produced a record corn crop
10 billion bushels last yea
much of that grain was nee
ed to replenish supplies deple
ed by the flooding of 1993. W
modest carryover stocks, strong expo
demand from Asia, and a governme
set-aside program that will idle 7.5%
cropland, fundamentals favor high
prices. As always, weather remains t
biggest "if." And if a drought curses t
grain belt, the stage is set for sharp
higher prices: "We're optimistic. T
bulls will be betting on a crop problem
notes Richard J. Feltes, director of co
modity research at Refco Inc.

Hogs had it just
tough as corn in 199
with prices plungi
from 45¢ to 30¢ p
pound by late Nover
ber. A supply glut la
summer led to a gan
of "this little pigg
didn't go to market,"
producers held bac
hogs for slaughte
hoping for higher pri
es. With the bump
corn crop reducing t
cost of feed, th

THESE VOLATILE COMMODITIES MAY IGNITE



DATA: BLOOMBERG FINANCIAL MARKETS

ghter weight of hogs soared by as h as five pounds, contributing to ex- supply. But by December, producad started liquidating their squealherds. And demand was improving etail prices began to reflect the big in wholesale costs. The pork backvon't disappear right away, but pric hould firm by summer, predicts mas H. Morgan of Morgan Research ıp in Garnett, Kan. As market bulls · down on the hog market, he says, ere's going to be a nice play in here."

he same could be true for some of 's top performers: copper, alumi- , nickel, and zinc. But the opportu- es might be on the downside, as in- trial metal markets run out of .m. With the U.S. economy rolling g, Europe strengthening, Japan stabilizing, and even the Third World making progress, demand is strong for housing, cars, and other durable goods. At the same time, low prices during the past decade have led to mine closings, reducing production capacity worldwide. The fundamentals look bullish.

CTION

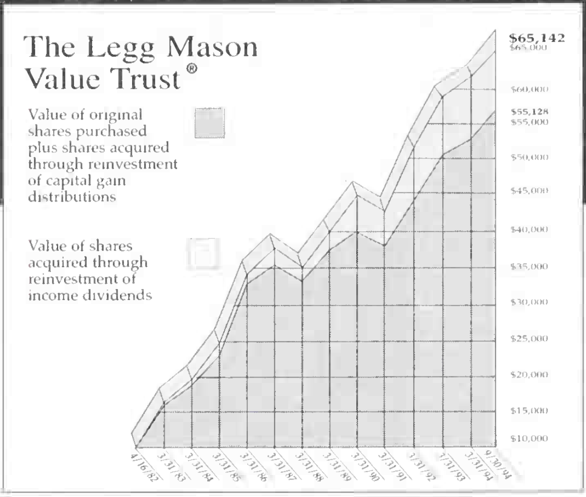
WILD
stors
ld
ch two
kets that
ed '94
a thud:
and
s

Yet some traders believe the rally has grown a long gray beard. Prices already take into account the growth ected in 1995. "I don't think you can tinue to go at this rate," notes Wil- n E. Byers, director of futures re- rch at Bear, Stearns & Co. Sensing a nerable market, he recommends a ck exit from long positions at the t sign of bearish news in 1995.

oft commodities that soared in 1994 se similar concerns, with weather king the mix even less predictable. 3razil, a drought boosted coffee pric- while a freeze gave new life to or- e juice futures. Strong demand, espe- ly from China, lent support to sugar cotton. And cocoa rallied modestly d tight supplies. Beaten down for rs, these markets had room to run. e economic cycle has now become re favorable," explains William B. eill, senior futures strategist at Mer- Lynch & Co. But softs could turn uptly downward at the shift of a cold nt, turning them into risky plays in 5.

A better bet might be a bigger mar- sector: energy. Crude-oil prices rose fell within a narrow trading range in

If You Had Invested *$10,000* at the inception
of our Legg Mason Value Trust,
it would now be worth *$65,142.*



Average Annual Returns

ONE YEAR	FIVE YEAR	TEN YEAR	LIFE OF FUND
7.83%	6.09%	11.86%	16.23%
9/30/93–9/30/94	9/30/89–9/30/94	9/30/84–9/30/94	4/16/82–9/30/94

For thousands of investors, the *Legg Mason Value Trust* fund has provided a sensible way to take advantage of uncommon values in common stocks over the last twelve years. **If you had invested $10,000 on April 16, 1982, and reinvested dividends and capital gain distributions, your investment would have grown to $65,142 as of September 30, 1994.** There is no sales charge on purchases or redemptions of Trust shares. The Trust pays asset-based distribution and management fees and other expenses. The adviser absorbed a portion of Fund expenses during fiscal years 1983 and 1984. If you would like to know more about the Value Trust, call

1-800-577-8589

for a free prospectus containing more complete information, including charges and expenses. Please read it carefully before investing or sending money.

The investment return and principal value of an investment in the fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The returns shown are based on historical results and are not intended to indicate future performance. Calculations assume reinvestment of dividends and capital gain distributions, and are not adjusted for income taxes payable on those amounts by taxable accounts.

LEGG MASON
Funds

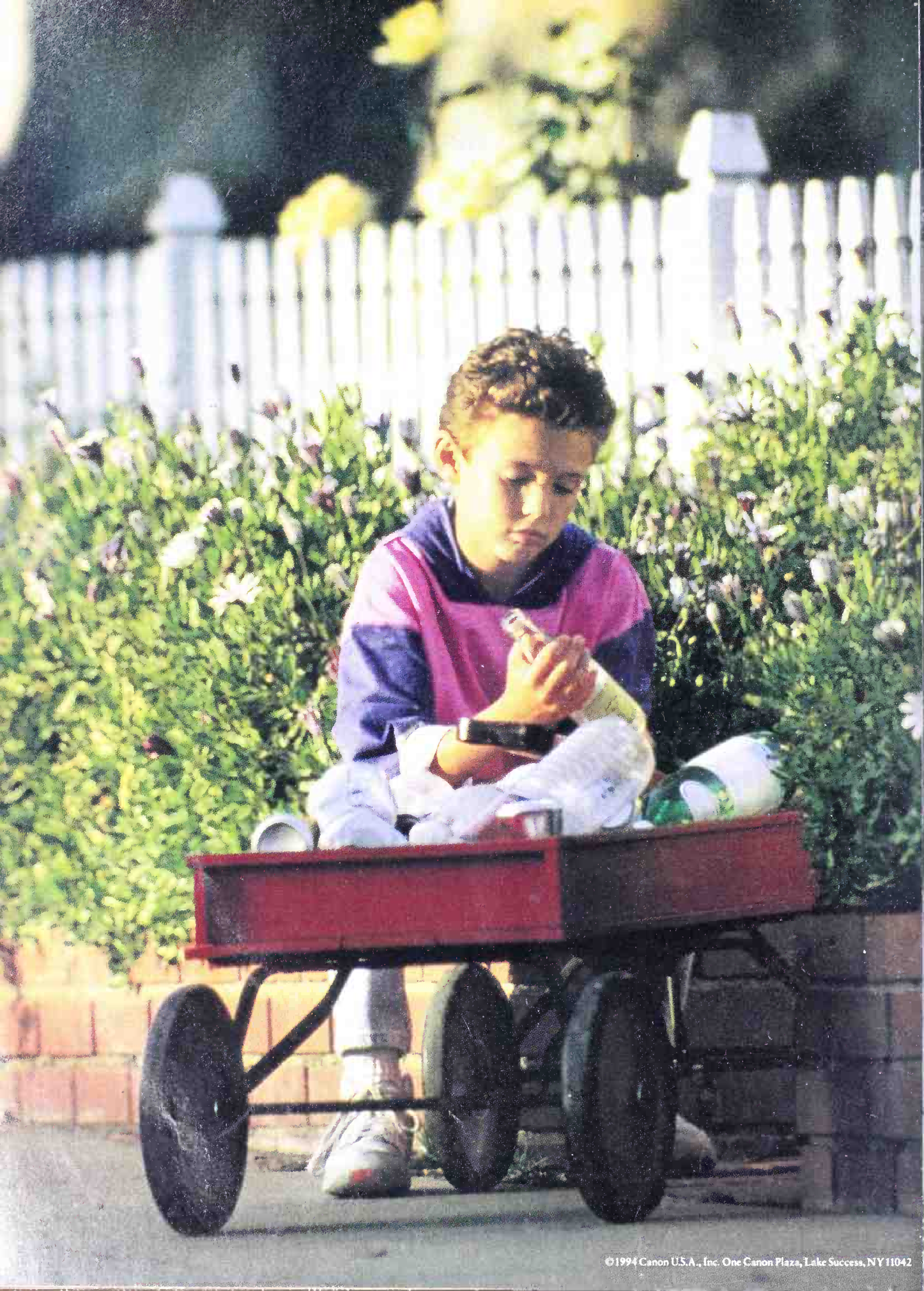
LEGG MASON WOOD WALKER, INC.
An Investment Tradition Since 1899 • Member NYSE • Member SIPC

The Time Has Come...

...to send for the latest copy of the free Consumer Information Catalog. It lists more than 200 free or low-cost government publications on topics like money, food, jobs, children, cars, health, and federal benefits. Send your name and address to:

Consumer Information Center
Department TH
Pueblo, Colorado 81009

A public service of the U.S. General Services Administration.



©1994 Canon U.S.A., Inc. One Canon Plaza, Lake Success, NY 11042

It means pulling together.

John Rooney collects baseball cards, comic books, you name it. But recently, ohn and his classmates pulled together o collect more old cans and bottles than ny other class in school. There's no prize or winning, yet John's class is committed o recycling as much as they can. Because ey know that together, they can help hange the world. For themselves. And or future generations.

At Canon we believe that such dreams an become a reality. That's why we have corporate commitment to global nvironmental concerns. A part of this ommitment is our worldwide cartridge recycling program, The Clean Earth Campaign. It has been designed to reduce overall landfill aste and preserve natural resources by ecycling cartridges from Canon Copiers, Facsimiles and Printers. As a part of this campaign, we've pledged one dollar for every cartridge returned to us, to help a variety of national environmental foundations.

The Clean
Earth Campaign

From the development of solar energy panels to cleaner manufacturing processes, we've placed a premium on environmentally correct programs throughout our business operations. The best evidence is the number of Canon products that reduce power consumption, earning the *Energy Star™ designation from the Environmental Protection Agency for energy efficiency. Because we know that caring for our planet is a responsibility we all need to take. Making the world a better place for all of us won't happen overnight. Unless we have a goal. Unless we pull together.

EPA POLLUTION PREVENTER

ocus on Your World

all 1-800-670-4321 to enter the United Nations Environment Programme (UNEP)
ternational Photographic Competition on the Environment 1994-1995.

The Energy Star emblem does not represent EPA endorsement of any product or service.

Canon

Fidelity Investment Challenge

LEADERS

Week#2 • Closing Values as of 12/8/94

Here are this weeks' leaders in the Fidelity Investment Challenge. On November 14, over 3,500 amateur investors began trading with a fictional $250,000 portfolio. Over the course of the next 3 months, they will buy, sell, or short sell any stock listed on the NYSE, AMEX, or OTC.

At the conclusion of the competition, February 10, 1995, the participant with the highest equity value will win a Eagle Vision TSi plus $2,000 in cash. Other participants will win cash, Fidelity OnLine Xpress℠ software and Market Master t-shirts for their performance.

THE TOP 30 AMATEUR INVESTORS

Rank	Investor	City, State	Equity Value
1	Eric Baird	New York, NY	$429,267
2	William Miller	Murfreesboro, TN	$350,505
3	Anatoly Raklyar	Brooklyn, NY	$349,355
4	Jamie Weiss	Portsmouth, NH	$347,804
5	Calvin Causey	Garland, TX	$332,616
6	Marvin Miller	Sugarcreek, OH	$329,791
7	Virgil Viets	Wethersfield, CT	$328,118
8	Gregory Spencer	Sarasota, FL	$323,285
9	Raymond Olsen Jr	Ocean Grove, NJ	$322,808
10	Ronald Cleveland	Memphis, TN	$318,889
11	Henry Sodke	Austin, TX	$318,162
12	Charles Lechialo	West Newton, MA	$314,106
13	Jay Plisco	Cold Spring Harbor, NY	$312,921
14	Michael Serezo	Augusta, GA	$305,530
15	King Look	Parsippany, NJ	$305,500
16	Benjamin Ridge	Ripley, MS	$300,810
17	Gregory Nelson	Santa Ana, CA	$300,435
18	Jim Corbett	Chicago, IL	$298,533
19	Alan Oenner	Orlando, FL	$297,980
20	Jerry Pahl	Oostburg, WI	$296,601
21	Chris Eklund	Waco, TX	$296,460
22	Ken Lewis	Southhampton, PA	$294,918
23	David Evansen	Boca Raton, FL	$294,524
24	Horatio Miller	Glenside, PA	$293,102
25	Michael Wishner	New York, NY	$292,010
26	Sheryl Benner	Taylor Ridge, IL	$291,251
27	Stan Sableski	Phoenix, AZ	$289,410
28	Kim Burst	Porter Corners, NY	$287,316
29	Harvey Bergholz	Chicago, IL	$286,651
30	Edward Zerdy	Trumbull, CT	$286,550

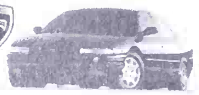
THE COMPETITION UP CLOSE

Average Portfolio Value	$242,326
Average Percentage Increase	-3.07%
Average Number of Trades Used	22
Portfolio Value of the 100th Ranked Account	$265,962

The Fidelity Investment Challenge is Sponsored By

Fidelity Investments

With Special Thanks To Eagle



The Fidelity Investment Challenge is produced & managed by

REPLICA

For information on upcoming Fidelity Challenges, call

1 800 545.8808 Ext. 57

'94. That roller coaster could get wilder in '95, says Smith, Barney Inc. analyst John L. Saucer, who expects a trading range of $18 to $22 for crude oil. OPEC will hold production steady, and Iraq won't resume oil shipments until the second half of '95 at the earliest, Saucer predicts. Meantime, robust economic activity has increased demand.

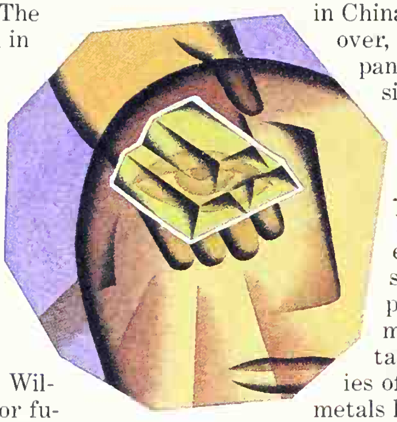
Another factor could send energy prices higher: a winter cold snap. Indee the rise and fall of that oft-consulted nc economic barometer—the barometer can affect many commodity markets t greater degree than broad economic fa tors such as inflation and growth. Wh the big moves of 1994 have set the sta for action, the star of the show in ' could well be Mother Nature.

By Greg Burns in Chica

GOLD

In Precious Metals, Precious Little to Cheer About

Gold bugs have had a tough go of it lately. For a time, the specter of stronger global economies and looming inflation suggested a return to glittery prices. Instead, it's the big chill. After flirting with $400 an ounce in September, gold prices slid back to $376 by mid-December. Precious-metals mutual funds also slumped. The funds got hammered in November, posting negative returns of 16% so far this year, according to Morningstar Inc.



Many investors appear to have thrown in the towel: "For the first three quarters, the psychology of the market was really quite positive," says William B. O'Neill, senior futures strategist at Merrill Lynch & Co. "But as we moved through the year, there was virtually no response to any events that might normally be considered constructive to the [gold] market," including extreme volatility among currencies and the near-collapse of the bond market.

The experts believe gold prices will linger in the same trading vicinity as in 1994, or even drift down some during the new year—especially if the Federal Reserve keeps inflation in check. "I think there's a chance we'll go lower before we go higher," says Bernard C. Savaiko, senior analyst at PaineWebber Inc., who believes the metal may drop as low as $340 an ounce.

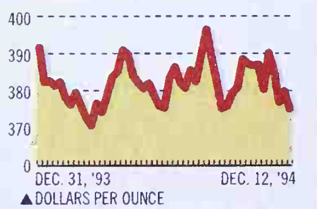
Those who remain more bullish pin their hopes on still-decent fundamentals. Central bank sales are unlikely to pose much of a threat in 1995. The World Gold Council reports continuing strong demand for gold jewelry in China and India. Moreover, as Europe and Japan come out of recession, the demand for gold there should also pick up.

Stronger growth overseas portends better news for other precious metals such as silver and platinum, which more than gold are tagged to the vagaries of industry. Both metals have been hurt by the bearish sentiment surrounding gold. Silver has been particularly volatile. Having reached $5.80 an ounce in May, it fell back to $4.70 more recently. Platinum is trading around $410, and will be aided by stricter emissions controls for 1996 model cars in Europe.

It will probably take some huge—and unforeseen—economic calamity to shake precious metals out of their current lethargy. In the absence of such a spark, the best that bullionaires can hope for is a year of steady, albeit modest, progress.

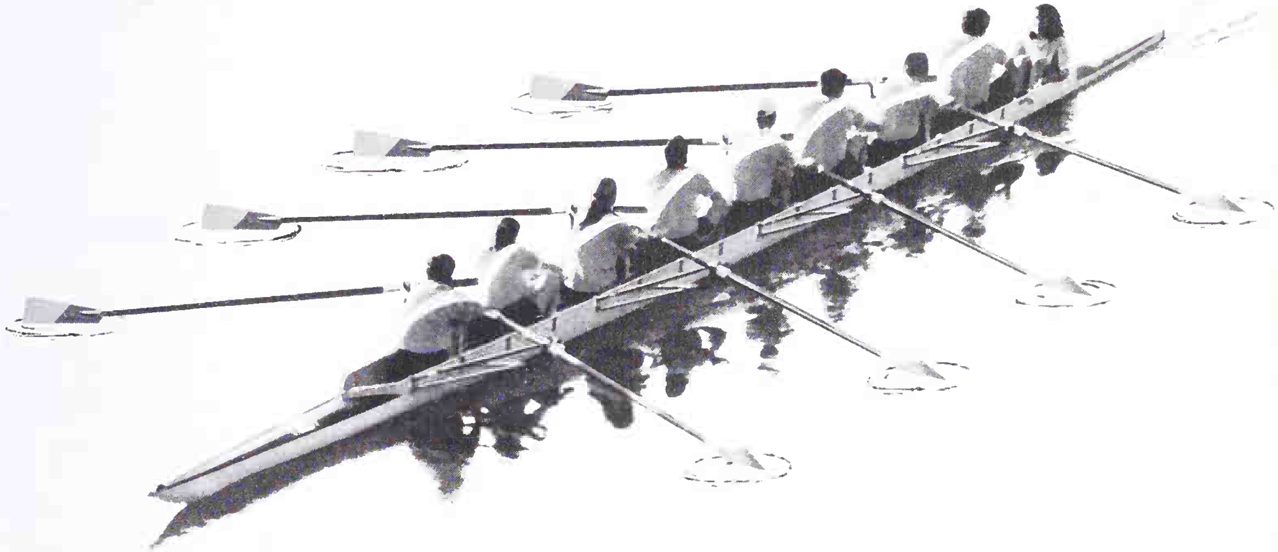
By Edward C. Baig in New York

GOLD GOES NOWHERE



▲DOLLARS PER OUNCE

DATA: BLOOMBERG FINANCIAL MARKETS



The Result of Pulling Together.

When your job is on the line every day, it's critical to see a team of experienced hands working together. Pulling for you. Helping you get ahead.

S&P's ability to swing into action comes from long practice, analytical skill and proven teamwork.

This team approach gives you easy access to our credit ratings, our rationales, and direct contact with our analysts. Their experience and willingness to share in-depth knowledge can help you set the pace when it comes to today's complex investment strategies.

You'll see a difference with S&P pulling for you. We really put our backs into it.

Standard & Poor's

A division of McGraw-Hill, Inc.

Corporate Finance 212 208-8931

Financial Institutions 212 208-1836

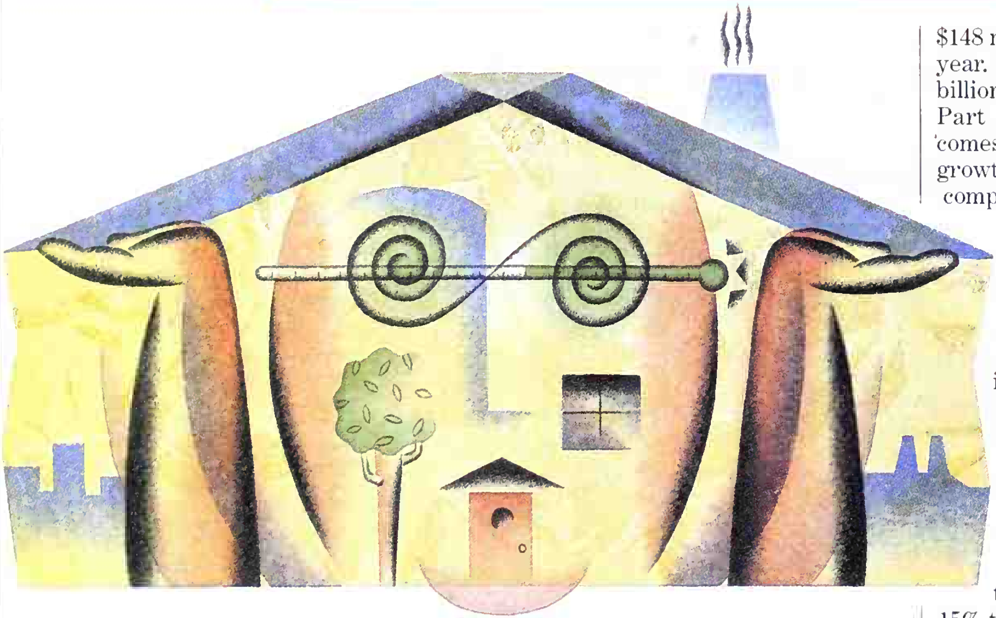
Insurance Rating Services 212 208-1367

International Finance 212 208-1912

Public Finance 212 208-1723

Publishing Services 212 208-1146

Structured Finance 212 208-1399



Guess What Industry Is Building Momentum?

Real estate is set to outperform stocks and bonds in '95

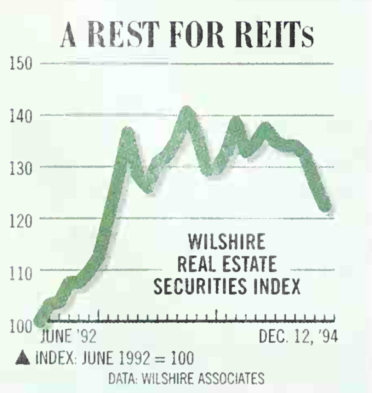
After years of vowing to "stay alive till '95," real estate firms—and investors—are welcoming the New Year with a big sigh of relief. Rising interest rates killed off some of the industry's momentum in 1994's second half, but yearend results were better than expected, with improvement in just about every real estate market in the U. S. No one in the industry expects a return to the frenzied activity of the 1980s, but 1995 should bring slow, steady growth.

That prospect is drawing investors back to the commercial real estate scene. Part of the allure comes courtesy of reduced growth prospects in other investment alternatives. "Real estate is set to outperform stocks and bonds for the remainder of the decade," with possible double-digit returns in 1995, according to a recent report by Equitable Real Estate Investment Management Inc.

Direct investment in real estate is on a strong upswing. John Stanfill, president of investment properties for Los Angeles-based CB Commercial Real Estate Group, notes that the dollar amount of investment transactions done by his firm will be up around 35% by yearend—more because of an increase in values than in volume. As an example of investor interest, Stanfill cites his firm's recent sale of a portfolio of apartment units in Arizona. The seller had been nervous about whether anyone would bid, he says, but there were 161 offers.

SKITTISH. Direct investment in commercial real estate may be better left to pros, however. Individuals can buy into real estate through the 127 publicly traded real estate investment trusts. But REITS had a turbulent 1994. For the year ending Nov. 30, the total return of equity on REITS was down 4.01%, compared with a 1.08% increase in the Standard & Poor's 500-stock index.

A skittish stock market and a supply hangover from an earlier wave of REIT issues caused the volume of initial public offerings to shrink to $148 million in the last few months of th year. By contrast, REIT IPOs raised $6. billion in the first eight months of 199 Part of the explanation for the fallo comes from expectations that earning growth will prove harder to come by a competition for properties heats up an rising interest rates make financin more costly. Higher profits now depend more on a management' ability to produce internal growt



A REST FOR REITs

▲ INDEX: JUNE 1992 = 100
DATA: WILSHIRE ASSOCIATES

STABILITY. The dwindling suppl of new REITs may help prop up existing issues. And any further downturn in REIT values may provid buying opportunities, says Jon Fosheim of Newport Beach (Calif.) based Green Street Advisors, firm that evaluates REITs for institutional clients. Fosheim says REITs are trading at about an 8% discoun to their net asset valuations, vs. 15% to 20% premium 14 months ago.

Health-care and mall REITs may be th biggest bargains, says Fosheim. He like Nationwide Health Properties Inc., a under 34, and Health Care Property Investors Inc. at under 28. In malls, Fosheim favors the DeBartolo Realty Corp The REIT is trading at a discount of 20 to net asset value and has a dividend yield close to 9%. It also, he says, has a lot of old leases coming due, so internal growth can be beefed up through rent increases. Fred Carr of Boston-based Penobscot Group, which researches REITs for institutions, is also a fan of mall REITs. "The public market doesn't appreciate that these are extraordinarily stable companies," he says. Carr thinks Glimcher Realty Trust, an owner of regional malls and shopping centers in the West and Midwest, is a still-undiscovered stock.

ACTION

BARGAINS
Mall and health-car REITs look like good values

Another way to play real estate is to buy a real estate mutual fund. Most of the funds invest heavily in REITs. The nine real estate funds that have at least a one-year track record are down an average 10.7% as of Dec. 9. The top-performing fund, Cohen & Steers Realty Shares, was down 1.65%.

Rising rates make it harder for real estate to recover. But with the industry no longer on the brink of disaster, mere survival may be reason enough for real estate mavens to toast the new year.

By Suzanne Woolley in New York

AMERICA'S UMBRELLA®

We all share the same goals in business and in life. Security… protection…trust. What every man, woman and child seeks from birth. What we at The Travelers have been dedicated to providing for 130 years.

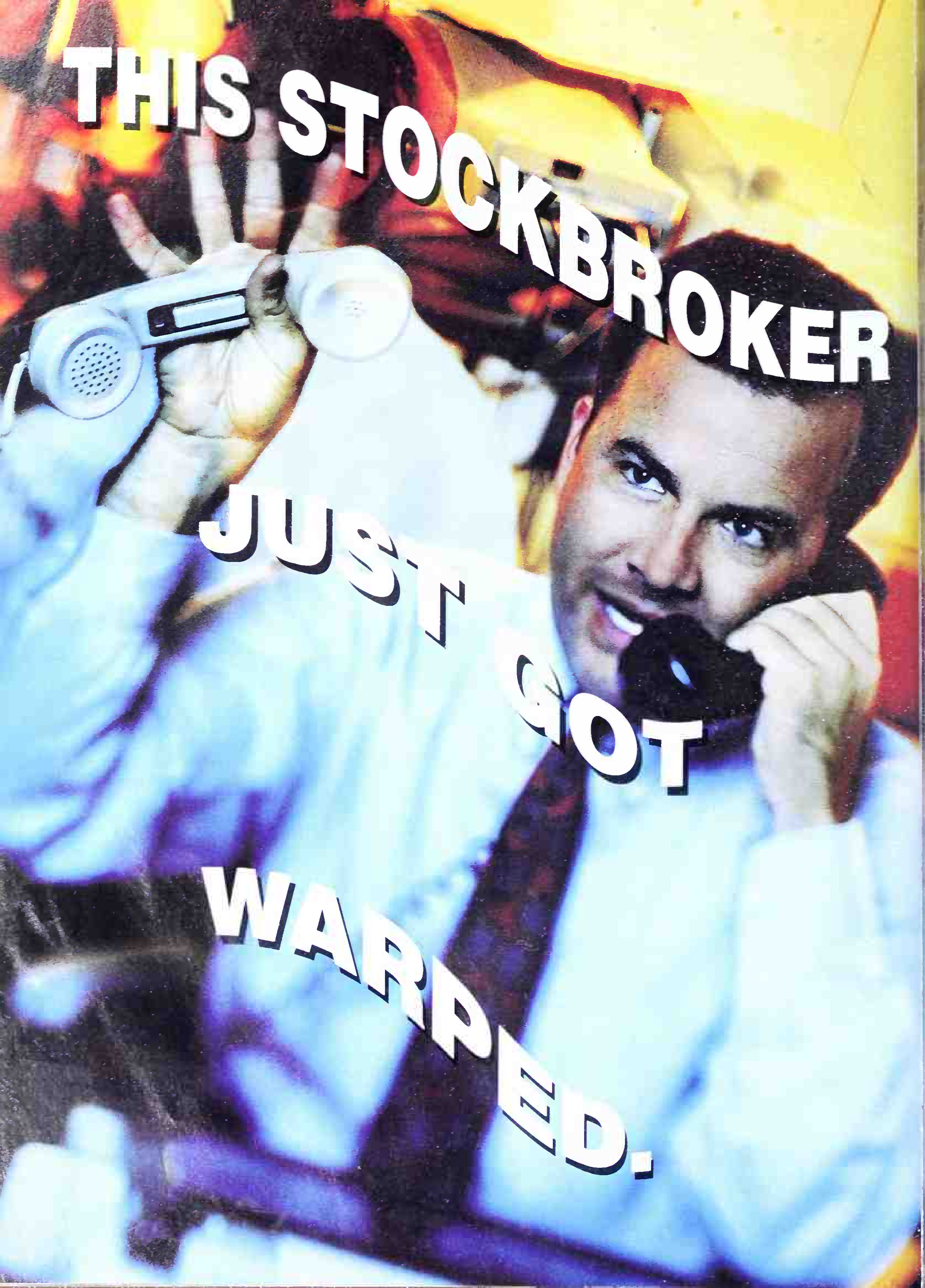
Whether it's through the personal care of one of America's largest health care networks, or the innovation of a property casualty program that has helped save American business over $300 million; or through a pension and retirement plan that is safeguarding the dreams of 10 million workers, retirees and their families, we make a difference in people's lives.

Even with 50% of the Fortune 500® as our customers, we know that business is still personal.

A difference backed by billions of dollars in assets and the knowledge that every customer under America's umbrella is our most important one.

1994 The Travelers Insurance Company and its Affiliates, Hartford, CT 06183.

TravelersInsurance
A Member of *TravelersGroup*


THIS STOCKBROKER
JUST GOT
WARPED.

IBM
New!
BonusPak
OS/2 Warp

HE'LL DO ANYTHING TO AVOID A CRASH.

On a typical day, stockbroker Bret Williams makes his personal

outer do some very atypical things.

He imports live market data off the ticker e same time that he's reading the stock on-line, e same that his puter is firing off e-mail to a client, at the same time that it's faxing his lunch r (pizza, usually).

He runs his PC without fear of crashing. ny one of his applications ever goes down, ything else stays up.)

And he gets more out of the software he knows and uses, like Windows™ and DOS.

Bret has OS/2 Warp, the operating system that offers true multitasking, Crash Protection,™ Internet-access – not to mention a BonusPak filled with productivity applications.

The price is also less than you ever thought possible: under $90. Of course, you're welcome to do your own risk assessment.

OS/2 Warp is available now. (For stockbrokers and anyone else looking for a great investment.) To get warped, stop by your local software dealer, or call 1 800 3 IBM-OS2. Ask for a free demo disk.

new 32-bit, multitasking, multimedia, Internet-accessed, crash-protected, Windows-friendly, totally cool way to run your computer. OS/2® WARP

IBM

/arp is available from your software dealer. It is also available from IBM for $89 by calling 1 800 3 IBM-OS2.
rices may vary. OS/2 Warp consists of OS/2 Version 3 and BonusPak. IBM, Operating System/2 and OS/2 are registered trademarks of the
onal Business Machines Corporation. Crash Protection and the OS/2 logo are trademarks of IBM. Windows is a trademark of Microsoft Corporation.
BM Corp.

The Connoisseur Comes to the Fore

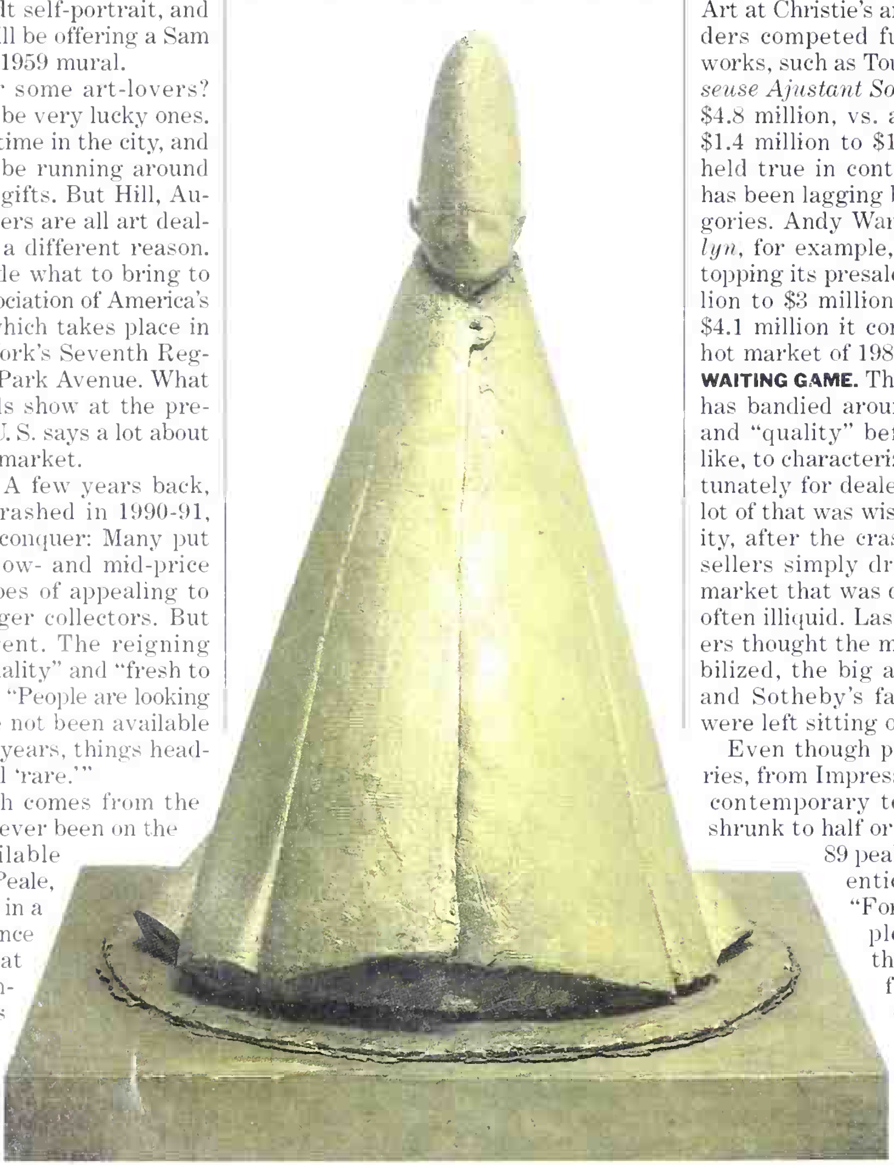
Although the market is still troubled, an expert eye and quick reflexes can land prizes

James Berry Hill plans to bring a Childe Hassam flag painting that has dropped out of sight for years. Jeffrey C. Loria has been saving a gold-on-bronze cardinal by Giacomo Manzu for the occasion. Richard York will be offering an 1827 James Peale still life. Roland Augustine, meanwhile, will have a choice landscape by Gerhard Richter, Richard Solomon will bring a rare 1639 Rembrandt self-portrait, and Manny Silverman will be offering a Sam Francis study for a 1959 mural.

Holiday gifts for some art-lovers? They would have to be very lucky ones. True, it's Christmastime in the city, and everyone seems to be running around searching for novel gifts. But Hill, Augustine, and the others are all art dealers, scrambling for a different reason. They've got to decide what to bring to the Art Dealers Association of America's annual Art Show, which takes place in February at New York's Seventh Regimental Armory on Park Avenue. What they and their rivals show at the premier art fair in the U. S. says a lot about the state of the art market.

COBWEBS AND ALL. A few years back, after the market crashed in 1990-91, dealers stooped to conquer: Many put forward plenty of low- and mid-price works of art in hopes of appealing to new, perhaps younger collectors. But 1995 will be different. The reigning themes are "high quality" and "fresh to market." Says Loria: "People are looking for things that have not been available for 20, 30, 40, or 50 years, things heading toward the word 'rare.'"

His Manzu, which comes from the artist's family, has never been on the market and is available for $325,000. York's Peale, meanwhile, has been in a museum collection since 1847 and is tagged at $150,000. The Rembrandt etching is considered to be the artist's most important self-portrait; it carries a $350,000 price tag. The $2 million Hassam, one in a series of about 30 flag paintings, comes from a collection so private that many experts didn't know what had happened to the work, which uniquely combines a background done in Impressionistic style with realistic Ashcan-school characteristics in the foreground. As for the Francis, graced the collection of the artist, wh died this past fall (asking price: $75,000 The important Richter also came direc ly from the artist and is available fc $485,000—if the museum that's consider ing its purchase doesn't move first.



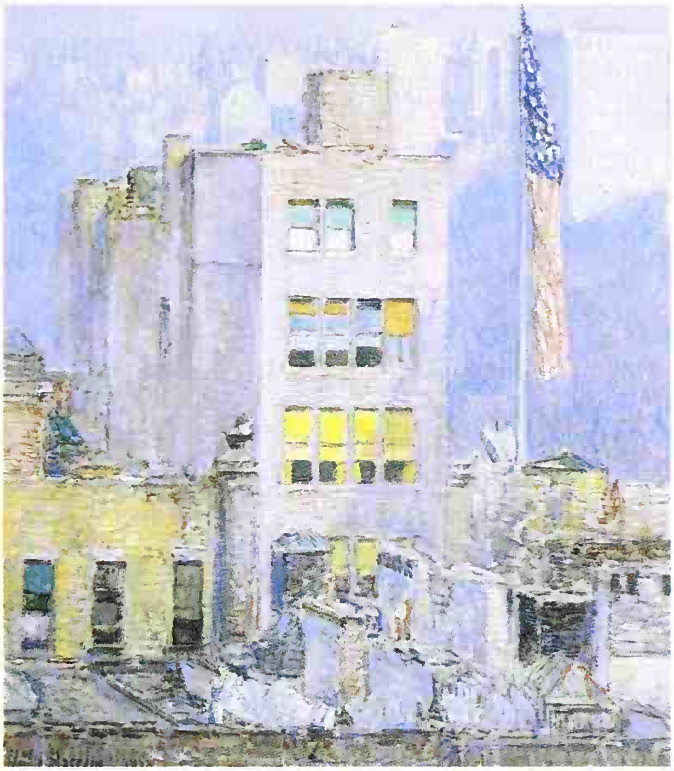
ALL ROADS LEAD TO GOTHAM: AMONG THE PIECES BOUND FOR THE NEW YORK ART SHOW IS MANZU'S GOLD CARDINAL

Those motifs—quality and freshness—dominated this fall's New Yor auctions of Impressionist and Moder Art at Christie's and Sotheby's, too. Bic ders competed furiously for the bes works, such as Toulouse-Lautrec's *Danseuse Ajustant Son Maillot*. It went fo $4.8 million, vs. a presale estimate c $1.4 million to $1.8 million. The sam held true in contemporary art, whic has been lagging behind other art categories. Andy Warhol's *Shot Red Marilyn*, for example, fetched $3.6 millior topping its presale estimate of $2.5 million to $3 million (and just below th $4.1 million it commanded in the red hot market of 1989).

WAITING GAME. The art world, of course has bandied around the words "fresh and "quality" before, almost mantra like, to characterize the market. Unfortunately for dealers and auctioneers, lot of that was wishful thinking. In reality, after the crash, many buyers an sellers simply dropped out, leaving market that was decidedly thinner an often illiquid. Last May, just when sellers thought the market had finally sta bilized, the big auctions at Christie' and Sotheby's faltered: Many work were left sitting on the block.

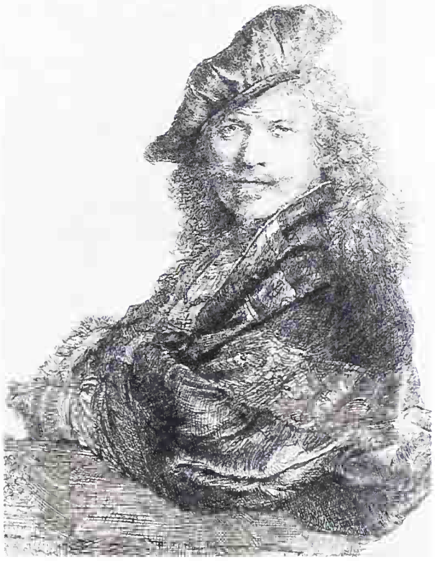
Even though prices in most categories, from Impressionist and Modern t contemporary to American art, ha shrunk to half or a third of their 1988 89 peaks, buyers couldn't b enticed into the market "For a long time now, people were waiting—fo things to get better o for everything t crash," explains Thea Westreich, an ar consultant. Confidence matters a lo in the art market Something ap

ars to have happened dur-
g the past few months,
ough. Some collectors seem
have concluded that noth-
g dramatic is going to hap-
n in either direction. "The
arkets have defined them-
lves clearly," Augustine
ys. By and large, buyers are
vvy collectors—not specula-
rs—who know quality when
ey see it. When something
od comes on the market,
eople are ready to pounce,"
ys Loria. One sign that
des well for the market: Art
alers, who for a long time
ve been sitting on too much
ventory to add any, are far
ore willing to buy works at
ction and privately than
ey were just a year ago.
ND MEMORIES. If the logjam
s broken, it may then be a
od time to buy. But you
ist know what you're buy-
g and be prepared to hold
the long term: A return to
e over-the-top prices of the
e '80s is unlikely. Although each art-
ork has its own dynamic, prices in
ost art categories are at 1987 or 1988
vels—before the huge runup that mer-
d front-page headlines—according to
ctioneers and dealers.
Robin Duthy, a London-based inde-
ndent art analyst, concurs. Further,
believes that, although overall art
ices are still declining, the rate is
owing. His *Daily Telegraph Art 100
dex*, a proprietary figure that encom-
sses auction prices for 100 top artists
d sectors from Old Masters to con-
mporary, sat at 4,541 in January, 1994.
sank to 3,964 in July and 3,856 at the
d of November. The figure (in which
75 prices equal 1,000) peaked in 1990
more than 9,000. "The worst of the
de seems to be over," he says.
Duthy also calculates 24 indexes for
rious art sectors, such as French Im-
essionism, German Expressionism,
th century American painting, Latin
nerican painting, and Surrealism.
ey show that prices in a few catego-
s are starting to climb, albeit slowly.
nong them: Old Masters, Barbizon-
hool paintings, and—most smartly—a
tegory he calls "Modern U.S. paint-
g, 1945-75." Those artists include
arhol, de Kooning, Twombly, Calder,
bers, and Motherwell.
Of course, no one should invest in art
the basis of Duthy's—or anyone's—
lculations. But they, along with other
eathervanes, might suggest a few potential directions for buyers. In contrast to past seasons, Americans seem to be the most active buyers at the moment—probably because the U.S. economy is heartier than those in Europe, Japan, and other art-buying strongholds.



OLD GLORY: THIS CHILDE HASSAM MIXES IMPRESSIONISM AND THE ASHCAN SCHOOL

Given the public's predilection to buy its own nation's art most, American art seems likely to firm up faster than other categories. Indeed, the American-art auctions that took place in early December were strong. (Duthy's indexes do not yet reflect those sales.) Sotheby's took in a total of $24.9 million—the highest sum in five years and almost as much as the $25.9 million Sotheby's scored at its evening sale of Impressionist and Modern Art, normally a much larger category. Record auction prices were set for six artists at Sotheby's, including Edward Potthast and Norman Rockwell. Three others, including Thomas Moran, went into the record books at Christie's smaller sale. Buying embraced all categories of American art: Hudson River school, Impressionist, Modernist, Realist, and Western among them.



**ING ONCE...THIS REMBRANDT
CHING IS CONSIDERED THE ARTIST'S
OST IMPORTANT SELF-PORTRAIT**

CAUTION RULES. Contemporary art is always iffier—there's so much more of it and the artists are still producing. Worse, it saw huge runups in the '80s, and some of those artists may never recover. If this is your interest, take the words about quality to heart. Many of the artists of the '80s, such as Christopher Wool, Jeff Koons, and Robert Gober, have ardent fans. But even they are cautious. "I would only be buying the great pieces," Westreich says, citing Wool's *Riot*, which fetched $46,000, near its high estimate, at Christie's in November.

A key to even more contemporary—and likely lower-priced—work will be telegraphed in March when the Whitney Museum of American Art opens its Biennial. The '95 show is expected to include more paintings than the much-criticized '93 show, which was full of highly political videos and installation pieces. Many collectors say the Biennial over the years has proven to be a good clue to future market value. If so, keep an eye on such painters as Christian Schumann, Milton Resnick, Philip Taafe, Jane Freilicher, Helen Marden, Frank Moore, and Catherine Murphy. All will be in the show.

ACTION

LINGER NOT

Be set to pounce on quality works as soon as you spot them

Buying art for investment is always chancy at best—and categories with the broadest appeal, such as Impressionism, are safest bets, if you can afford the best of them. But the most satisfying way to purchase art is to make sure you love the picture or the sculpture for its aesthetic value. Monetary rewards have to be considered a by-product, especially in today's thin art market.

By Judith H. Dobrzynski in New York

(TOP TO BOTTOM) PHOTOGRAPHS BY BERRY HILL GALLERIES, PACE PRINTS

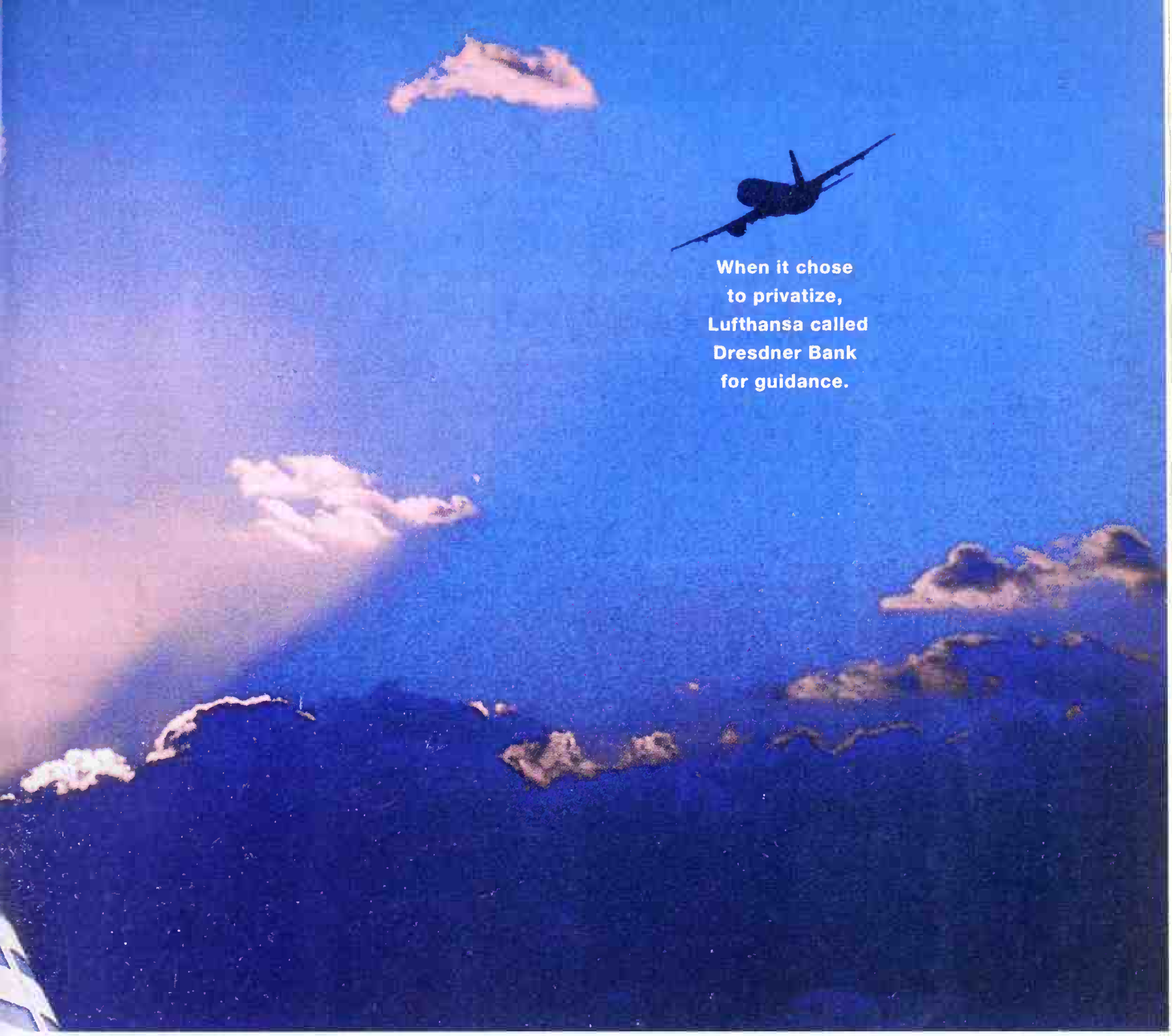
This is the tower t
called for a be

Lufthansa could have called on any bank to help them further privatize in October, 1994. But then, Lufthansa doesn't like turbulence. So they called their preferred "Tower" to arrange and lead the deal: Dresdner Bank.

Needless to say, they arrived on time. The landing was exceptionally smooth. Employing a dynamic network that stretches across 67 countries, we make it our business to help other businesses prosper – worldwide.

In case you haven't had a chance to get to know us in the last 122 years, it's time you did.

We're not only the second larges bank in a country known for larg banks – Germany – we're a tru Universal Bank: We have th right people (i.e. 46,500 skille specialists). We have the clou



Lufthansa takeoff.

. Every fifth DM earmarked foreign trade with Germany sses our "borders" first). And have the wherewithal to meet r objectives. Moreover, we en in nearly a 100 languages.

Our vast resources and experience can help you tap a world of opportunities. Whether they are in the up-and-coming markets of Eastern Europe. Or right in your own backyard: North America.

Call "The Tower" to avoid financial turbulence. Lufthansa did. And now their tickets aren't the only first-class investments they offer. Together we can find ways to help you start, expand or enhance your business. Just phone (212) 574-0 100.

Dresdner Bank

New York · Chicago · Los Angeles · Mexico City · Toronto

For Best Performance, the Envelope, Please...

Here's where you should have invested—and where we hope you didn't

From sneakers to air bags and takeovers to bankruptcies, this year's successes tended to have coherent visions of the future, while the failures stemmed from flying too close to the sun. We limited stocks to those that began the year at a minimum of $5 a share. Here, in all their shame and glory as of Dec. 9, are the winners and losers of 1994.

STOCKS

BEST NYSE STOCK There's nothing like a high-priced takeover to goose a stock's price. Take *United Inns Inc.*, a Memphis-based owner and operator of 26 franchised hotels. It gained 320% over 1994, thanks to a $25-per-share, $67.6 million deal to be acquired by Harvey Holdings LP, a private Dallas limited partnership.

United's shares rose in the first half as its balance sheet improved. But most of the gain came from the takeover, a cash offer that drove the stock from $7.50 to around $24 when United announced the deal in November. Although Harvey paid cash, investors may be able to accept stock in a new public company holding United and Harvey, comprising 10,000 rooms in the Southeast and Southwest.

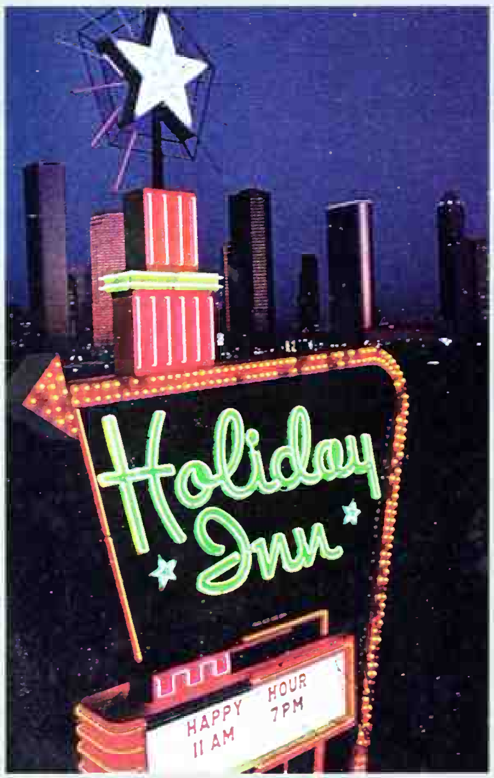
WORST NYSE STOCK *House of Fabrics Inc.* hoped to sew up the market for zippers, yarn, and corduroy. But in early November, after two failed restructuring efforts and $41 million in losses since mid-1993, it filed for Chapter 11. Next year, it will complete the closing of one-third of its 695 stores and wind up the debt restructuring it needs to keep operating.

After years of operating small stores tucked in Western shopping malls, the Sherman Oaks (Calif.) retailer went on a 1980s-style binge, building 556 superstores in 40 states. It paid $63 million for the 84-store Fabricland Inc. based in Portland, Ore. But competition from the Kmarts of the world, plus a sluggish economy in California, which is House of Fabric's largest market, started to unravel sales.

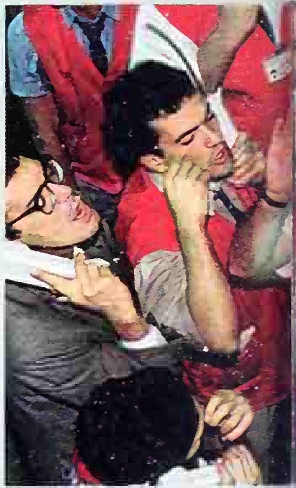
BEST AMEX STOCK *Simula Inc.* aced the American Stock Exchange with its air-bag technology. The $71 million Tempe (Ariz.) company makes crash-safety products for the military and is going commercial with a side-impact air bag, which will debut in BMW's 1997 models. Unlike existing air bags, this one covers the window, preventing head and neck injuries as well as ejection from the car.

Simula hasn't stopped with autos. It recently bought rail- and airline-interi-

▲ **BEST OTC STOCK**
A compact projector, used for presentations, went over big with business users as well as investors. It enlarged Proxima's share price 308%.



▶ **BEST NYSE STOCK**
Hotel operator United Inns was already enjoying a sweet first half. Then Harvey Holdings checked in with a $67.6 million takeover offer.



▶ **BEST AMEX STOCK**
Simula's earnings should ba
to $70 million in 1995 from
$40 million this year, thank
in large part to its innovative
bag technology.

manufacturers to capitalize on the ed to replace aging fleets and the pontial for high-speed railways. After vering at $5, the stock climbed to $25 September as investors' enthusiasm ew. Simula expects revenues to rise om $40 million to $70 million next year.

ORST AMEX STOCK The picture is bleak r *SpectraVision Inc.*, the nation's larg t provider of pay-per-view entertainent to hotels. The stock fell 96% in '94, d some analysts think the company headed back to Chapter 11, from hich it emerged in 1992.

The Richardson (Tex.) company is lling out a new digital satellite netork that would give guests more opons and cost less to maintain. But pectraVision may not pull off the exensive and time-consuming transition. addition, the company lost big conacts with Marriott International Inc. d Hilton Hotels Corp. To improve its ception, SpectraVision hired a new EO, unloaded some 15% of its workrce, and may sell assets.

EST OTC STOCK Call it a high-tech flip art. *Proxima Corp.*'s system for procting the image from a computer disay to a wall or screen is a hit with isiness—and investors. In March, the an Diego company introduced a comct projector the size of a small print, and sales took off—raising the stock 8%. Now analysts expect Proxima to earn more than $10 million on sales of some $115 million, up 66% in the fiscal year ending Mar. 31. Liquid-crystal-display projectors have been used for presentations, but they could be the next computer peripheral. Companies are buying them because it allows several employees to work on one PC without hunching over a tiny screen. But starting at $5,000 a pop, they're still pricey.

WORST OTC STOCK In 1993, *Media Vision Technology Inc.* was the hottest stock in Silicon Valley. The Fremont (Calif.) maker of sound cards and other multimedia add-ons for computers reported an amazing revenue growth of 248% in 1993. By January, 1994, its stock had more than doubled.

What a difference an audit makes. That growth was too good to be true. In March, Media Vision shocked Wall Street by announcing a big loss for the quarter. It eventually revised its 1993 revenues from $241 million to just $150 million, producing a $99 million loss. Allegations of falsified sales records prompted a probe by the Securities & Exchange Commission and the FBI. In July, Media Vision filed for Chapter 11. The company is reorganizing under a new CEO, but the plan will reduce its stock value to zip.

BEST STOCK GROUP *Athletic shoes* placed first in the S&P stock-group marathon this year. Led by Nike Inc. and Reebok International Ltd., shoes were up 22%. After a sluggish 1993 due to a glutted domestic market and competition from the outdoorsy Timberland-style hiking boots, the sneaker giants sprinted ahead boldly in '94. They were able to adapt by rolling out their own versions of hiking shoes. "Both Nike and Reebok trade off backlog numbers, which are very strong," says Smith Barney Inc. senior analyst Faye Landes. But they're not necessarily representative: "There are a lot of smaller players that are not in the S&P that aren't doing well."

WORST STOCK GROUP The collapse of *homebuilding* stocks is a simple story: Interest rates, interest rates, interest rates. Although earnings remain decent, along with demand, rising rates hammered stock prices. "The 50% drop in homebuilders reflects the fear that rates will cut earnings, but the numbers have yet to reflect that," says S&P analyst Richard Spiegel. Rates are expected to continue to crush the market in 1995. In addition, the high-flying homebuilders were due for a correction. Is the dearth of home buying cause for stock buying?

PEOPLE

BEST STOCK FUND MANAGER Phenomenal growth in technology stocks helped give *Seligman Communications & Information Fund* a substantial lead over rival equity funds. Manager *Paul Wick* bet

◀ **BEST FOREIGN BOURSE**
The São Paolo market is up 76% for '94. With a new currency, economic reforms, and more privatization in store, there's no sign of the party ending.

▲ **BEST BOND FUND MANAGER**
With Paul Wick's shrewd picking in technology stocks, Seligman Communications & Information left all other equity rivals in the dust.

◀ **BEST COMMODITY**
A drought in Brazil crippled coffee production and sent bean prices soaring from 71¢ a pound to $2.45. Even noncommodities traders got the jitters.

CENTER) PHOTOGRAPH BY MICHAEL PRUZAN THE STOCK MARKET (FAR RIGHT) PHOTOGRAPH BY PETER HAME the $350 million fund on semiconductors, computer networking, telecommunications, and software. Wick seeks profitable companies growing more than 20% whose earnings exceed expectations. His biggest breaks were in semiconductors, where several stocks at least doubled. Wick thinks technology will outperform the market in the next five years, while valuations for now remain reasonable.

BEST BOND FUND MANAGER Pity the bondholder. The best domestic taxable fund, *Hotchkiss & Wiley Low Duration*, took the laurels with a mere 4.11% return. Managers *Ted Rivelle* and *Laird Landmann* keep durations short and cherry-pick the least interest-rate-sensitive debt from all bond sectors. This year, high-coupon callable corporates and premium mortgage securities provided a cushion. Higher returns came from specialty funds *Hanifen Imhoff Colorado Bond Shares Tax Exempt Fund*, which returned 5.50% investing mostly in unrated local munis with high coupons, and *Franklin Templeton German Government Bond Fund*, which owes its 49% showing to Germany's strong currency.

BEST COMMODITIES FUND MANAGER Former squash champion *Victor Niederhoffer* drew on history, Broadway tunes, and Machiavelli to net a 52% gain through November for his *Niederhoffer Investments*, besting all managers handling at least $5 million, according to Barclay Research Group.

Niederhoffer tends to trade short-term and use technical tools selectively. He believes all markets are intimately related, with predictable leads and lags between them—a theory he backs with 30 years of trading data. Niederhoffer claims that market behavior is best described by Oscar Hammerstein's lyrics in *Ol' Man River* ("He jus' keeps rollin' along"). And he trades on the credo that governments manipulate interest rates and currencies to their advantage: "I find it helpful to think of governments as if they're run by a professional criminal class."

MARKETS

BEST COMMODITY It was enough to make traders giddy—and caffeine addicts sick. *Coffee* futures soared 130% in 1994, beaning all other commodities. Years of depressed prices had discouraged producers from pruning and fertilizing their coffee-bean plants, and as 1994 opened, coffee commanded a chintzy 71¢ a pound. Prices rose through the spring, until the big news hit in May: A drought would cripple production in Brazil, the world's No. 1 coffee grower. By mid-July, prices soared to $2.45 per pound. Then the thinly capitalized market broke to $1.80, punishing speculators who jumped on the java bandwagon late. By early December, coffee had settled at $1.65, amid rumors that Brazil would sell stockpiled beans to make up for the shortfall.

BEST OVERSEAS MARKET For sheer excitement, nothing beats the *São Paulo* stock exchange. After climbing 79% in 1993, it was up another 76% in 1994, making it the world's hottest bourse.

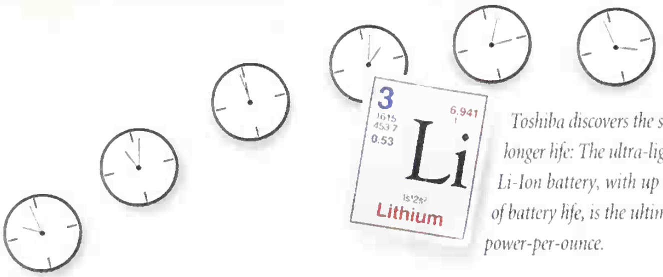
Stocks soared and inflation plunged last summer when the government introduced a new currency—the real—that is pegged to the U. S. dollar. Now traders are waiting for Fernando Henrique Cardoso, Brazil's new president, to start economic reforms that will trim government payrolls, make the central bank independent, and privatize state-run industries. What about 1995? Notes J. P. Morgan Securities Inc. analyst Arnab Das: "The reform process will be complex and may appear chaotic at times"—just like the stock market.

By Pam Black in New York, with Greg Burns in Chicago and bureau reports

◀ **BEST COMMODITIES FUND MANAGER** Victor Niederhoffer takes a wide-ranging approach to the market, trading short-term and using technical tools selectively. It paid off with a 52% gain.

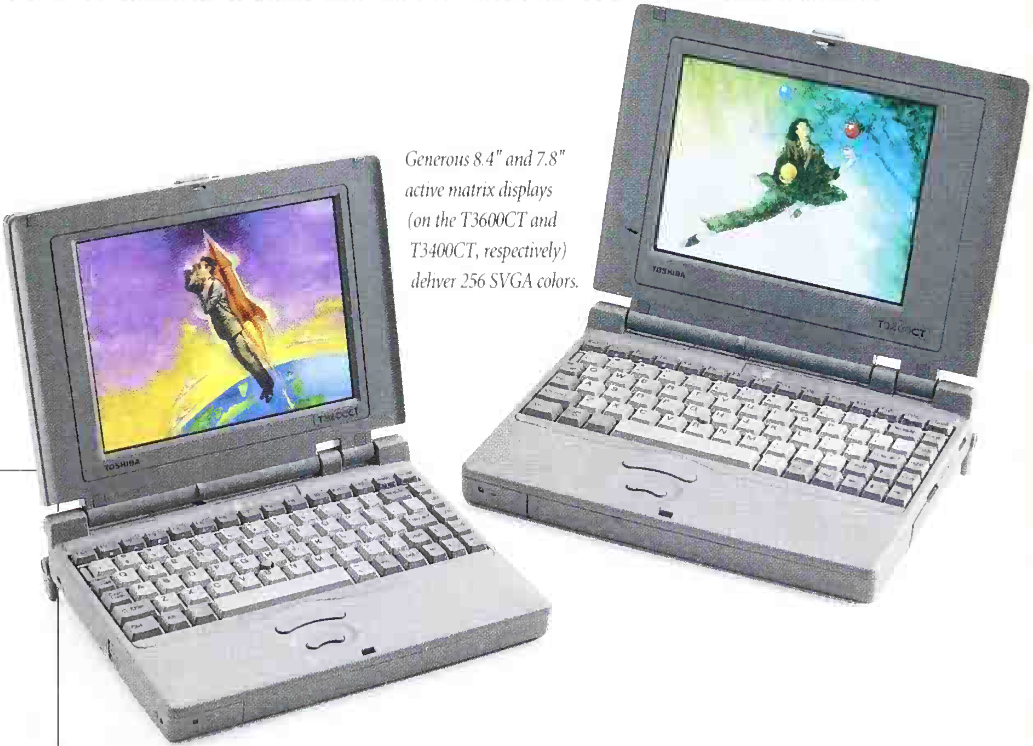
▼ **WORST STOCK GROUP** Investors who bought into homebuilding stocks are still picking splinters out of their hides. Rising interest rates, of course, were the culprit.

The new AccuPoint™ isometric pointing device works in conjunction with click and drag buttons located comfortably beneath the thumbs.



Toshiba discovers the secret to longer life: The ultra-lightweight Li-Ion battery, with up to 6 hours of battery life, is the ultimate in power-per-ounce.

DEFY THE LAWS OF SPACE AND TIME.



Generous 8.4" and 7.8" active matrix displays (on the T3600CT and T3400CT, respectively) deliver 256 SVGA colors.

PORTÉGÉ

T3600CT

- 50MHz i486™DX2
- 8.4" dia. color TFT-LCD active matrix display—256 color SVGA
- 8MB RAM (expandable to 24MB)

T3400CT

- 33MHz SL Enhanced i486™SX
- 7.8" dia. color TFT-LCD active matrix display—256 color SVGA
- 4MB RAM (expandable to 20MB)

BOTH MODELS

- 250MB HDD
- Lithium-Ion battery
- Type II (5mm) PCMCIA slot
- 4.4 lbs.—7.9" x 9.9" x 1.8"
- AccuPoint™ integrated pointing device
- Integrated BitBLT graphics accelerator
- VL local-bus video
- Ports: serial, parallel, FDD, and VGA adapter
- Optional Port Replicator
- MS-DOS®, Microsoft Windows™, and CommWorks™ for Windows

3 YEAR LIMITED WARRANTY

INTRODUCING THE ULTRAPORTABLE PORTÉGÉ.

Never before have computers so perfectly balanced mass and speed. Now you can travel with a system smaller than a notebook—yet graced with the power and feel of a full-size computer. The ultraportable Portégé™ is driven by the full force of a high-performance i486™ processor, is equipped with a 250MB HDD and a high-endurance Lithium-Ion battery, and shines with Toshiba's renowned color active matrix display. There's even an optional Port Replicator for simple, single-point connection to your desktop environment. See how far we've taken every aspect of portable computing. Then, think where it can take you. **Call 1-800-457-7777 for your nearest dealer.**

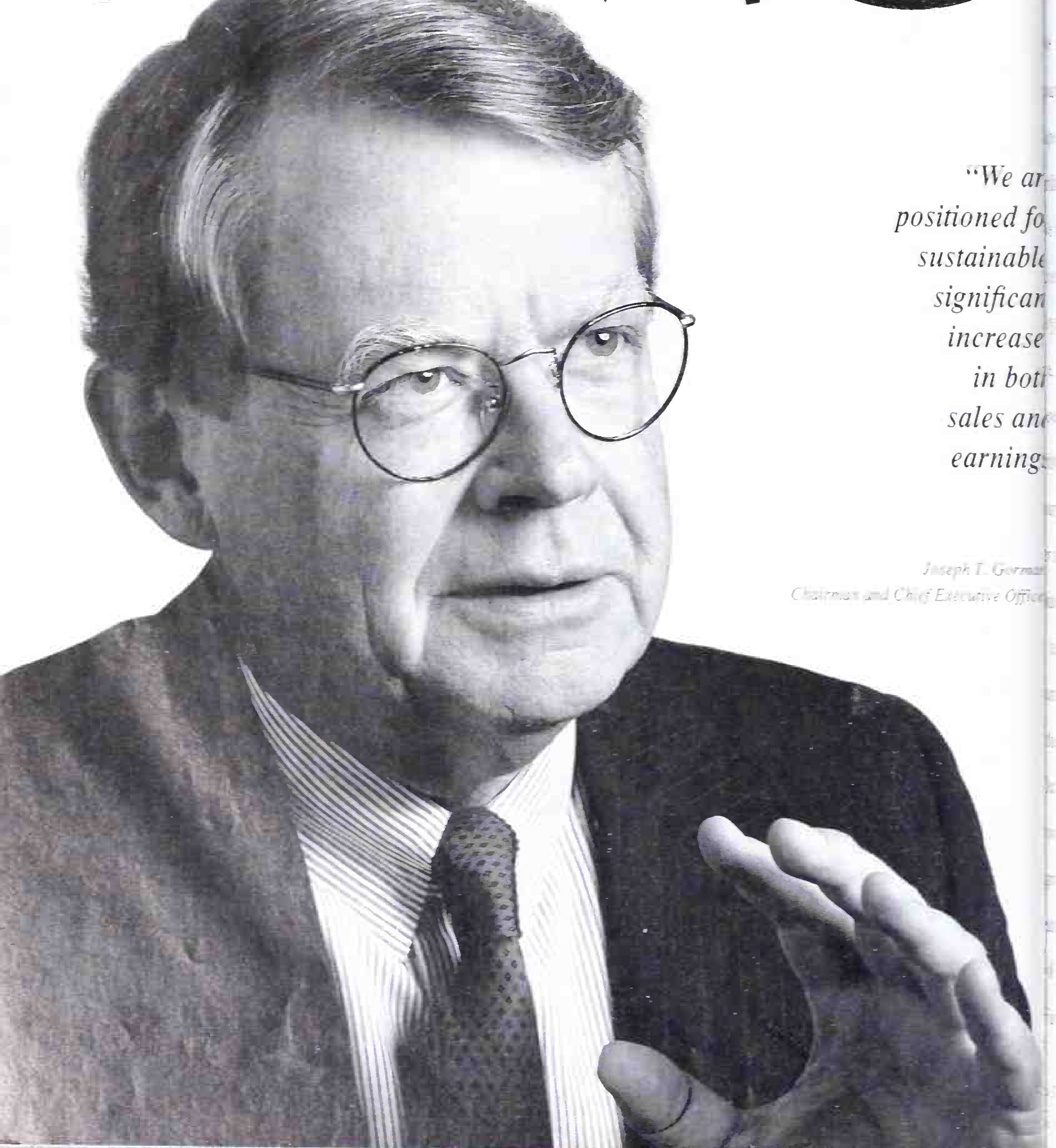
THE SHAPE OF THINGS TO GO.℠

intel inside®

In Touch with Tomorrow
TOSHIBA

© 1994 Toshiba America Information Systems, Inc. All products indicated by trademark symbols are trademarked and/or registered by their respective companies. The Intel Inside logo is a trademark of Intel Corporation.

TOMO



"We ar
positioned fo
sustainabl
significan
increase
in bot
sales an
earning

Joseph T. Gorma
Chairman and Chief Executive Office

RROW IS HERE

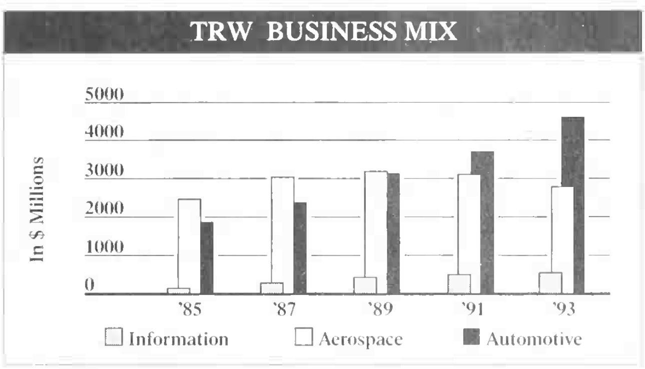
e used to say "Tomorrow is Taking Shape at a any Called TRW." While TRW has been helping pe our world, we have also been working hard to nline and strengthen our company.

e have set a course that aims to delight our three onstituent groups – customers, shareholders, and oyees – by providing each with superior perfor- e. The facts demonstrate we are doing just that.

everal years ago, we set for ourselves some tough tives. We are meeting those objectives. Today, we umber one in our key markets. We are the world in occupant restraints, in steering systems, in cer- utomotive electronics markets, in advanced space- technology, in defense communications, and in umer credit information, among others. We are he world leader in complex systems integration.

ur businesses are in segments of industries that are owing the markets themselves, and we are managing rowth for profit. Cost structures have been improved tically, and we are beginning to experience the ben- f our strategic investments over the past five years.

urther, technology leadership, always a core TRW strength, is now helping to make us more competitive in all of our businesses.



TRW aerospace technology is contributing to the rapid growth of TRW's automotive business.

Management is also stronger. Supporting a seasoned group of top managers, we have a highly qualified, energetic, and experienced team around the globe.

What are our priorities? Delivering on our commitments to customers, shareholders, and employees. We are positioned for sustainable, significant increases in both sales and earnings.

We are doing what we say we will do, and we will continue to deliver on our promises.

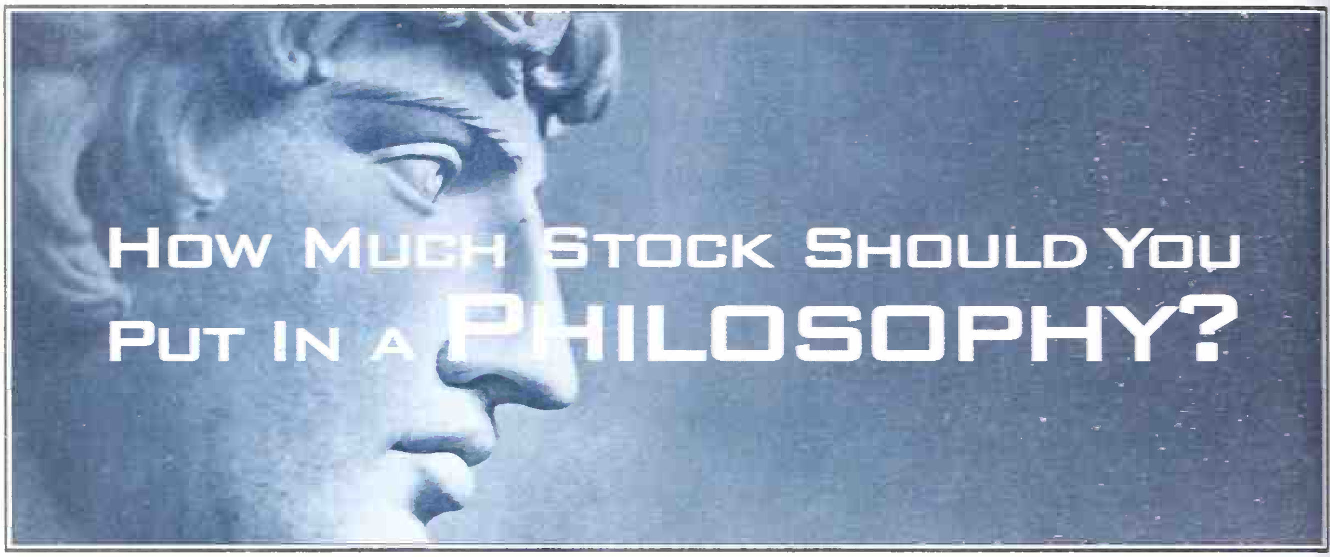
Automotive. Aerospace. Information. Innovation.

TRW

TRW Annual Report, write TRW Inc., Dept. F, 1900 Richmond Rd., Cleveland, Ohio 44124-3760.

, 1994 TRW is the name and mark of TRW Inc

Ordinarily, you wouldn't think of financial people as being the philosophical type. Then again, Smith Barney is no ordinary company. We've developed a very definite philosophy about investing. It's based on three guiding principles, practiced and perfected for well over a century.



INVESTING VERSUS TRADING.

Investors take the long view. They understand a short-term drop means little in the life of a quality investment. (Since 1925, stocks have outperformed every other major investment.)* Traders tend to buy and sell with the ups and downs of the market, while investors see patience as their greatest virtue.

WE DO OUR RESEARCH.

Promising investment opportunities are only found if you look hard for them. At Smith Barney, many investments have to be approved by our Investment Policy Committee, a group with more than two hundred years of combined investing experience, before they can ever be recommended to you.

KNOW WHERE YOU'RE HEADED.

Helping you define your financial goals is as important as helping you reach them. It's the philosophy every Smith Barney Financial Consultant lives by. It may not be the meaning of life, just the means to help get more out of it.

SMITH BARNEY

We make money the old-fashioned way. We earn it.

©1994 Smith Barney Inc. Member SIPC. *Source: Ibbotson Associates.

A Member of TravelersGroup

Catching a Lift on the Earnings Bandwagon

Vith a stellar year looming, here's the lowdown on 900 companies to aid your stock hunt

After all the 1994 results are in, corporate earnings per share on the average should be up 60%, making this a great year. And 5 will be another banner year, with nings projected to rise 30%.

'hat's the good news from BUSINESS EK's Investment Outlook Scoreboard. ; together by Standard & Poor's npustat, a division of McGraw-Hill ., the list reveals the financial work- s behind 900 publicly traded compa- s, including historical data and key formance ratios for each. The data broken down into 24 industry ups, allowing you to compare a com- ıy directly with its competitors. E/S International Inc., a division of closure Inc. that tracks earnings pro- tions, provides earnings-per-share imates for 1994 and 1995 based on survey of 2,750 analysts.

'o prevent you from being buried un- an avalanche of decimal points, SINESS WEEK has sorted through the les to pick out companies that rise the top when using six different in- tment criteria. For example, Reyn- s Metals Co. is a clear winner in pro- ted earnings growth for 1995, ecasters agree the least on what ncast Corp.'s 1995 earnings per share l be, while Home Holdings Inc. leads pack in stocks selling below book.

EASANT SURPRISES. The analysts are dicting that 1995 will be a good year cyclical stocks. The aluminum, steel, oer, and forest-products industries slated to post at least triple-digit nings increases next year. Aluminum kers are tipped to boost profits by greatest percentage over 1994, in od part because they are coming off ırs of meager earnings. In addition, uced capacity and increased demand he U. S. and abroad lessens the pres- e to keep prices low. But companies hese cyclical industries are also very sitive to the overall economic trend; here is any hint of recession, their nings will take a hit and their stock ce is likely to follow.

Reynolds Metals is typical of the re- nd in aluminum. I/B/E/S projects that Reynolds will earn $2.87 a share in 1995, vs. 27¢ per share in 1994 and a loss of $5.38 in 1993. Remember when looking at the earnings-per-share projections that stock prices will often move up in anticipation of good results. Meeting the projected EPS amount may actually result in a stock-price drop; the biggest price jumps are reserved for companies that pleasantly surprise the analysts.

Another way to find value is to search for companies with low price-earnings ratios. The list of companies with a low ratio of current price to projected 1995 EPS is dominated by steelmakers, including National Steel Corp. and AK Steel

INDUSTRY GROUP WINNERS AND LOSERS

1994'S STRONGEST

	EST. EARNINGS CHANGE FROM 1993
MISCELLANEOUS SERVICES	750%
CHEMICALS	531
COMPUTER SOFTWARE & SERVICES	448
CARS & TRUCKS	307
MISCELLANEOUS LEISURE	291
NONFERROUS METALS	218
FOREST PRODUCTS	205
PAPER	204
SPECIAL MACHINERY	176
APPAREL	162

1995'S STRONGEST

	EST. EARNINGS CHANGE FROM 1994
ALUMINUM	1100%
PAPER CONTAINERS	346
FOREST PRODUCTS	132
STEEL	118
COMPUTERS & PERIPHERALS	113
PAPER	96
TRUCKING & SHIPPING	74
NONFERROUS METALS	74
EATING PLACES	50
HEALTH-CARE SERVICES	47

. . . AND WEAKEST

	EST. EARNINGS CHANGE FROM 1993
CONSTRUCTION & REAL ESTATE	–19%
BUILDING MATERIALS	–14
FINANCIAL SERVICES	–13
TRUCKING & SHIPPING	–10
CONSTRUCTION & ENGINEERING	–7
INSURANCE	+2
BROADCASTING	+4
BANKS—MIDWEST	+5
HEALTH-CARE SERVICES	+9
BANKS—EAST	+11

. . . AND WEAKEST

	EST. EARNINGS CHANGE FROM 1994
ELECTRIC UTILITIES	4%
DRUGS & RESEARCH	6
AEROSPACE & DEFENSE	7
TELEPHONE COMPANIES	7
BANKS—SOUTH & SOUTHEAST	10
BANKS—MIDWEST	10
BANKS—EAST	11
GAS UTILITIES	11
BEVERAGES	11
PUBLISHING	12

Because of actual or estimated losses for some years in 1993, 1994, or 1995, earnings gains or losses cannot be meaningfully calculated on a percentage basis for airlines, aluminum makers, computer manufacturers, eating places, glass container makers, paper container manufacturers, savings and loan institutions, steelmakers.

DATA: I/B/E/S INTERNATIONAL INC.; STANDARD & POOR'S COMPUSTAT, A DIVISION OF McGRAW-HILL INC.

Holding Corp.. Their projected p-e ratios of 3.2 and 3.4, respectively, are considerably below the 900-company average of 11.4. Both companies have been helped by the demand for new cars, which not only increased sales in 1994 but also gives them leverage in negotiations for higher prices with the auto makers.

Dividends are important to stockholders, and we rank all 900 stocks by yield. Utility companies tend to dominate this category. The caveat when looking at yields is that high numbers can result from either an increased dividend or a lower stock price. Take Long Island Lighting Co., this year's yield leader at 10.6%. While the actual quarterly dividend payment of 44.5¢ has remained the same for the past six quarters, the stock price has dropped from a 52-week high of 24½ at the end of 1993 to the 16 range at present.

Corporations selling below book value also make interesting investment prospects. Companies that fit into this category can be undervalued gems or just plain dogs. Only some digging into a company's fundamentals can determine which description fits best. Supercomputer maker Cray Research Inc. finds itself on the price-to-book-value list with a ratio of 56%. Cray Research's stock price has sagged as its new customers desire more but less costly systems. Making the transiti to serving this market may eventual pay off for Cray, but it doesn't look jump-start the stock price in the sho run. As John D. Coyle, computer-har ware analyst for Standard & Poor sees it: "The stock does look cheap, b it's cheap for a reason."

No matter how you view the nur bers, though, it only provides the star ing point for any investment decisio To make an informed choice, further r search into what is happening at a cor pany and why it is happening will b needed.

By Frederick F. Jesperse
in New Yor

A MENU OF INVESTMENT OPPORTUNITIES

But be careful. Although the numbers may seem enticing, unusually high or low percentages may be a sign of trouble.

HIGH HOPES FOR EARNINGS

Looking at the bottom line? These companies' earnings are forecast to move smartly in 1995.

	PERCENT CHANGE 1994–95
REYNOLDS METALS	963%
BETHLEHEM STEEL	659
WESTERN GAS RESOURCES	410
ALLEGHENY LUDLUM	404
CAROLINA FREIGHT	400
KENNAMETAL	316
TESORO PETROLEUM	293
SARA LEE	268
HOME HOLDINGS	234
ROADWAY SERVICES	226

STOCKS SELLING WAY BELOW BOOK VALUE

Bargain-hunters take note. The stock price of these companies as a percentage of book is at the bottom.

	PERCENT
HOME HOLDINGS	23%
F&M DISTRIBUTORS	33
GLENDALE FEDERAL BANK	39
GM HUGHES ELECTRONICS	39
CAROLINA FREIGHT	47
CROWN CENTRAL PETROLEUM	50
WHX	56
CRAY RESEARCH	56
AVIALL	56
PAUL REVERE	58

COMPANIES WITH THE HIGHEST YIELD

If the goal is income, these companies pay among the highest annual dividends as a percentage of stock price.

	PERCENT
LONG ISLAND LIGHTING	10.6%
TEXAS UTILITIES	9.4
EOTT ENERGY PARTNERS	9.4
CENTERIOR ENERGY	9.1
POTOMAC ELECTRIC POWER	8.9
HOUSTON INDUSTRIES	8.8
PENNSYLVANIA POWER & LIGHT	8.4
NORTHEAST UTILITIES	8.2
PACIFIC GAS & ELECTRIC	8.2
PUBLIC SERVICE ENTERPRISE GROUP	8.1

STOCKS THE INSTITUTIONS RARELY HOLD

Unpopular—or just overlooked? Either way, if the institutions suddenly take notice, prices could rise.

	PERCENT OF SHARES HELD BY INSTITUTIONS	NUMBER OF INSTITUTIONS HOLDING
RUST INTERNATIONAL	2%	36
EOTT ENERGY PARTNERS	4	8
COMPUCOM SYSTEMS	7	31
SOUTHLAND	7	42
GATEWAY 2000	7	60
FOOD LION	7	90
ARCO CHEMICAL	8	103
VASTAR RESOURCES	10	57
MARION MERRELL DOW	10	164
AT&T CAPITAL	11	43
AVERAGE OF 900 COMPANIES	59%	338

THE LOWEST PRICE-EARNINGS RATIOS

Prices of these stocks compared with 1995 forecast earnings-per-share suggest unrecognized values. Negative earnings-per-share estimates excluded.

	RATIO
NATIONAL STEEL	3.2
AK STEEL HOLDING	3.4
HOME HOLDINGS	4.3
WEIRTON STEEL	4.4
ROUGE STEEL	4.4
QUANTUM	4.6
WICKES LUMBER	4.7
CHRYSLER	4.7
GENERAL MOTORS	4.8
WHX	4.8

WHERE FORECASTERS DISAGREE THE MOST

Uncertainty could spell opportunity. The 1995 earnings-per-share estimates are all over the lot for these stocks. For example: Estimates for Comcast range from profit of 98¢ to a loss of $1.16.

	CONSENSUS FOR 1995 CENTS PER SHARE	VARIATION IN FORECASTS
COMCAST	–9	1189%
HOST MARRIOTT	–1	600
ORYX ENERGY	–7	500
TIME WARNER	3	433
FOODMAKER	7	329
FLAGSTAR	–3	233
INTERGRAPH	8	188
MAXTOR	–20	185
CONTINENTAL AIRLINES	98	181
DIGITAL EQUIPMENT	–51	171

DATA: AS OF NOV. 30, I/B/E/S INTERNATIONAL INC., STANDARD & POOR'S COMPUSTAT

1995

INVESTMENT OUTLOOK SCOREBOARD

LOSSARY

Y: Number of the month in vhich company's fiscal year ends.
OOK VALUE PER SHARE: Sum of common stock at nominal balance-sheet value, capital surplus, and retained earnings as shown n company accounts, divided by number of shares outstanding.
-E RATIO: Nov. 30 stock price divided by the estimated 1994 earnings.
IVIDEND RATE: Indicated annual payment rate based on the latest quarterly dividend plus any recurring extra or special yearend dividends.
YIELD: Indicated annual dividend as a percent of Nov. 30 stock price.
SHARES OUTSTANDING: Millions of common shares outstanding as of company's latest available financial report, excluding treasury shares.
MARKET VALUE: Percentage change in total market value of the company's most widely held common-stock issue since Jan. 1, 1994.
INSTITUTIONAL HOLDINGS: Percentage of outstanding common shares held by banks, insurance and investment companies, colleges, and pension funds, and the number of such institutions.
TURNOVER: Percentage of outstanding shares changing hands in 1994.
EARNINGS PER SHARE: Primary earnings per share–net income (including proceeds from certain convertible securities, warrants, and options that are common-stock equivalents, but excluding extraordinary profits or loss items) divided by the number of common and common-equivalent shares.
EARNINGS-PER-SHARE ESTIMATES: Analysts' consensus estimates for 1994 and 1995 compiled by I/B/E/S International Inc., New York, N.Y. I/B/E/S is a registered trademark of I/B/E/S International Inc. Trend estimate, based on pattern of past five years, compiled by Standard & Poor's Compustat.
VARIATION: The percentage by which two-thirds of the 1994 earnings estimates are above or below the average estimate. The lower this figure is, the more analysts agree on their estimates.

												EARNINGS PER SHARE				
														1995 ESTIMATES		
									INSTITUTIONAL HOLDINGS						FROM ANALYSTS	
COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1994 EST.	1994 DIVIDEND RATE	YIELD %	SHRS. OUT MILS.	1994 MARKET VALUE CHANGE %	%	NUMBER	1994 TURNOVER %	1993 ACTUAL	I/B/E/S 1994 ANALYST EST.	BASED ON 5-YR. TREND	I/B/E/S CONSENSUS	VARIATION %
ALL-INDUSTRY AVERAGE		31	16	24	0.75	2.30	118.6	-3	59	338	79.6	1.31	2.09	2.64	2.71	11.9
1 AEROSPACE & DEFENSE																
INDUSTRY AVERAGE		48	29	14	1.14	2.76	79.7	-3	69	375	61.5	3.53	4.38	6.48	4.70	7.0
BOEING	12	45	28	19	1.00	2.23	340.8	4	53	867	55.6	3.66	2.38	3.60	2.21	14.5
GENCORP	11	10	1	9	0.60	5.78	31.8	-27	63	155	49.5	1.24(b)	1.11	1.61	1.39	5.8
GENERAL DYNAMICS	12	40	20	12	1.40	3.48	63.1	-12	54	301	62.8	4.27	3.46	3.77	3.55	3.9
LOCKHEED	12	69	43	10	2.28	3.32	63.2	2	98	415	49.8	6.70	7.04	27.14	7.29	1.8
MARTIN MARIETTA	12	43	24	10	0.96	2.21	96.1	-2	71	485	48.2	4.25	4.47	4.85	4.62	3.2
McDONNELL DOUGLAS	12	140	97	10	0.80	0.57	39.5	31	59	418	87.9	9.17	14.41	16.59	15.24	7.6
NORTHROP GRUMMAN	12	41	29	9	1.60	3.94	49.2	9	64	298	63.0	1.99	4.45	2.59	4.95	4.8
ROHR	07	9	8	35	0.00	0.00	18.0	-18	52	82	64.6	-1.71	0.26*	0.09	0.49	22.4
SUNDSTRAND	12	43	16	15	1.20	2.81	32.2	-2	85	237	65.5	2.56	2.89	2.50	3.36	4.8
THIOKOL	06	27	21	9	0.68	2.55	18.4	-5	79	187	64.7	3.13	3.02*	4.78	3.04	2.3
UNITED TECHNOLOGIES	12	59	30	13	2.00	3.42	124.7	-7	79	682	65.3	3.53	4.65	3.79	5.56	5.4
2 AUTOMOTIVE																
INDUSTRY AVERAGE		29	16	11	0.68	2.18	165.5	-22	58	400	76.2	1.66	3.14	3.26	3.75	7.0
(A) CARS & TRUCKS																
GROUP AVERAGE		34	19	8	0.94	2.50	448.0	-24	54	752	86.5	1.24	5.05	6.40	6.13	9.1
CHRYSLER	12	49	26	6	1.00	2.06	354.5	-9	66	899	150.5	6.77	8.73	12.48	10.39	6.4
FORD MOTOR	12	27	20	6	1.04	3.83	1018.0	-14	63	1122	76.9	2.28	4.57	3.50	5.43	6.8
GENERAL MOTORS	12	38	13	7	0.80	2.10	753.6	-27	47	1248	86.2	2.13	5.85	NA	8.00	8.9
NAVISTAR INTERNATIONAL	10	13	7	13	0.00	0.00	75.0	-45	46	236	61.0	-8.63	0.99*	NA	1.47	16.3
PACCAR	12	42	31	8	1.87	4.51	38.9	-22	46	257	58.0	3.66	5.10	3.23	5.37	7.1
(B) PARTS & EQUIPMENT																
GROUP AVERAGE		26	15	12	0.59	2.12	45.8	-23	57	224	70.4	1.74	2.38	1.98	2.82	6.4
ARVIN INDUSTRIES	12	24	20	13	0.76	3.17	22.2	-25	63	163	60.9	1.81	1.83	2.41	2.35	6.4
BORG-WARNER AUTOMOTIVE	12	24	22	9	0.60	2.55	23.1	-15	65	66	41.0	1.41	2.61	NA	3.10	2.3
CUMMINS ENGINE	12	44	24	8	1.00	2.30	41.6	-13	68	354	95.8	4.95	5.68	NA	5.89	9.5
DANA	12	22	9	10	0.84	3.88	98.8	-28	69	409	63.1	1.39	2.27	1.27	2.62	5.0
DETROIT DIESEL	12	23	11	15	0.00	0.00	24.7	-28	22	67	31.6	1.17	1.52	NA	1.79	7.8
EATON	12	48	21	11	1.20	2.52	76.3	1	64	460	60.0	2.57	4.37	3.14	5.08	5.7
ECHLIN	08	30	14	15	0.76	2.51	59.1	-9	83	405	79.9	1.60	2.06*	2.26	2.43	3.3
FEDERAL-MOGUL	12	20	15	13	0.48	2.37	35.6	-16	77	209	128.3	1.13	1.60	1.59	2.22	3.2

FOOTNOTES: * Actual, not estimated data. NA = not available. NM = not meaningful. (a) Shares outstanding as of fiscal yearend. (b) Actual and estimated EPS figures are fully diluted. (c) Dividend rate excludes a nonrecurring extra or special yearend dividend. (d) Company pays a recurring stock dividend. Data compiled by Standard & Poor's Compustat, a division of McGraw-Hill Inc., from such sources as statistical services., newspapers, registration statements, and company reports that SPC believes to be reliable but that are not guaranteed by either SPC or BUSINESS WEEK as to correctness or completeness. This material is not an offer to buy or sell any security. Additional data: I/B/E/S International, Inc., Vickers Stock Research Corp.

INVESTMENT OUTLOOK SCOREBOARD

									INSTITUTIONAL HOLDINGS			EARNINGS PER SHARE				
														1995 ESTIMATES		
															FROM ANALYSTS	
COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1994 EST.	1994 DIVIDEND RATE	YIELD %	SHRS. OUT. MILS.	1994 MARKET VALUE CHANGE %	%	NUMBER	1994 TURNOVER %	1993 ACTUAL	I/B/E/S 1994 ANALYST EST.	BASED ON 5-YR. TREND	I/B/E/S CONSENSUS	VARIATION %
LEAR SEATING	12	20	4	17	0.00	0.00	49.4	NA	19	73	NA	-0.06	1.17	NA	1.70	4.1
MASCOTECH	12	12	12	11	0.12	1.01	56.6	-60	34	131	79.5	0.97	1.07	1.06	1.35	13.3
STANDARD PRODUCTS	06	22	15	11	0.68	3.06	16.7	-36	65	129	64.1	2.21	1.99*	2.16	2.47	10.1
(C) TIRE & RUBBER																
GROUP AVERAGE		**29**	**13**	**13**	**0.52**	**1.69**	**117.5**	**-16**	**73**	**490**	**78.9**	**2.28**	**2.60**	**3.02**	**2.93**	**4.7**
COOPER TIRE & RUBBER	12	23	7	16	0.24	1.03	83.6	-6	69	325	57.9	1.22	1.46	1.74	1.68	4.8
GOODYEAR TIRE & RUBBER	12	34	18	9	0.80	2.36	151.3	-26	76	655	100.0	3.33	3.73	4.30	4.18	4.5
3 BANKS																
INDUSTRY AVERAGE		**36**	**26**	**9**	**1.46**	**4.24**	**132.1**	**-2**	**55**	**392**	**59.3**	**3.77**	**4.21**	**5.38**	**4.73**	**3.6**
(A) BANKS - EAST																
GROUP AVERAGE		**34**	**28**	**8**	**1.49**	**4.38**	**135.3**	**-1**	**58**	**428**	**75.5**	**3.95**	**4.39**	**6.91**	**4.86**	**4.5**
BANK OF BOSTON	12	27	23	7	1.08	4.08	106.9	16	62	416	89.6	2.28	3.54	4.54	3.93	4.6
BANK OF NEW YORK	12	28	22	8	1.28	4.59	187.8	-2	71	438	62.0	2.87	3.66	8.63	4.07	2.9
BANKERS TRUST NEW YORK	12	59	56	7	3.60	6.08	77.7	-28	75	519	93.2	12.40	8.14	10.44	9.80	7.6
CHASE MANHATTAN	12	36	39	6	1.60	4.49	181.3	3	70	560	100.0	1.89	5.68	4.42	6.16	6.7
CHEMICAL BANKING	12	36	38	7	1.76	4.84	244.4	-12	76	675	89.5	5.63	5.29	10.41	6.05	4.1
CITICORP	12	42	32	8	0.60	1.44	393.7	15	71	770	107.0	3.82	5.51	6.64	6.28	5.1
CORESTATES FINANCIAL	12	25	16	8	1.36	5.50	140.6	14	60	424	43.5	2.80	2.96	3.19	3.34	3.9
FIRST FIDELITY BANCORPORATION	12	45	32	9	2.00	4.44	81.8	1	36	338	43.6	4.63	5.14	6.05	5.73	2.3
FLEET FINANCIAL GROUP	12	31	23	8	1.60	5.14	136.4	-7	61	469	82.9	3.01	3.84	2.87	4.77	4.2
INTEGRA FINANCIAL	12	40	28	8	1.80	4.50	33.5	-7	47	161	24.8	4.50	5.01	8.38	5.31	1.7
MELLON BANK	12	33	25	8	1.80	5.43	146.9	45	48	455	51.7	3.09	3.91	4.80	4.46	1.3
MERIDIAN BANCORP	12	27	21	10	1.36	5.01	57.8	-5	36	176	74.7	2.61	2.85	3.17	3.28	3.7
MIDLANTIC	12	27	24	6	0.68	2.57	52.5	5	45	231	144.3	2.51	4.52	1.17	3.45	8.4
MORGAN (J.P.)	12	59	48	9	2.72	4.63	190.9	-16	66	911	64.1	8.48	6.66	9.45	7.44	6.5
PNC BANK	12	21	19	7	1.40	6.75	234.6	-29	54	504	42.3	3.14	3.17	4.40	2.95	10.8
REPUBLIC NEW YORK	12	43	38	8	1.32	3.09	52.8	-8	51	183	39.0	5.20	5.60	31.25	6.14	2.8
SHAWMUT NATIONAL	12	18	16	7	0.80	4.51	119.6	2	56	369	100.0	2.44	2.71	NA	3.03	3.3
STATE STREET BOSTON	12	32	16	12	0.60	1.90	76.5	-15	72	363	116.4	2.36	2.68	3.06	3.00	3.3
UJB FINANCIAL	12	24	19	10	1.04	4.27	54.9	8	39	177	66.5	1.42	2.49	1.47	3.10	1.6
(B) BANKS - MIDWEST																
GROUP AVERAGE		**29**	**20**	**9**	**1.21**	**4.19**	**138.1**	**-3**	**49**	**339**	**44.1**	**3.19**	**3.35**	**4.58**	**3.70**	**2.7**
BANC ONE	12	27	19	9	1.24	4.61	405.7	-19	49	768	54.8	2.93	3.09	3.67	3.35	4.8
BOATMEN'S BANCSHARES	12	28	21	8	1.36	4.88	104.8	-6	50	394	72.0	3.07	3.39	3.69	3.65	1.4
COMERICA	12	26	20	8	1.28	4.85	118.1	2	56	323	41.1	2.85	3.30	3.50	3.58	1.7
FIFTH THIRD BANCORP	12	49	21	13	1.24	2.52	64.6	0	40	169	34.0	3.28	3.78	4.32	4.28	2.8
FIRST BANK SYSTEM	12	33	19	9	1.16	3.49	114.8	13	53	317	49.2	2.39	3.51	3.37	3.97	2.3
FIRST CHICAGO	12	47	43	7	2.20	4.73	91.9	14	69	475	89.0	8.78	6.35	7.02	6.86	3.5
FIRST OF AMERICA BANK	12	32	26	8	1.68	5.33	59.2	-20	34	210	29.2	4.20	3.88	4.12	4.34	3.0
FIRSTAR	12	26	19	8	1.20	4.57	64.3	-15	43	182	23.3	3.15	3.45	3.92	3.75	1.9
HUNTINGTON BANCSHARES	12	19	11	10	0.80	4.31	129.7	-2	19	176	42.9	1.85	1.94	2.26	2.07	6.8
KEYCORP	12	24	18	7	1.28	5.25	244.2	-17	50	560	38.7	2.89	3.60	3.22	3.99	1.8
MARSHALL & ILSLEY	12	20	11	11	0.60	3.08	95.2	30	35	157	31.7	1.87	1.70	2.07	2.15	2.8
MERCANTILE BANCORPORATION	12	30	23	8	1.12	3.69	43.1	6	46	201	28.0	3.31	3.75	19.66	4.08	1.0
NATIONAL CITY	12	25	16	9	1.20	4.78	150.1	-3	66	327	46.2	2.41	2.70	2.62	2.98	1.7
NBD BANCORP	12	27	21	8	1.20	4.40	156.3	-11	48	347	29.9	2.98	3.35	3.20	3.60	3.6
NORTHERN TRUST	12	34	20	10	0.88	2.61	54.2	-13	68	217	52.6	2.96	3.32	3.60	3.72	1.6
NORWEST	12	22	11	9	0.84	3.86	313.0	-4	62	604	43.5	2.13	2.44	3.00	2.81	2.1
(C) BANKS - SOUTH & SOUTHEAST																
GROUP AVERAGE		**36**	**27**	**9**	**1.49**	**4.16**	**127.0**	**-2**	**51**	**405**	**45.0**	**3.64**	**4.16**	**4.20**	**4.58**	**2.2**
AMSOUTH BANCORPORATION	12	28	23	9	1.40	5.00	58.9	7	41	185	31.7	3.10	3.09	3.65	3.28	4.9
BARNETT BANKS	12	39	29	8	1.64	4.17	97.0	-6	54	455	63.6	4.10	4.65	4.16	5.14	2.1
CRESTAR FINANCIAL	12	38	30	9	1.60	4.18	37.6	-8	46	258	53.9	3.68	4.48	3.86	4.98	1.8
FIRST UNION	12	40	32	8	1.84	4.60	175.8	0	55	524	43.1	4.73	5.26	6.23	5.71	1.9
NATIONSBANK	12	45	37	7	2.00	4.46	276.5	-7	63	812	62.1	5.00	6.18	5.37	6.88	1.9
SOUTHTRUST	12	18	14	8	0.68	3.75	81.3	-2	40	190	53.0	1.94	2.15	2.45	2.37	2.1
SUNTRUST BANKS	12	47	30	11	1.44	3.06	118.4	1	50	380	22.8	3.77	4.34	4.62	4.83	1.5
WACHOVIA	12	33	19	11	1.32	4.05	170.8	-3	55	434	29.6	2.83	3.10	3.27	3.42	1.5
(D) BANKS - WEST & SOUTHWEST																
GROUP AVERAGE		**55**	**37**	**10**	**2.01**	**4.05**	**112.9**	**1**	**66**	**402**	**67.5**	**4.87**	**6.04**	**4.54**	**7.27**	**5.4**
BANCORP HAWAII	12	25	23	8	1.04	4.14	42.2	-9	63	196	41.7	3.09	3.12	3.46	3.31	6.0
BANKAMERICA	12	41	42	8	1.60	3.90	370.2	-9	57	832	68.7	4.79	5.35	5.56	6.02	4.5
FIRST INTERSTATE BANCORP	12	71	41	8	3.00	4.26	77.6	10	75	552	109.8	6.68	9.11	7.50	10.93	4.4
U.S. BANCORP	12	23	16	11	1.00	4.35	99.0	-8	51	315	91.3	2.47	2.18	2.48	3.00	4.7
UNION BANK	12	29	30	17	1.40	4.89	35.6	14	85	51	11.5	2.11	1.73	1.49	3.46	8.1
WELLS FARGO	12	144	67	10	4.00	2.77	52.8	6	66	466	82.1	10.10	14.77	6.76	16.88	4.4
4 CHEMICALS																
INDUSTRY AVERAGE		**36**	**14**	**16**	**0.92**	**2.46**	**86.5**	**11**	**65**	**329**	**72.6**	**0.35**	**2.21**	**1.90**	**2.91**	**8.2**
AIR PRODUCTS & CHEMICALS	09	44	17	22	0.98	2.21	123.2	-1	76	554	43.0	1.76	2.06*	2.03	3.09	1.6
ALBEMARLE	12	14	8	19	0.20	1.48	66.1	NA	43	160	NA	0.37	0.73	NA	0.93	8.6
ARCO CHEMICAL	12	46	17	16	2.50	5.46	96.1	6	8	103	4.9	2.23	2.78	1.93	3.27	5.8
CABOT	09	26	13	13	0.56	2.14	37.6	-3	67	175	45.5	0.90	1.96*	1.60	2.32	3.4
CBI INDUSTRIES	12	22	18	19	0.48	2.17	38.1	-26	69	174	66.5	-1.07	1.15	1.49	1.62	6.8

The Facts Are In.

After intensive study and evaluation, government researchers have just concluded what millions of chiropractic patients have known for years:

Spinal manipulation is a recommended, safe and effective form of initial treatment for the most common health complaint affecting working Americans–

Acute Low Back Problems

And one health profession is uniquely trained and experienced to provide that care. America's Doctors of Chiropractic.

For nearly a century, spinal manipulation has been what America's chiropractors do...and do best. It means relief from pain...without drugs or surgery. That's why more than 18 million Americans sought chiropractic care last year alone.

Patient satisfaction.

Drugless, non-surgical, lower cost treatment for low back pain and related musculoskeletal problems.

That's today's chiropractic care.

And that's why chiropractic belongs in your health-care plan.

GET THE FACTS ABOUT CONQUERING LOW-BACK PAIN

- The Agency for Health Care Policy and Research (AHCPR), in a milestone study involving a multidisciplinary panel of health-care experts, concluded that spinal manipulation is the safest, drugless initial form of treatment for acute low back problems in adults. The study also recommended that–for most cases–conservative treatment such as manipulation should be pursued before surgical interventions are considered.
- A recent Harris Poll survey found that patients with back problems were more satisfied with chiropractic treatment than other types of care, and 70 percent of Americans surveyed believe that chiropractic should be included as a basic benefit in their health plans.
- In another study, the prestigious RAND Corporation concluded that spinal manipulation was an appropriate treatment for acute low back pain, and reported from its analysis that 94 percent of all manipulations are performed by Doctors of Chiropractic.

ACA

For more information about these studies
and chiropractic manipulation, write:

AMERICAN CHIROPRACTIC ASSOCIATION
1701 CLARENDON BOULEVARD • ARLINGTON, VA 22209

INVESTMENT OUTLOOK SCOREBOARD

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1994 EST.	1994 DIVIDEND RATE	YIELD %	SHRS. OUT. MILS.	1994 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS		1994 TURNOVER %	EARNINGS PER SHARE				
														1995 ESTIMATES		
															FROM ANALYSTS	
									%	NUMBER		1993 ACTUAL	I/B/E/S 1994 ANALYST EST.	BASED ON 5-YR. TREND	I/B/E/S CONSENSUS	VARIATION %
CYTEC INDUSTRIES	12	38	5	15	0.00	0.00	13.1	191	57	148	185.9	-22.26*	2.44	NA	3.70	14.1
DEXTER	12	21	14	13	0.88	4.29	24.3	-13	81	128	35.2	1.40	1.56	1.42	1.76	1.7
DOW CHEMICAL	12	64	29	17	2.60	4.06	276.2	13	59	984	61.9	2.33	3.73	1.49	5.42	11.6
DUPONT	12	54	18	14	1.88	3.49	680.8	12	45	1048	36.8	0.83	3.93	1.47	4.58	4.4
EASTMAN CHEMICAL	12	47	15	12	1.60	3.40	82.7	-1	70	529	101.6	2.46	3.83	NA	4.45	7.2
ENGELHARD	12	22	6	18	0.48	2.18	95.8	-10	55	300	58.1	0.17	1.24	0.57	1.47	5.4
ETHYL	12	10	3	13	0.50	4.88	118.4	-41	52	260	60.7	0.76	0.76	0.71	0.88	3.4
FERRO	12	24	12	16	0.54	2.23	27.9	-27	83	180	78.8	1.83	1.48	1.59	1.84	3.3
FULLER (H.B.)	11	32	19	15	0.58	1.81	13.9	-11	56	133	87.7	1.55	2.18	2.54	2.48	7.3
GEON	12	26	9	14	0.50	1.91	27.8	12	92	130	122.3	0.22	1.88	NA	2.56	19.1
GEORGIA GULF	12	36	-1	13	0.00	0.00	41.7	62	77	201	144.9	1.01	2.75	0.94	4.99	16.2
GOODRICH (B.F.)	12	45	31	21	2.20	4.94	25.8	11	88	279	71.0	0.28	2.09	0.48	2.75	8.4
GRACE (W.R.)	12	37	15	13	1.40	3.78	94.1	-8	81	415	40.3	1.46	2.96	1.56	3.44	2.9
GREAT LAKES CHEMICAL	12	53	19	13	0.40	0.75	68.3	-32	80	557	92.7	3.82	4.01	5.15	4.55	3.1
HANNA (M.A.)	12	23	11	16	0.54	2.40	35.7	4	70	177	48.0	0.97	1.44	0.92	1.69	4.7
HERCULES	12	114	32	19	2.24	1.96	39.2	-3	82	478	81.4	4.86	5.88	8.28	6.91	5.5
IMC GLOBAL	06	38	23	NM	0.00	0.00	29.5	-3	93	208	167.5	-5.44	-0.14*	NA	3.19	12.2
INTL. FLAVORS & FRAGRANCES	12	44	9	22	1.08	2.45	111.4	15	59	495	31.1	1.78	1.98	2.13	2.23	2.7
LUBRIZOL	12	32	13	14	0.92	2.92	65.2	-10	76	362	65.8	1.25	2.22	1.87	2.51	3.6
LYONDELL PETROCHEMICAL	12	24	0	10	0.90	3.71	80.0	14	47	170	78.3	0.06	2.42	0.19	3.85	13.0
MONSANTO	12	72	27	14	2.52	3.50	116.3	-2	66	804	73.9	4.10	5.13	4.26	5.95	3.5
MORTON INTERNATIONAL	06	28	10	18	0.44	1.59	147.8	-11	70	524	76.2	0.86	1.51*	1.40	1.86	3.2
NALCO CHEMICAL	12	33	8	18	0.96	2.95	68.4	-14	73	369	53.8	2.03	1.85	2.10	2.09	2.9
NL INDUSTRIES	12	11	-6	NM	0.00	0.00	51.0	137	20	89	37.0	-1.63	-0.55	NA	0.45	15.6
OLIN	12	51	31	15	2.20	4.32	21.4	15	61	208	79.6	-4.52	3.49	2.35	5.14	11.3
PRAXAIR	12	20	6	15	0.28	1.38	137.3	24	72	410	79.0	1.06	1.39	NA	1.57	4.5
ROHM & HAAS	12	56	22	15	1.48	2.65	67.7	-6	73	373	42.8	1.74	3.64	2.59	4.35	5.5
SCHULMAN (A.)	08	27	9	22	0.30	1.13	37.5	-1	66	191	53.3	1.04	1.19*	1.30	1.45	2.8
TERRA INDUSTRIES	12	11	4	18	0.08	0.74	70.3	44	38	101	68.9	0.33	0.61	0.39	1.36	48.5
UNION CARBIDE	12	29	10	14	0.75	2.62	148.6	26	63	488	115.5	1.00	2.10	0.90	2.83	15.5
VIGORO	06	29	9	12	0.76	2.62	20.1	-1	51	125	43.8	2.12	2.43*	2.68	2.78	8.3
WELLMAN	12	25	17	14	0.24	0.95	33.1	37	83	196	104.6	1.23	1.83	1.43	2.24	7.1
WITCO	12	26	17	14	1.12	4.27	56.1	-8	78	259	47.7	0.46	1.91	1.18	2.19	5.0
5 CONGLOMERATES																
INDUSTRY AVERAGE		**35**	**15**	**17**	**0.82**	**2.11**	**182.0**	**-10**	**60**	**453**	**51.7**	**1.84**	**2.52**	**2.58**	**3.08**	**5.4**
ALCO STANDARD	09	56	21	51	1.04	1.86	54.1	4	61	411	52.9	-0.04	1.10*	1.07	3.55	1.4
ALLIEDSIGNAL	12	33	10	12	0.67c	2.05	283.0	-18	70	686	45.0	2.31	2.67	2.72	3.09	1.6
COLTEC INDUSTRIES	12	16	-8	12	0.00	0.00	69.9	-13	86	131	33.8	0.94	1.38	NA	1.70	NM
DIAL	12	20	5	13	0.60	3.00	92.1	-1	59	344	70.7	1.28	1.60	0.84	1.82	2.2
FOXMEYER HEALTH	03	15	18	18	0.00	0.00	12.7	14	36	152	72.2	1.10	0.85	NA	1.15	NM
GENERAL ELECTRIC	12	46	16	14	1.44	3.13	1709.7	-12	56	1683	30.7	2.59	3.35	3.25	3.83	1.0
HARCOURT GENERAL	10	36	13	24	0.64	1.78	77.9	0	55	365	47.4	2.08	1.52	1.77	2.09	3.4
ITEL	12	35	19	23	0.00	0.00	30.8	17	58	105	52.3	0.43	1.51	NA	1.66	14.5
ITT	12	80	53	11	1.98	2.49	108.8	-19	80	723	76.2	6.87b	7.46	7.24	8.65	4.7
OGDEN	12	20	11	12	1.25	6.33	43.6	-13	59	322	45.3	1.43	1.65	1.50	1.79	0.6
PREMARK INTERNATIONAL	12	46	14	14	0.80	1.76	63.7	13	80	421	76.4	2.58	3.30	1.73	3.84	4.7
ROCKWELL INTERNATIONAL	09	34	15	12	1.08	3.19	219.9	-9	35	552	33.7	2.55	2.87*	2.54	3.16	1.9
TELEDYNE	12	17	5	12	0.00	0.00	55.4	-34	46	242	47.7	1.32	1.47	1.00	1.72	12.2
TENNECO	12	39	17	12	1.60	4.12	171.0	-26	73	712	71.6	2.59	3.38	2.67	4.21	5.2
TEXTRON	12	47	34	10	1.40	2.98	88.8	-19	69	495	40.4	4.21	4.78	5.05	5.32	0.9
TRIARC	12	11	-1	28	0.00	0.00	24.0	-57	27	71	56.8	-3.42	0.39	NA	0.84	25.0
TRW	12	64	28	13	2.00	3.15	64.9	-7	54	421	43.4	3.39	4.86	3.91	5.73	6.1
WHITMAN	12	16	5	14	0.34	2.14	105.2	-4	77	310	34.6	0.99	1.16	0.82	1.31	0.8
6 CONSUMER PRODUCTS																
INDUSTRY AVERAGE		**32**	**12**	**16**	**0.75**	**2.05**	**162.0**	**-4**	**58**	**366**	**63.3**	**1.35**	**2.13**	**2.48**	**2.54**	**5.1**
(A) APPAREL																
GROUP AVERAGE		**29**	**13**	**14**	**0.51**	**1.56**	**49.6**	**-4**	**67**	**261**	**66.0**	**0.81**	**2.12**	**2.68**	**2.58**	**6.0**
BROWN GROUP	01	32	14	17	1.60	5.04	17.9	-6	56	193	36.1	-0.39	1.87	0.78	2.84	6.3
FRUIT OF THE LOOM	12	27	15	15	0.00	0.00	75.8	14	79	252	103.0	2.80	1.80	2.90	2.49	5.6
HARTMARX	11	5	3	20	0.00	0.00	32.4	-22	50	157	28.3	0.20	0.27	NA	0.46	19.6
KELLWOOD	04	21	15	11	0.60	2.93	21.1	-22	89	170	62.6	1.71	1.90	2.46	2.35	3.4
LIZ CLAIBORNE	12	23	12	15	0.45	1.99	78.6	0	82	362	99.8	1.54	1.50	1.60	1.77	4.0
NIKE	05	64	25	14	0.80	1.25	73.3	35	48	416	85.5	3.96	4.56	4.95	5.12	3.1
PHILLIPS-VAN HEUSEN	01	16	9	14	0.15	0.94	26.6	-57	79	160	99.3	1.60	1.10	1.57	1.45	13.1
REEBOK INTERNATIONAL	12	38	12	13	0.30	0.78	81.4	24	79	394	65.8	2.53	3.06	2.99	3.44	2.0
RUSSELL	12	30	15	15	0.48	1.58	40.0	6	50	246	37.2	1.19	1.98	1.69	2.31	3.9
VF	12	49	26	12	1.28	2.64	64.7	5	85	464	47.3	3.80	4.17	5.14	4.65	2.6
WESTPOINT STEVENS	12	15	-9	13	0.00	0.00	33.8	-23	40	54	61.5	-10.03	1.12	NA	1.53	2.0
(B) APPLIANCES & HOME FURNISHINGS																
GROUP AVERAGE		**28**	**13**	**15**	**0.49**	**1.62**	**58.8**	**-12**	**61**	**255**	**92.1**	**1.42**	**2.02**	**2.02**	**2.42**	**5.6**
ARMSTRONG WORLD INDUSTRIES	12	40	18	9	1.28	3.20	37.5	-24	85	380	108.0	1.32	4.22	2.17	4.87	5.3
BEST BUY	02	44	8	29	0.00	0.00	42.1	92	69	202	410.0	1.01	1.51	2.16	2.09	8.6
CIRCUIT CITY STORES	02	25	8	15	0.10	0.41	96.3	14	77	355	127.2	1.36	1.59	1.82	1.84	7.1
HEILIG-MEYERS	02	26	10	19	0.24	0.91	48.5	-32	84	290	87.2	1.12	1.37	1.61	1.66	2.4
INTERCO	12	7	8	7	0.00	0.00	50.1	-45	96	72	18.4	0.88	1.09	NA	1.33	3.0

OUR LATEST LOOK IS NOW APPEARING
IN THE ROCKIES, THE SIERRAS,
AND SELECT MOUNTAINS EVERYWHERE.

Jeep® Grand Cherokee Orvis® Edition.

Introducing one of the most versatile looks to it the street. Or the trail, for that matter. The all-new Jeep Grand Cherokee Orvis Edition.

Designed in cooperation with Orvis, the premier manufacturer of outdoor sporting and fly-fishing equipment, this Jeep 4x4 features leather-trimmed seats and doors outfitted in the distinctive Orvis-style colors.

A full complement of features, including all-the-time four-wheel drive, anti-lock brakes, and a driver's air bag[†] makes it even more attractive to would-be adventurers.

For a closer inspection and more information on Jeep Grand Cherokee Orvis Edition, call 1-800-925-JEEP. Or look for it at select mountains across the country.

There's Only One Jeep®...
A Division of the Chrysler Corporation.

Jeep
Eagle

[†] Always wear your seat belt. Jeep is a registered trademark of Chrysler Corporation. Orvis is a registered trademark of The Orvis Company, Inc., Manchester, Vermont.

INVESTMENT OUTLOOK SCOREBOARD

												EARNINGS PER SHARE				
														1995 ESTIMATES		
															FROM ANALYSTS	
COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1994 EST.	1994 DIVIDEND RATE	YIELD %	SHRS. OUT. MILS.	1994 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	INSTITUTIONAL HOLDINGS NUMBER	1994 TURN-OVER %	1993 ACTUAL	I/B/E/S 1994 ANALYST EST.	BASED ON 5-YR. TREND	I/B/E/S CON-SENSUS	VARIA-TION %
KIMBALL INTERNATIONAL	06	24	17	14	0.84	3.52	21.2	-22	27	75	20.7	1.44	1.71*	1.58	1.90	NM
LA-Z-BOY CHAIR	04	31	16	14	0.68	2.23	18.0	-20	26	91	25.4	1.90	2.17	2.14	2.36	7.2
LEGGETT & PLATT	12	35	15	13	0.64	1.81	41.1	-28	56	280	48.2	2.09	2.66	2.90	2.98	2.0
LEVITZ FURNITURE	03	8	-2	11	0.00	0.00	29.6	-52	39	62	97.5	0.48	0.76	NA	1.10	13.6
MASCO	12	22	14	13	0.72	3.24	159.8	-37	59	514	63.7	1.45	1.76	1.52	2.14	5.6
MAYTAG	12	15	7	11	0.50	3.36	107.3	-17	51	331	95.0	0.48	1.32	0.75	1.52	7.9
SUNBEAM-OSTER	12	24	7	19	0.04	0.17	80.6	18	37	156	38.4	1.01	1.29	1.66	1.54	1.3
TANDY	12	46	24	16	0.60	1.31	63.4	-8	64	386	100.3	2.48	2.87	2.24	3.40	3.8
TORO	07	28	14	16	0.48	1.71	12.6	2	68	119	62.2	1.05	1.71*	1.15	2.62	4.6
WHIRLPOOL	12	50	25	12	1.22	2.45	74.5	-24	81	516	79.8	3.19	4.29	4.57	4.94	5.7
(C) BEVERAGES																
GROUP AVERAGE		**33**	**11**	**21**	**0.77**	**2.26**	**429.5**	**0**	**48**	**605**	**35.1**	**1.11**	**1.99**	**2.50**	**2.21**	**5.4**
ANHEUSER-BUSCH	12	49	17	13	1.60	3.26	259.0	-3	60	753	38.3	2.17	3.90	3.34	4.29	2.1
BROWN-FORMAN	04	30	6	14	0.99	3.32	69.0	-14	43	212	18.0	2.04	2.18	2.72	2.34	4.7
COCA-COLA	12	51	4	26	0.78	1.53	1287.7	14	55	1116	28.6	1.68	1.98	2.36	2.34	1.7
COCA-COLA ENTERPRISES	12	19	10	43	0.05	0.27	130.4	23	36	134	18.1	-0.11	0.43	NA	0.58	12.1
COORS (ADOLPH)	12	16	17	13	0.50	3.17	38.3	-3	38	200	58.2	-1.10	1.26	1.64	1.32	9.8
PEPSICO	12	35	9	16	0.72	2.04	792.5	-14	59	1216	49.4	1.96	2.18	2.45	2.40	2.1
(D) PERSONAL CARE																
GROUP AVERAGE		**47**	**12**	**17**	**1.11**	**2.23**	**143.8**	**7**	**55**	**465**	**41.2**	**1.99**	**2.73**	**2.76**	**3.10**	**2.2**
ALBERTO-CULVER	09	26	11	16	0.28	1.09	27.7	8	22	151	14.4	1.44	1.57*	1.62	1.77	2.3
AVON PRODUCTS	12	62	3	16	2.00	3.23	69.6	23	86	475	79.9	3.46	3.79	4.02	4.30	1.6
CLOROX	06	58	18	17	1.92	3.30	53.5	7	51	393	36.8	3.07	3.35*	2.93	3.75	0.8
COLGATE-PALMOLIVE	12	60	13	16	1.64	2.73	145.0	-6	59	733	65.5	3.38	3.83	4.03	4.35	1.8
ECOLAB	12	20	7	15	0.44	2.16	63.1	-9	50	251	25.8	1.20	1.36	3.65	1.53	1.3
GILLETTE	12	74	8	24	1.00	1.36	221.3	24	73	887	43.7	1.92	3.11	3.21	3.65	1.1
HELENE CURTIS INDUSTRIES	02	32	21	17	0.24	0.76	9.9	9	38	73	47.1	1.51	1.89	2.10	2.11	4.7
PROCTER & GAMBLE	06	63	14	20	1.40	2.24	685.2	10	47	1065	26.3	0.25	3.09*	1.13	3.67	1.9
STANHOME	12	33	14	13	1.06	3.24	19.2	-4	70	155	31.0	1.68	2.54	2.11	2.81	4.6
(E) TOBACCO																
GROUP AVERAGE		**27**	**11**	**15**	**1.17**	**3.34**	**353.6**	**-4**	**49**	**440**	**50.2**	**1.43**	**1.72**	**2.84**	**2.29**	**6.7**
AMERICAN BRANDS	12	35	22	11	2.00	5.67	201.4	6	57	626	37.6	3.30	3.21	3.58	3.42	4.7
DIBRELL BROTHERS	06	22	10	NM	0.80	3.68	13.3	-17	47	85	79.6	2.87	-0.69*	NA	1.21	18.2
PHILIP MORRIS	12	60	15	11	3.30	5.52	868.0	6	55	1355	61.2	4.06	5.43	5.85	6.22	2.6
RJR NABISCO HOLDINGS	12	6	8	14	0.00	0.00	1147.6	0	30	288	58.1	-0.05	0.45	NA	0.57	8.8
STANDARD COMMERCIAL	03	14	12	21	0.00	0.00	8.7	-2	25	45	22.0	-4.28	0.70	0.78	1.00	NM
UNIVERSAL	06	22	11	20	0.96	4.47	35.0	-18	72	169	45.4	2.39	1.09*	1.71	1.47	3.4
UST	12	28	2	15	1.12	4.05	200.9	-2	56	510	47.1	1.71	1.85	2.30	2.12	2.4
7 CONTAINERS & PACKAGING																
INDUSTRY AVERAGE		**23**	**10**	**36**	**0.36**	**1.31**	**72.3**	**19**	**51**	**215**	**60.7**	**-0.63**	**0.79**	**1.66**	**1.91**	**18.5**
(A) GLASS, METAL & PLASTIC																
GROUP AVERAGE		**26**	**13**	**13**	**0.20**	**0.71**	**79.3**	**-8**	**61**	**259**	**52.1**	**-0.29**	**1.82**	**2.54**	**2.12**	**10.7**
BALL	12	28	20	14	0.60	2.13	29.8	-6	74	242	61.4	-1.24	2.00	2.39	2.23	19.3
CROWN CORK & SEAL	12	38	15	16	0.00	0.00	89.2	-10	56	402	53.1	2.08	2.31	2.70	2.75	7.6
OWENS-ILLINOIS	12	11	3	10	0.00	0.00	119.0	-9	54	134	41.6	-1.70	1.14	NA	1.37	5.1
(B) PAPER																
GROUP AVERAGE		**22**	**9**	**47**	**0.42**	**1.53**	**69.7**	**30**	**48**	**198**	**64.4**	**-0.76**	**0.41**	**1.22**	**1.83**	**21.4**
BEMIS	12	22	8	16	0.54	2.44	51.2	-6	45	250	25.7	0.89	1.37	1.25	1.55	3.9
FEDERAL PAPER BOARD	12	27	21	24	1.00	3.69	42.3	28	70	292	91.5	-0.01	1.14	0.81	2.32	26.3
GAYLORD CONTAINER	09	9	0	NM	0.00	0.00	53.6	95	16	64	50.6	-1.40	-1.57*	NA	1.28	19.5
JEFFERSON SMURFIT	12	16	-7	178	0.00	0.00	111.0	NA	52	64	NA	-3.60	0.09	NA	1.36	16.9
RIVERWOOD INTERNATIONAL	12	15	8	27	0.16	1.04	65.5	-10	19	58	11.8	0.05	0.57	NA	1.21	8.3
SONOCO PRODUCTS	12	21	8	16	0.56	2.65	87.3	-4	33	226	44.0	1.35	1.36	1.42	1.58	3.8
STONE CONTAINER	12	17	6	NM	0.00	0.00	90.4	118	66	262	168.4	-4.59	-2.00	NA	1.20	75.0
TEMPLE-INLAND	12	45	31	19	1.08	2.41	55.9	-10	79	370	58.8	1.21	2.31	1.40	4.15	17.8
8 DISCOUNT & FASHION RETAILING																
INDUSTRY AVERAGE		**23**	**12**	**18**	**0.33**	**1.40**	**134.2**	**-9**	**58**	**289**	**89.7**	**1.18**	**1.49**	**1.97**	**1.89**	**8.9**
AUTOZONE	08	26	4	33	0.00	0.00	145.4	-10	41	226	51.2	0.59	0.78*	1.15	0.96	2.1
BAKER (J.)	01	16	15	10	0.06	0.37	13.8	-6	97	133	204.0	1.45b	1.71	1.58	2.07	1.9
BARNES & NOBLE	01	27	11	34	0.00	0.00	30.0	11	24	103	79.9	0.06	0.81	NA	1.21	2.5
BEST PRODUCTS	01	6	10	8	0.00	0.00	31.7	NA	22	12	NA	NA	0.80	NA	1.08	2.8
BRADLEES	01	14	14	8	0.60	4.36	11.3	3	80	71	94.4	1.19	1.81	NA	1.96	3.6
BROADWAY STORES	01	10	8	NM	0.00	0.00	46.9	8	35	44	64.0	-2.30	-0.14	NA	0.65	36.9
BURLINGTON COAT FACTORY	06	12	9	10	0.00	0.00	40.7	-50	36	124	77.6	1.05	1.12*	1.38	1.27	18.9
CALDOR	01	29	18	10	0.00	0.00	16.5	14	96	135	95.1	2.50	3.00	7.35	3.51	1.7
CARSON PIRIE SCOTT	01	19	12	10	0.00	0.00	19.9	32	87	55	181.2	NA	1.94	NA	2.13	2.8
CHARMING SHOPPES	01	7	5	12	0.09	1.33	102.8	-43	67	304	112.4	0.70	0.56	0.81	0.70	12.9
CONSOLIDATED STORES	01	18	6	16	0.00	0.00	46.6	-12	92	194	101.3	0.90	1.11	2.68	1.35	3.7
DAYTON HUDSON	01	82	39	14	1.68	2.06	71.6	23	87	593	95.9	4.99	5.84	5.27	6.73	4.5
DILLARD DEPARTMENT STORES	01	28	19	12	0.12	0.43	113.0	-26	75	480	93.0	2.14	2.28	2.59	2.61	4.6
DOLLAR GENERAL	01	30	5	24	0.20	0.68	53.1	25	58	225	120.6	0.90	1.25	1.74	1.51	6.0
EDISON BROTHERS STORES	01	19	18	16	1.24	6.48	22.0	-35	52	116	25.3	1.01	1.19	1.00	1.65	4.8
F&M DISTRIBUTORS	01	2	6	NM	0.00	0.00	9.6	-78	15	18	98.7	0.60	-0.98	NA	0.38	84.2

Microsoft Office
Microsoft Word
Schedule+
Powerpnt
Mail
Microsoft Excel
MS-DOS Prompt
TD-4

Conceptual design by Robert P. Humeniuk and Jerry D. Flynn of McDonnell Douglas Space Systems

Out-of-this-world graphics have *landed* on the *Intel* platform.

sonal workstations from Intergraph Computer Systems transport you to a world where high-end graphics software runs alongside your office
omation tools – at a cost that won't send your budget into orbit. Until now, the processing power required for high-level CAD/CAM/CAE software
ced you to work in two separate worlds: a PC for your office tasks and a workstation for intensive graphics design.

v you can experience warp speed in both worlds. Personal workstations (TD-2 through TD-5) are equipped with single or dual Intel Pentium
cessors. In addition, they implement a workstation architecture that boosts Pentium power. So compute-intensive engineering operations – and
r Microsoft Windows applications – run at lightning speed. And you can choose either Windows NT or Windows/DOS.

ht years beyond other systems, personal workstations are the first to implement the full thrust of OpenGL for graphics acceleration. So you can rocket
ough intensive 3D graphics operations such as rendering, modeling, and animation up to 100 times faster than conventional technology allows.

y pay astronomical prices for workstations or push a PC beyond its limits? Choose the only Intel-based system made for the world of graphics –
personal workstation from Intergraph Computer Systems.

**ll today: 800-763-0242 or 1-205-730-5441. Or reach us on the Internet at
p://www.intergraph.com.**

INTERGRAPH
COMPUTER SYSTEMS

tel
nside
ntium
CESSOR

MICROSOFT®
WINDOWS NT™
READY-TO-RUN

BEST OF
BYTE
COMDEX Spring 94
Winner
Best System

American
Megatrends

Intergraph and the Intergraph logo are registered trademarks and TD-2, TD-3, TD-4 and TD-5 are trademarks of Intergraph Corporation. Microsoft is a registered trademark and Windows and the Windows logo are trademarks of Microsoft Corporation. The Intel Inside and Pentium Processor logos are trademarks of Intel Corporation. Other brands and product names are trademarks of their respective owners. Copyright 1994 Intergraph Corporation. Huntsville, AL 35894-0001. DDAD190B0

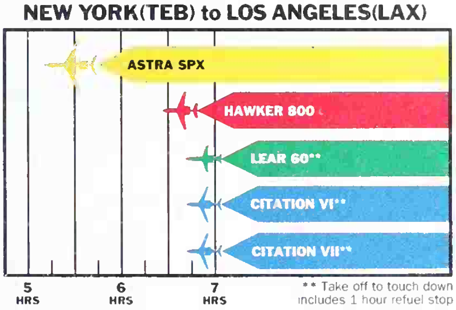
INVESTMENT OUTLOOK SCOREBOARD

												EARNINGS PER SHARE				
									INSTITUTIONAL HOLDINGS					1995 ESTIMATES	FROM ANALYSTS	
COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1994 EST.	1994 DIVIDEND RATE	YIELD %	SHRS. OUT. MILS.	1994 MARKET VALUE CHANGE %	%	NUMBER	1994 TURNOVER %	1993 ACTUAL	I/B/E/S 1994 ANALYST EST.	BASED ON 5-YR. TREND	I/B/E/S CONSENSUS	VARIATION %
FAMILY DOLLAR STORES	08	11	7	10	0.34	3.02	56.6	-34	59	165	64.8	1.15	1.10*	1.66	1.23	10.6
FEDERATED DEPARTMENT STORES	01	21	18	12	0.00	0.00	126.3	-1	87	320	124.4	1.56	1.77	NA	2.02	6.4
FINGERHUT	12	17	11	12	0.16	0.97	46.3	-41	88	286	125.8	1.50	1.33	1.67	1.63	3.7
GAP	01	35	9	16	0.48	1.36	145.8	-10	46	530	119.6	1.78	2.22	2.88	2.60	3.1
HECHINGER	01	10	12	13	0.16	1.57	42.3	5	55	109	184.3	0.59	0.76	0.63	0.96	9.4
HOME DEPOT	01	46	7	35	0.16	0.35	451.9	18	59	882	59.4	1.01	1.33	1.82	1.72	1.7
HOME SHOPPING NETWORK	12	11	2	34	0.00	0.00	94.4	-28	50	168	66.2	-0.18	0.31	NA	0.61	19.7
KMART	01	15	12	12	0.96	6.62	410.2	-32	67	695	81.9	-0.73	1.18	1.75	1.54	12.3
KOHL'S	01	43	8	23	0.00	0.00	36.7	-14	78	239	80.1	1.52	1.86	3.06	2.26	2.2
LANDS' END	01	16	5	15	0.00	0.00	34.9	-31	29	137	68.6	1.18	1.12	1.42	1.35	8.1
LIMITED	01	19	7	15	0.36	1.86	358.1	12	50	570	67.9	1.08	1.26	1.29	1.51	7.9
LOWE'S	01	37	8	27	0.18	0.48	159.0	35	69	448	88.0	0.90	1.36	1.14	1.72	4.7
MAY DEPARTMENT STORES	01	36	15	12	1.04	2.87	248.4	-8	74	774	49.3	2.77	3.05	3.31	3.49	3.4
MELVILLE	12	32	21	10	1.52	4.83	105.6	-22	83	469	44.5	3.00	3.17	2.33	3.54	3.7
MERCANTILE STORES	01	41	36	14	1.02	2.52	36.8	12	40	280	92.7	2.35	2.82	2.25	3.14	3.2
MEYER (FRED)	01	32	21	21	0.00	0.00	26.5	-9	53	171	53.1	2.50	1.58	2.22	3.11	3.2
NEIMAN MARCUS GROUP	07	14	0	NM	0.20	1.44	38.0	-26	33	55	9.2	0.78	-0.35*	NA	0.73	13.7
NORDSTROM	01	48	15	20	0.40	0.83	82.1	46	51	375	164.5	1.71	2.47	2.37	2.82	4.3
OFFICE DEPOT	12	24	5	36	0.00	0.00	148.7	12	67	376	88.3	0.45	0.66	0.94	0.88	4.5
PAYLESS CASHWAYS	11	9	10	8	0.00	0.00	39.9	-47	72	94	69.8	0.16	1.14	NA	1.27	3.9
PENNEY (J.C.)	01	46	22	11	1.68	3.65	233.4	-14	80	882	59.9	3.79	4.18	4.00	4.62	1.7
PEP BOYS-MANNY MOE & JACK	01	33	9	25	0.17	0.52	61.3	24	61	345	72.4	1.06	1.32	1.44	1.60	3.1
PETRIE STORES	01	26	27	115	0.20	0.76	46.8	-9	25	97	45.8	-1.04	0.23	0.22	0.55	50.9
PRICE/COSTCO	08	15	9	30	0.00	0.00	217.7	-20	54	416	127.0	1.01	0.51*	NA	1.14	5.3
QVC	01	44	15	32	0.00	0.00	40.3	13	39	153	296.8	1.10	1.35	2.07	1.91	6.8
ROSS STORES	01	14	10	11	0.10	0.73	24.4	4	65	100	149.0	1.14	1.26	1.31	1.43	3.5
SEARS, ROEBUCK	12	47	26	14	1.60	3.39	351.6	-10	66	845	62.2	6.22	3.45	4.64	5.40	4.8
SERVICE MERCHANDISE	12	6	3	8	0.00	0.00	99.3	-45	60	146	66.4	0.80	0.70	0.78	0.89	13.5
SHOPKO STORES	02	10	10	9	0.44	4.40	32.0	-12	39	76	24.1	1.00	1.10	0.98	1.26	4.8
SPIEGEL	12	13	5	18	0.20	1.50	108.2	-40	13	108	52.6	0.47	0.73	0.47	1.00	7.0
STRAWBRIDGE & CLOTHIER	01	23	24	11	1.10(d)	4.78	10.4	3	33	73	23.8	1.71	2.11	1.60	2.38	13.9
TALBOTS	01	32	11	21	0.20	0.62	34.9	91	35	152	51.3	1.42	1.54	NA	1.82	1.1
TJX COMPANIES	01	15	7	12	0.56	3.70	73.5	-48	86	326	127.5	1.62	1.28	1.53	1.58	6.3
TOYS 'R' US	01	37	11	19	0.00	0.00	284.7	-12	65	763	60.1	1.63	1.94	2.09	2.29	2.6
U.S. SHOE	01	17	10	19	0.32	1.92	46.2	12	84	183	125.6	-0.35	0.86	0.34	1.46	21.9
VALUE CITY DEPARTMENT STORES	07	12	7	10	0.00	0.00	32.0	-20	21	71	22.3	1.25	1.21*	1.52	1.27	4.7
VENTURE STORES	01	13	14	7	0.58	4.59	17.2	-46	72	134	43.9	2.43	1.90	3.30	2.24	6.7
WABAN	01	17	14	10	0.00	0.00	33.1	25	92	166	111.1	-0.56	1.72	1.94	1.91	7.3
WAL-MART STORES	01	23	5	20	0.17	0.73	2299.1	-7	29	1043	25.4	1.02	1.19	1.47	1.44	2.8
WICKES LUMBER	12	12	2	6	0.00	0.00	6.1	-31	35	20	170.0	2.11	2.19	NA	2.55	2.7
WOOLWORTH	01	14	10	16	0.60	4.25	132.5	-44	58	370	111.6	-3.76	0.88	0.86	1.31	10.7
9 ELECTRICAL & ELECTRONICS																
INDUSTRY AVERAGE		**39**	**18**	**41**	**0.61**	**1.43**	**99.4**	**15**	**68**	**395**	**103.7**	**1.91**	**2.51**	**2.81**	**3.09**	**5.7**
(A) ELECTRICAL PRODUCTS																
GROUP AVERAGE		**35**	**14**	**112**	**0.88**	**2.13**	**94.8**	**6**	**61**	**320**	**53.8**	**1.35**	**1.70**	**2.04**	**2.31**	**9.0**
AMETEK	12	18	2	17	0.24	1.36	34.6	10	56	134	59.0	-0.17	1.05	1.10	1.35	5.2
COOPER INDUSTRIES	12	35	23	17	1.32	3.80	115.4	-29	68	477	69.7	2.75	2.07	2.35	2.59	7.0
EMERSON ELECTRIC	09	59	19	15	1.72	2.92	224.0	-2	67	868	34.6	3.15	4.04*	3.93	3.96	1.8
HUBBELL	12	55	19	16	1.72	3.14	31.4	2	55	262	20.9	2.10	3.36	2.92	3.82	1.8
MAGNETEK	06	14	5	NM	0.00	0.00	24.2	-9	72	113	62.0	1.09	-0.69*	NA	1.08	21.3
NATIONAL SERVICE INDUSTRIES	08	26	15	15	1.08	4.24	49.6	0	62	268	29.6	1.52	1.67*	1.36	1.86	2.2
RAYCHEM	06	35	16	866	0.32	0.92	43.4	-6	84	272	55.0	0.19	0.04*	NA	1.91	32.5
RELIANCE ELECTRIC	12	31	9	24	0.00	0.00	50.3	83	41	113	89.2	0.64	1.29	1.04	1.64	9.8
THOMAS & BETTS	12	66	28	19	2.24	3.38	19.4	17	72	291	48.7	2.91	3.55	3.18	4.08	3.4
WESTINGHOUSE ELECTRIC	12	13	5	19	0.20	1.57	355.7	-9	35	402	69.2	-0.64	0.66	0.46	0.81	4.9
(B) ELECTRONICS																
GROUP AVERAGE		**41**	**26**	**16**	**0.65**	**1.53**	**128.0**	**-4**	**73**	**482**	**81.3**	**2.49**	**2.86**	**3.08**	**3.39**	**3.2**
E-SYSTEMS	12	37	24	10	1.20	3.28	34.0	-15	62	330	67.4	3.58	3.58	3.95	3.95	1.8
GENERAL INSTRUMENT	12	30	5	18	0.00	0.00	120.9	7	75	321	186.4	0.74	1.66	NA	1.69	5.3
GM HUGHES ELECTRONICS	12	33	84	13	0.80	2.40	93.1	-12	64	327	42.3	2.30	2.62	2.54	2.78	1.4
HARRIS	06	41	30	13	1.24	3.02	39.3	-11	77	370	66.0	2.82	3.07*	2.40	3.72	4.8
LITTON INDUSTRIES	07	34	13	31	0.00	0.00	45.9	-47	80	249	72.9	2.10	1.10*	1.25	2.77	5.1
LORAL	03	40	18	12	0.60	1.51	84.1	6	76	516	60.4	2.72	3.34	3.63	3.67	1.6
MOTOROLA	12	57	13	23	0.28	0.49	569.2	25	71	1312	96.6	1.78	2.48	2.46	3.03	5.0
RAYTHEON	12	63	33	11	1.50	2.39	131.6	-7	76	748	50.0	5.11	5.65	5.89	6.34	1.6
VARIAN ASSOCIATES	09	34	13	15	0.24	0.70	34.3	14	77	168	89.6	1.26	2.22*	2.49	2.59	2.3
(C) INSTRUMENTS																
GROUP AVERAGE		**36**	**15**	**16**	**0.69**	**1.97**	**53.8**	**4**	**67**	**317**	**66.4**	**1.44**	**2.34**	**2.36**	**2.71**	**3.7**
BECKMAN INSTRUMENTS	12	29	11	15	0.40	1.39	29.1	10	56	187	46.8	-1.21	1.98	1.97	2.37	4.6
HONEYWELL	12	29	14	14	1.00	3.40	129.1	-16	71	471	57.0	2.40	2.16	2.12	2.47	1.2
JOHNSON CONTROLS	09	49	22	13	1.44	2.97	40.7	-8	60	384	54.1	3.16	3.80*	3.84	4.15	3.1
PERKIN-ELMER	06	28	7	17	0.68	2.46	42.5	-31	76	300	62.7	0.54	1.66*	1.18	1.99	1.5
TEKTRONIX	05	37	16	16	0.60	1.61	30.6	61	75	234	107.1	2.00	2.38	2.61	2.84	6.3
THERMO ELECTRON	12	44	19	21	0.00	0.00	50.8	11	67	328	70.4	1.75	2.06	2.45	2.44	5.3

The new Astra SPX.

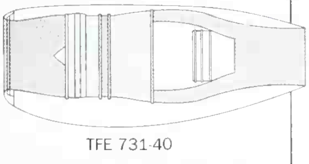
Introducing the practical benefits of advanced technology.

The new Astra SPX brings a whole new dimension to the world of business aviation. Born of advanced technology, the fuselage fits the human form and achieves the highest degree of aerodynamics. Interior space is maximized while minimizing the external frontal drag. As a result, the SPX can fly non-stop* from New York City to Los Angeles at a speed of .82 Mach. That's one hour faster than any other manufacturer's mid-size business jet. The Lear 60, Citation VI and VII require a stop* to complete the mission.


NEW YORK(TEB) to LOS ANGELES(LAX)

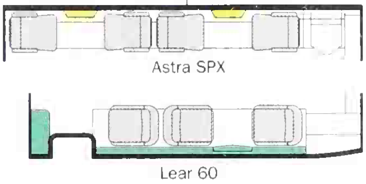
Climb to the top

Thanks to the new more powerful, highly efficient AlliedSignal 731-40 engines, the SPX offers a range of 3690 miles, 600 miles greater than the Hawker 800. The digitally controlled engines were derived from AlliedSignal's highly successful turbo fan engines with a history of more than 28 million flight hours. Truly a global performer, the Astra SPX will fly you to London from New York, non-stop. Combining the 731-40 engines with the new wing design, the SPX achieves extraordinary short field performance. On a 1,000 mile mission, it can take off from runways 500 feet shorter than any of its mid-size competitors. In fact, the SPX can take off from shorter fields than the Beechjet 400A and has an operating cost per mile less than the Citation V Ultra. The SPX offers the most advanced digital avionics that will be available on future larger business jets like the Challenger 604, Falcon 2000 and the Astra Galaxy. This advanced Collins avionics package provides your pilots with greater information and reliability.



More comfort on the inside

The SPX can cruise above the weather at 41,000 feet for longer periods of time than any mid-size business aircraft, adding to the comfort and quietness of the cabin environment. Henry Dreyfuss Associates designed a cabin interior around their human engineering philosophy. The SPX offers greater leg room than a Lear 60 and has a longer cabin.



Your stockholders will applaud

The Astra SPX is part of a new generation of Astra business aircraft. This comes at a time when large and small corporations are looking at new ways to reduce their overhead and improve their profits. It's something we call Astranomics: the new reality in business aviation. It's something your stockholders will applaud. Call our president, Roy E. Bergstrom, at **1 609 987-1125** or fax us at **1 609 987-8118** for more information.

ASTRA

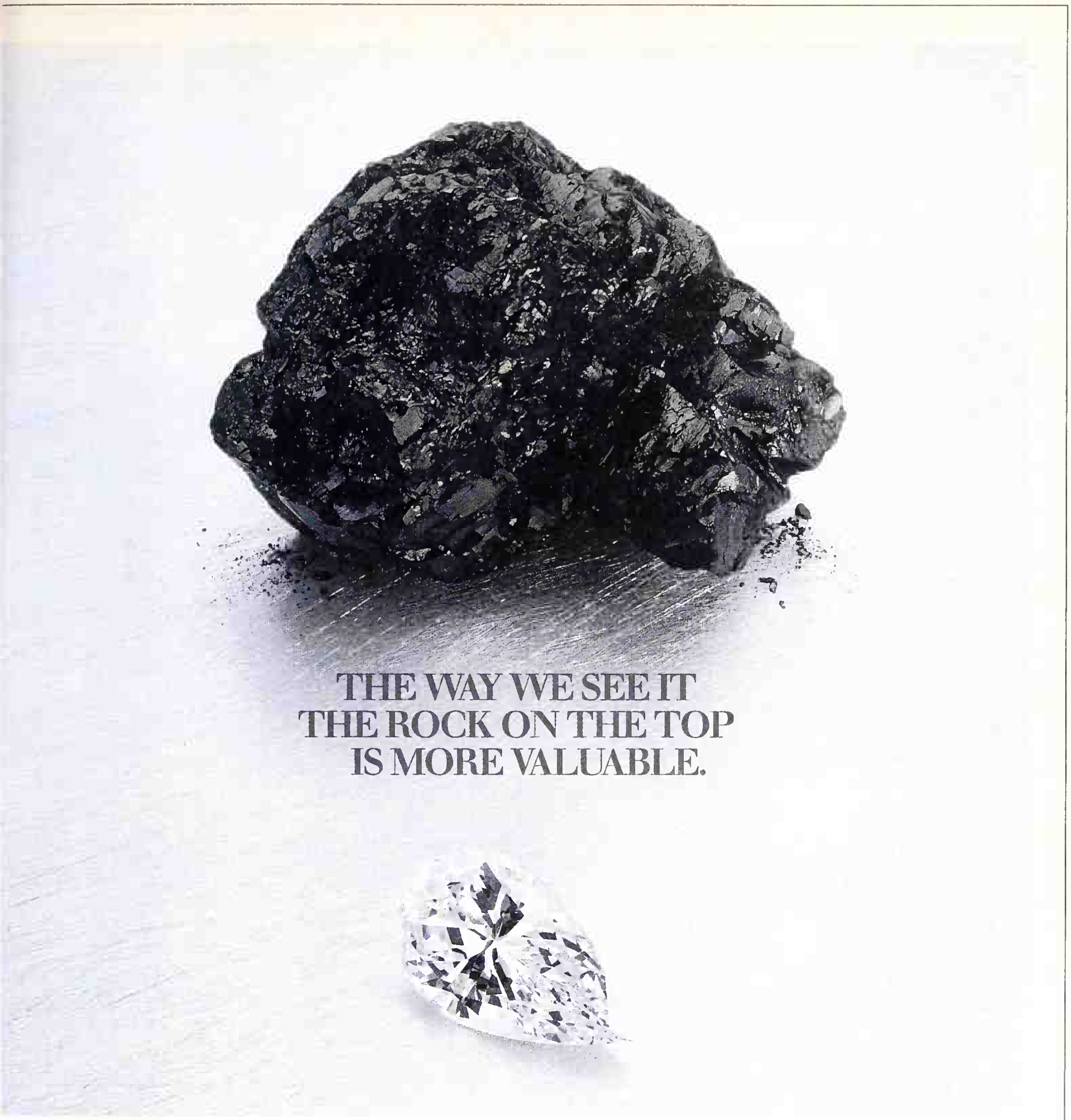
Leadership...by design

---

*Boeing 85% probability wind 4 Pax ISA conditions NBAA IFR reserves

INVESTMENT OUTLOOK SCOREBOARD

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1994 EST.	1994 DIVI-DEND RATE	YIELD %	SHRS. OUT. MILS.	1994 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	INSTITUTIONAL HOLDINGS NUMBER	1994 TURN-OVER %	EARNINGS PER SHARE 1993 ACTUAL	EARNINGS PER SHARE I/B/E/S 1994 ANALYST EST.	1995 ESTIMATES BASED ON 5-YR. TREND	1995 ESTIMATES FROM ANALYSTS I/B/E/S CON-SENSUS	1995 ESTIMATES FROM ANALYSTS VARIA-TION %
(D) SEMICONDUCTORS & OTHER COMPONENTS																
GROUP AVERAGE		42	16	16	0.29	0.42	105.1	45	71	434	187.9	2.20	3.06	3.55	3.75	5.8
ADVANCED MICRO DEVICES	12	25	17	8	0.00	0.00	95.2	47	79	371	259.9	2.30	3.32	5.86	3.62	7.5
AMP	12	72	22	21	1.68	2.33	104.9	14	80	709	52.6	2.83	3.50	3.30	4.05	2.0
INTEL	12	63	22	11	0.24c	0.38	414.4	1	74	1360	253.7	5.20	5.94	8.76	6.92	7.8
LSI LOGIC	12	43	10	24	0.00	0.00	51.1	176	92	260	230.1	1.09	1.80	NA	2.44	8.6
MICRON TECHNOLOGY	08	42	10	11	0.20	0.48	101.9	129	65	355	443.3	1.04	3.83*	1.42	5.80	9.0
MOLEX	06	33	11	28	0.03	0.10	79.6	17	23	215	33.6	0.95	1.20*	1.20	1.43	4.2
NATIONAL SEMICONDUCTOR	05	18	9	9	0.00	0.00	123.0	25	83	389	218.3	1.98	2.02	NA	2.31	7.8
SCI SYSTEMS	06	19	12	17	0.00	0.00	27.3	6	60	97	195.7	1.09	1.08*	0.82	1.52	2.6
SOLECTRON	08	27	8	23	0.00	0.00	41.2	-4	92	191	125.5	0.75b	1.18*	1.39	1.53	3.9
TEXAS INSTRUMENTS	12	76	31	10	1.00	1.32	92.6	21	78	676	203.7	5.07	7.29	6.65	8.53	8.1
VISHAY INTERTECHNOLOGY	12	48	22	19	0.00d	0.00	25.3	62	50	146	50.2	1.91	2.47	2.58	3.15	2.2
10 FOOD																
INDUSTRY AVERAGE		25	10	18	0.53	2.03	100.6	2	46	239	50.5	1.28	1.53	1.93	1.89	7.3
(A) FOOD DISTRIBUTION																
GROUP AVERAGE		19	13	16	0.50	2.62	46.8	-13	61	189	47.8	0.90	1.30	1.44	1.59	4.8
FLEMING	12	23	29	15	1.20	5.22	37.3	-6	79	300	82.8	1.02	1.58	1.25	2.04	12.7
INTERNATIONAL MULTIFOODS	02	16	15	11	0.80	5.04	18.0	-23	60	120	44.0	-0.72	1.43	1.78	1.68	3.0
RICHFOOD HOLDINGS	04	15	5	13	0.10	0.66	21.4	-13	59	81	71.3	1.02	1.18	2.02	1.37	2.2
RYKOFF-SEXTON	04	21	15	24	0.00	0.00	11.6	-6	70	66	24.9	0.63	0.86	0.70	1.50	NM
SMART & FINAL	12	15	6	17	0.20	1.38	20.2	7	33	58	24.0	0.73	0.86	0.94	1.04	3.8
SUPER FOOD SERVICES	08	11	12	14	0.38	3.42	10.9	-15	53	61	25.6	0.85	0.81*	0.68	1.01	7.9
SUPERVALU	02	25	18	10	0.94	3.84	71.5	-33	73	362	63.4	2.58	2.49	2.77	2.71	2.2
SYSCO	06	26	7	22	0.36	1.40	183.3	-13	60	464	46.4	1.08	1.18*	1.39	1.40	1.4
(B) FOOD PROCESSING																
GROUP AVERAGE		28	9	19	0.63	2.11	111.4	5	48	289	60.4	1.44	1.67	2.17	2.06	8.9
ARCHER DANIELS MIDLAND	06	18	10	20	0.07d	0.36	515.9	28	51	616	41.2	0.99	0.93*	1.02	1.24	3.8
BORDEN	12	14	1	27	0.04	0.29	141.5	-18	44	367	118.6	-0.40	0.52	NA	0.79	17.7
CAMPBELL SOUP	07	43	8	17	1.12	2.60	248.0	4	24	429	20.3	1.02	2.51*	10.91	2.77	1.8
CHIQUITA BRANDS INTERNATIONAL	12	13	10	31	0.20	1.54	48.9	14	79	103	85.9	-0.99	0.42	0.40	1.15	33.9
CONAGRA	05	31	9	15	0.83	2.69	248.1	17	44	490	38.3	1.81	2.05	2.19	2.29	2.2
CONTINENTAL BAKING GROUP	09	4	3	NM	0.00	0.00	20.6	-49	39	108	62.1	2.69	-0.48	NA	-0.33	87.9
CPC INTERNATIONAL	12	51	11	16	1.36	2.65	147.7	6	63	690	46.7	2.95	3.17	3.47	3.53	1.4
CURTICE-BURNS FOOD	06	19	9	16	0.64	3.39	8.7	43	20	46	33.5	-2.77	1.17*	0.73	NA	NM
DEAN FOODS	05	28	13	13	0.68	2.40	39.9	-13	38	187	29.7	1.78	2.15	2.09	2.36	5.9
DOLE FOOD	12	24	19	18	0.40	1.70	59.5	-12	63	191	39.1	1.30	1.32	1.14	2.07	14.0
FLOWERS INDUSTRIES	06	18	7	22	0.81	4.60	39.4	-3	44	137	23.3	1.07	0.80*	0.90	1.09	5.5
GENERAL MILLS	05	54	8	14	1.88	3.50	157.7	-12	62	672	57.0	2.95	3.71	3.83	4.16	3.1
HEINZ (H.J.)	04	36	9	16	1.44	3.96	246.6	-1	57	579	43.4	2.35	2.33	2.45	2.54	2.4
HERSHEY FOODS	12	47	17	15	1.30	2.78	86.8	-6	26	384	33.6	3.31	3.03	3.63	3.36	1.8
HORMEL FOODS	10	25	8	16	0.50	2.01	76.9	13	21	109	13.0	1.31	1.54	1.66	1.69	3.6
HUDSON FOODS	09	23	12	14	0.12	0.53	16.8	111	21	77	88.8	1.01	1.62*	0.72	2.02	7.4
IBP	12	34	15	11	0.20	0.59	47.4	30	97	283	91.1	1.62	3.10	2.52	3.41	6.7
INTERSTATE BAKERIES	05	13	10	10	0.50	3.92	19.6	-19	66	64	39.7	0.78	1.22	0.88	1.40	2.9
KELLOGG	12	57	8	18	1.44	2.53	222.3	-2	75	519	29.2	2.94	3.15	3.78	3.44	2.0
LANCASTER COLONY	06	33	8	17	0.48	1.45	30.0	-5	55	201	58.8	1.52	1.97*	2.36	2.28	2.2
McCORMICK	11	19	6	14	0.48	2.53	81.2	-23	47	242	83.2	1.22	1.34	1.68	1.49	3.4
PET	06	17	3	15	0.32	1.90	100.8	-5	62	335	76.0	1.06	1.14*	NA	1.17	4.3
PIONEER HI-BRED INTERNATIONAL	08	34	11	14	0.68	2.00	87.7	-14	59	334	80.7	1.53	2.43	2.78	2.31	2.2
QUAKER OATS	06	30	4	18	1.14	3.75	133.4	-15	52	519	124.5	1.97	1.68*	1.98	2.19	4.6
RALCORP HOLDINGS	09	20	4	13	0.00	0.00	33.8	NA	46	163	NA	1.50	1.59*	NA	1.51	2.7
RALSTON PURINA GROUP	09	43	4	20	1.20	2.80	100.0	8	51	383	40.5	2.56	2.12*	2.20	2.79	3.6
SARA LEE	06	24	7	55	0.68	2.79	480.8	-2	46	669	47.4	1.40	0.44*	0.80	1.62	1.2
SAVANNAH FOODS & INDUSTRIES	09	12	7	53	0.54	4.60	26.2	-15	34	85	16.4	0.56	0.22*	0.23	0.54	18.5
SMITHFIELD FOODS	04	28	10	15	0.00	0.00	16.3	52	30	87	131.5	1.13	1.87	1.16	2.25	11.1
THORN APPLE VALLEY	05	28	17	11	0.28	1.00	5.8	21	45	50	76.3	2.40	2.50	2.22	2.78	9.7
TYSON FOODS	09	23	9	NM	0.08	0.35	147.7	-5	20	145	40.5	1.22	-0.01*	NA	1.57	3.2
UNIVERSAL FOODS	09	28	12	14	0.96	3.48	26.0	-14	64	166	41.4	2.15	1.95*	2.07	2.26	8.4
WLR FOODS	06	26	14	17	0.32	1.24	11.0	36	23	44	215.7	1.42	1.51*	1.03	2.19	8.7
WRIGLEY (WM.) JR.	12	47	6	27	0.83	1.78	116.2	6	24	341	26.0	1.50	1.76	1.96	1.99	2.5
(C) FOOD RETAILING																
GROUP AVERAGE		21	8	18	0.35	1.63	103.7	2	37	173	34.3	1.15	1.38	1.75	1.71	5.5
ALBERTSON'S	01	29	6	18	0.44	1.52	253.6	8	46	554	34.5	1.34	1.59	1.78	1.81	2.2
AMERICAN STORES	01	26	13	13	0.48	1.82	142.8	23	78	404	53.1	1.85	2.03	2.48	2.25	2.7
BRUNO'S	06	9	5	17	0.26	2.97	77.5	-2	24	200	76.4	0.60	0.52*	0.57	0.59	5.1
DELCHAMPS	06	17	19	10	0.44	2.67	7.1	-31	41	54	29.0	2.02	1.64*	1.46	1.67	2.4
FOOD LION	12	6	2	18	0.09	1.64	483.7	-13	7	90	19.3	0.01	0.32	0.07	0.40	2.5
GIANT FOOD	02	22	12	14	0.72	3.22	59.3	-14	41	253	28.2	1.53	1.56	1.37	1.70	4.7
GREAT ATLANTIC & PACIFIC TEA	02	22	26	25	0.80	3.60	38.2	-18	37	196	22.6	0.10	0.89	0.17	1.46	17.1
HANNAFORD BROTHERS	12	25	11	16	0.38	1.55	41.7	15	37	161	26.4	1.33	1.50	1.59	1.71	1.2
KROGER	12	24	-21	11	0.00	0.00	109.9	22	59	389	68.8	1.60	2.17	2.41	2.42	2.9
MARSH SUPERMARKETS	03	10	13	9	0.44	4.51	8.4	-3	24	28	20.6	1.01	1.03	0.93	1.17	6.8
PENN TRAFFIC	01	40	1	18	0.00	0.00	10.8	9	64	81	25.6	0.76	2.20	NA	3.20	2.2
RISER FOODS	06	7	8	39	0.00	0.00	8.1	0	30	35	22.2	0.75	0.18*	0.25	NA	NM



Coal may not be considered a luxury, but that's precisely the reason we think it makes such a smart investment.

Because the demand for coal is constant and strong in every environment. It remains a necessity even during a recession, while the demand for diamonds tends to fall by the wayside.

Which is exactly why Hanson added The Peabody Group's U.S. and Australian coal operations to its portfolio. Other Hanson operations include building materials, forest products, chemicals, and such well-known consumer brand names as Farberware cookware, Tommy Armour Golf equipment and Jacuzzi Whirlpool Baths.

Since being listed on the New York Stock Exchange in 1986, sales have soared to $15 billion, while total market capitalization is over $20 billion. At the end of 1995, our gross yield was 5.3%, double the average of the S&P 500.

There is, of course, a reason for our success: a management philosophy steeped in common sense. Namely, to own basic businesses that provide good, essential products and services and then keep a firm eye on the bottom line.

Which ultimately means that while Hanson may never be the perfect accessory for an evening gown, you might consider it for your investment portfolio.

For a copy of Hanson's Annual Report call 1-800-8-HANSON.

HANSON

AGGREGATES · CHEMICALS · COAL · CONSTRUCTION & BUILDING PRODUCTS · FOREST PRODUCTS · TOBACCO

INVESTMENT OUTLOOK SCOREBOARD

									INSTITUTIONAL HOLDINGS			EARNINGS PER SHARE				
														1995 ESTIMATES		
															FROM ANALYSTS	
COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1994 EST.	1994 DIVIDEND RATE	YIELD %	SHRS. OUT. MILS.	1994 MARKET VALUE CHANGE %	%	NUMBER	1994 TURNOVER %	1993 ACTUAL	I/B/E/S 1994 ANALYST EST.	BASED ON 5-YR. TREND	I/B/E/S CONSENSUS	VARIATION %
RUDDICK	09	18	13	13	0.43c	2.39	23.3	-21	61	90	14.2	1.26	1.35*	1.43	1.57	1.9
SAFEWAY	12	31	5	16	0.00	0.00	103.3	46	33	177	44.8	1.02	1.92	3.98	2.28	5.3
SMITH'S FOOD & DRUG	12	25	19	16	0.52	2.06	26.7	8	24	80	61.0	1.52	1.61	1.84	1.80	6.1
SOUTHLAND	12	5	-3	36	0.00	0.00	409.9	-31	7	42	17.2	-0.03	0.13	NA	0.15	26.7
STOP & SHOP	01	24	4	15	0.00	0.00	49.4	17	37	99	33.6	1.23	1.57	4.82	1.85	2.2
VONS	12	20	13	18	0.00	0.00	43.4	27	41	110	39.3	0.76	1.11	0.93	1.48	5.4
WINN-DIXIE STORES	06	50	14	17	1.56	3.10	74.1	-7	17	239	16.0	3.11	2.90*	3.70	3.25	1.2
11 FUEL																
INDUSTRY AVERAGE		**36**	**19**	**150**	**1.19**	**2.83**	**176.0**	**4**	**60**	**479**	**56.4**	**1.44**	**1.70**	**1.87**	**2.35**	**32.1**
(A) COAL, OIL & GAS																
GROUP AVERAGE		**36**	**20**	**168**	**1.25**	**2.94**	**180.8**	**5**	**58**	**468**	**53.8**	**1.53**	**1.73**	**1.93**	**2.43**	**35.0**
AMERADA HESS	12	46	34	66	0.60	1.32	93.0	1	64	475	59.8	-3.22	0.69	0.12	1.55	23.2
AMOCO	12	61	28	18	2.20	3.61	496.9	15	61	1131	32.8	3.66	3.47	2.94	4.20	8.1
ASHLAND OIL	09	34	21	12	1.10	3.24	61.0	1	60	413	81.4	2.26	2.94*	3.02	3.37	5.9
ATLANTIC RICHFIELD	12	104	39	21	5.50	5.31	160.7	-1	62	984	53.6	1.66	5.04	2.29	6.56	10.4
BURLINGTON RESOURCES	12	36	20	31	0.55	1.54	126.8	-18	74	552	57.9	1.95	1.14	1.61	1.52	20.4
CHEVRON	12	44	22	17	1.85	4.24	651.7	0	45	1076	39.6	1.95	2.54	4.37	3.19	5.3
COASTAL	12	26	23	12	0.40	1.55	104.7	-9	77	461	58.2	1.02	2.07	1.32	2.42	7.0
CROWN CENTRAL PETROLEUM	12	14	28	14	0.00	0.00	9.8	-3	22	36	19.0	-0.44	1.00	NA	1.70	NM
DIAMOND SHAMROCK	12	26	20	12	0.56	2.17	29.0	7	77	187	56.6	1.04	2.14	1.12	2.67	15.0
EXXON	12	60	29	17	3.00	4.97	1241.5	-4	41	1283	22.4	4.21	3.58	4.54	4.12	5.3
KERR-McGEE	12	47	30	24	1.52	3.22	51.7	4	72	369	52.6	1.57	1.96	1.59	2.63	7.6
LOUISIANA LAND & EXPLORATION	12	41	17	4100	1.00	2.44	33.4	3	86	321	78.8	0.43	0.01	0.02	0.76	40.8
MAPCO	12	50	20	11	1.00	2.00	29.9	-18	73	242	44.5	4.24	4.52	4.66	5.49	4.9
MAXUS ENERGY	12	4	1	NM	0.00	0.00	135.2	-31	57	241	67.2	-0.60	-0.53	NA	-0.25	160.0
MITCHELL ENERGY & DEVELOPMENT	01	16	14	29	0.53	3.29	52.8	-24	22	89	11.2	0.49	0.55	0.52	0.89	13.5
MOBIL	12	85	43	16	3.40	3.99	397.5	8	54	1273	38.4	5.07	5.23	4.81	5.95	4.4
MURPHY OIL	12	45	29	22	1.30	2.91	44.8	12	63	254	36.1	1.94	2.05	1.95	2.40	12.1
OCCIDENTAL PETROLEUM	12	20	10	NM	1.00	5.10	312.5	18	51	445	59.8	0.12	-0.14	NA	0.96	33.3
ORYX ENERGY	12	12	4	NM	0.00	0.00	98.9	-28	58	329	79.3	-1.01	-1.06	NA	-0.07	500.0
PENNZOIL	12	48	27	41	3.00	6.20	46.1	-9	63	360	54.4	3.80	1.17	0.81	1.56	42.9
PHILLIPS PETROLEUM	12	33	11	22	1.12	3.39	261.5	14	53	580	50.9	0.94	1.53	1.14	2.00	12.5
QUAKER STATE	12	14	8	23	0.40	2.91	31.5	19	39	127	42.0	0.50	0.60	0.52	1.05	6.7
SUN	12	29	18	24	1.80	6.18	106.9	-1	55	365	50.2	2.65	1.23	1.99	2.12	13.2
TESORO PETROLEUM	12	9	6	21	0.00	0.00	24.4	187	44	71	112.3	0.54	0.44	NA	1.73	2.3
TEXACO	12	62	35	19	3.20	5.15	257.7	-5	60	1018	51.4	4.47	3.21	2.61	4.23	8.3
TOSCO	12	30	15	13	0.64	2.17	37.1	16	73	221	96.1	2.33b	2.36	1.95	3.35	12.8
ULTRAMAR	12	24	15	11	1.10	4.54	38.5	-4	93	235	63.2	2.23	2.16	2.59	3.09	5.8
UNOCAL	12	27	11	26	0.80	3.00	243.4	-4	71	657	53.2	1.27	1.03	0.79	1.49	13.4
USX-MARATHON GROUP	12	18	11	38	0.68	3.78	286.6	9	61	479	42.6	-0.04	0.47	0.27	0.94	20.2
VALERO ENERGY	12	19	23	26	0.52	2.74	43.4	-10	72	184	48.5	0.82	0.72	0.83	1.54	19.5
VASTAR RESOURCES	12	25	0	16	0.08	0.30	97.3	NA	10	57	NA	NA	1.53	NA	2.15	15.3
(B) PETROLEUM SERVICES																
GROUP AVERAGE		**37**	**17**	**26**	**0.67**	**1.92**	**139.0**	**-4**	**69**	**562**	**82.6**	**0.77**	**1.47**	**1.36**	**1.73**	**10.0**
BAKER HUGHES	09	18	12	21	0.46	2.56	140.5	-10	71	468	105.5	0.34	0.85*	0.58	0.75	8.0
HALLIBURTON	12	35	16	30	1.00	2.87	114.1	9	75	530	92.6	-1.43	1.15	0.75	1.52	16.4
SCHLUMBERGER	12	53	19	23	1.20	2.26	243.4	-10	61	972	49.7	2.40	2.30	2.74	2.74	8.8
WESTERN ATLAS	12	44	21	27	0.00	0.00	57.9	NA	68	279	NA	1.77	1.59	NA	1.92	6.8
12 HEALTH CARE																
INDUSTRY AVERAGE		**33**	**11**	**18**	**0.58**	**1.41**	**155.4**	**15**	**59**	**413**	**86.9**	**1.41**	**1.95**	**2.81**	**2.37**	**4.4**
(A) DRUG DISTRIBUTION																
GROUP AVERAGE		**24**	**10**	**18**	**0.34**	**1.46**	**44.9**	**29**	**50**	**175**	**58.3**	**1.01**	**1.44**	**1.29**	**1.78**	**3.7**
BERGEN BRUNSWIG	09	19	12	13	0.48	2.48	37.3	14	55	149	45.3	0.79	1.52*	1.11	1.64	4.3
BINDLEY WESTERN INDUSTRIES	12	13	16	11	0.08	0.60	10.8	13	47	64	80.3	0.88	1.20	1.40	1.36	2.9
CARDINAL HEALTH	06	46	12	53	0.12	0.26	41.7	73	61	201	81.0	1.14	0.86*	1.25	1.94	1.0
DRUG EMPORIUM	02	5	4	15	0.00	0.00	13.2	6	15	27	79.0	0.10	0.33	0.14	0.90	NM
ECKERD	01	28	-5	13	0.00	0.00	31.7	54	68	77	54.8	1.24	2.26	NA	2.60	2.3
FAY'S	01	6	5	9	0.20	3.20	20.3	-8	21	57	22.1	0.50	0.69	0.60	0.75	5.3
LONGS DRUG STORES	01	31	25	12	1.12	3.57	20.7	-5	44	189	31.7	2.41	2.63	2.37	2.87	4.5
REVCO D. S.	05	23	11	22	0.00	0.00	66.5	105	61	133	48.8	0.77	1.01	NA	1.36	8.8
RITE AID	02	23	11	14	0.60	2.65	84.3	36	77	350	91.2	0.30	1.64	0.88	1.84	2.7
WALGREEN	08	42	12	18	0.78	1.87	123.1	2	53	506	48.8	1.98	2.28*	2.54	2.55	1.2
(B) DRUGS & RESEARCH																
GROUP AVERAGE		**51**	**12**	**15**	**1.56**	**3.03**	**295.5**	**8**	**55**	**713**	**71.9**	**2.56**	**3.45**	**4.27**	**3.67**	**4.3**
ALLERGAN	12	30	9	18	0.44	1.46	63.5	32	83	307	44.3	1.58	1.70	2.07	1.85	2.2
AMERICAN HOME PRODUCTS	12	65	13	13	2.92	4.48	305.8	-1	61	1015	35.3	4.73	4.93	5.10	5.08	5.3
AMGEN	12	58	10	19	0.00	0.00	132.9	17	57	590	247.1	2.61	3.09	8.60	3.68	2.4
BRISTOL-MYERS SQUIBB	12	58	12	13	2.92	5.06	510.7	-1	46	1200	42.4	3.80	4.57	5.69	4.81	2.5
LILLY (ELI)	12	63	18	13	2.50	3.99	292.2	5	67	775	55.9	1.67	4.77	2.95	4.48	6.3
MARION MERRELL DOW	12	23	8	15	1.00	4.44	278.8	27	10	164	38.0	1.30	1.46	1.59	1.28	11.7
MERCK	12	37	9	16	1.20	3.22	1261.1	9	47	1292	49.3	1.87	2.39	2.67	2.66	3.0
PFIZER	12	77	13	19	1.88	2.43	314.8	10	62	1067	63.2	2.05	4.14	3.66	4.74	3.4
RHONE-POULENC RORER	12	39	11	14	1.12	2.87	134.1	6	12	148	26.8	2.96	2.85	7.94	3.17	4.1

AT&T **True USA**℠ Savings *Presents 40% Off Sundays* All Holiday Season.

This should make more than just our *True USA*℠ Savings members happy.

Favorite nephew of a True USA Savings member.

Former roommate of a True USA Savings member.

Father of a True USA Savings member.

Every Sunday through New Year's Day, we're giving our **True USA**℠ Savings members a special 40% off AT&T calls to anybody in the U.S.* So you can call anyone and everyone you care about, as much as you want. The savings are yours automatically, just for being a part of AT&T **True USA**℠ Savings.

It's our way of making sure that you and everyone you call are happy this holiday.

For questions, call 1 800-TRUE-USA.℠

AT&T *True USA*℠ Savings

AT&T

monthly minimum required. 40% is in lieu of regular AT&T **True USA**℠ Savings discount.
ilable in most areas. Certain exclusions apply. Pending tariff effectiveness.

© 1994 AT&T

INVESTMENT OUTLOOK SCOREBOARD

												EARNINGS PER SHARE				
														1995 ESTIMATES		
									INSTITUTIONAL HOLDINGS						FROM ANALYSTS	
COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1994 EST.	1994 DIVIDEND RATE	YIELD %	SHRS. OUT. MILS.	1994 MARKET VALUE CHANGE %	%	NUMBER	1994 TURNOVER %	1993 ACTUAL	I/B/E/S 1994 ANALYST EST.	BASED ON 5-YR TREND	I/B/E/S CONSENSUS	VARIATION %
SCHERING-PLOUGH	12	75	10	16	2.04	2.72	190.3	7	67	986	67.3	4.23	4.79	5.84	5.40	2.6
SIGMA-ALDRICH	12	35	14	16	0.33	0.95	49.8	-28	61	341	122.8	2.15	2.20	2.59	2.44	3.3
UPJOHN	12	32	13	12	1.48	4.61	173.2	11	63	568	70.9	2.24	2.76	3.10	2.56	5.1
WARNER-LAMBERT	12	77	13	15	2.44	3.15	134.5	15	75	817	71.1	2.11	5.14	3.73	5.55	3.6
(C) HEALTH-CARE SERVICES																
GROUP AVERAGE		**26**	**10**	**17**	**0.05**	**0.13**	**90.6**	**19**	**62**	**271**	**109.1**	**1.16**	**1.27**	**2.72**	**1.87**	**4.4**
AMERICAN MEDICAL HOLDINGS	08	24	11	13	0.00	0.00	77.2	24	52	127	75.5	0.87	1.80*	NA	1.40	2.1
BEVERLY ENTERPRISES	12	14	8	17	0.00	0.00	85.6	11	76	305	119.1	0.45	0.81	0.64	0.98	4.1
CAREMARK INTERNATIONAL	12	19	6	15	0.04	0.21	71.6	-4	62	252	127.6	1.06	1.27	NA	1.46	4.1
CHARTER MEDICAL	09	23	3	NM	0.00	0.00	26.9	-12	73	112	111.8	-1.59	-1.78*	NA	2.69	1.5
COLUMBIA/HCA HEALTHCARE	12	38	13	16	0.12	0.32	362.0	23	60	753	68.5	1.70	2.42	2.96	2.91	2.8
CONTINENTAL MEDICAL SYSTEMS	06	7	6	NM	0.00	0.00	38.4	-16	61	116	87.1	0.59	-0.92*	NA	0.70	5.7
FHP INTERNATIONAL	06	27	28	16	0.00	0.00	39.8	20	82	200	172.4	1.33	1.71*	1.71	1.83	2.2
FOUNDATION HEALTH	06	36	13	13	0.00	0.00	29.1	20	91	202	216.2	2.05	2.84*	3.82	2.60	5.8
HEALTHTRUST	08	32	11	16	0.00	0.00	90.7	35	59	300	78.0	1.62	1.98*	NA	2.37	1.7
HILLHAVEN	05	21	14	17	0.00	0.00	27.2	46	45	126	81.0	2.06	1.28	5.40	1.52	5.3
HUMANA	12	22	6	23	0.00	0.00	161.2	27	71	374	107.1	0.56	0.98	NA	1.25	4.0
MANOR CARE	05	28	9	19	0.09	0.31	62.4	17	55	288	48.2	1.29	1.49	2.12	1.72	2.9
NATIONAL HEALTH LABORATORIES	12	12	2	20	0.00	0.00	84.8	-15	53	157	76.5	1.26	0.62	0.77	0.81	9.9
NATIONAL MEDICAL ENTERPRISES	05	14	8	11	0.00	0.00	166.3	1	80	416	120.3	1.29	1.25	1.03	1.45	9.7
NOVACARE	06	8	6	8	0.00	0.00	64.2	-35	55	212	112.8	0.93	0.90*	1.57	0.81	16.1
ORNDA HEALTHCORP	08	13	7	NM	0.00	0.00	43.5	94	37	112	151.8	-0.05	-1.29*	NA	1.35	3.0
PACIFICARE HEALTH SYSTEMS	09	66	15	22	0.00	0.00	27.5	76	46	141	114.4	2.25	3.02*	4.76	3.63	2.5
U.S. HEALTHCARE	12	45	5	19	0.84	1.88	159.9	15	78	620	238.2	1.84	2.40	4.92	2.84	4.2
UNITED HEALTHCARE	12	48	15	27	0.03	0.06	171.1	39	89	643	102.1	1.24	1.78	3.19	2.30	2.2
UNIVERSAL HEALTH SERVICES	12	25	18	12	0.00	0.00	14.3	31	69	104	61.1	1.71	2.02	2.78	2.26	1.3
WELLPOINT HEALTH NETWORK	12	29	13	14	0.00	0.00	99.5	-7	15	126	22.3	1.88	2.13	2.43	2.42	2.1
(D) MEDICAL PRODUCTS																
GROUP AVERAGE		**34**	**11**	**24**	**0.65**	**1.94**	**219.5**	**5**	**65**	**557**	**88.4**	**0.86**	**1.94**	**2.24**	**2.33**	**5.2**
ABBOTT LABORATORIES	12	32	5	17	0.76	2.38	807.9	6	53	1094	32.4	1.69	1.86	2.17	2.09	3.4
BARD (C. R.)	12	26	8	14	0.60	2.31	52.0	3	64	307	70.9	1.19	1.82	1.75	2.07	3.9
BAUSCH & LOMB	12	33	17	13	0.98	2.94	59.1	-35	69	437	123.4	2.60	2.62	2.93	3.10	4.5
BAXTER INTERNATIONAL	12	26	13	12	1.05	4.08	282.8	8	71	709	52.7	-0.97	2.11	2.37	2.28	3.5
BECTON DICKINSON	09	47	20	16	0.74	1.57	71.0	29	88	451	55.3	2.71	3.05*	3.24	3.38	3.0
JOHNSON & JOHNSON	12	53	11	17	1.16	2.17	643.0	19	62	1240	43.2	2.74	3.10	3.61	3.44	2.6
MALLINCKRODT GROUP	06	30	14	22	0.50	1.66	76.9	-10	83	382	84.8	-1.48	1.38*	1.56	2.42	1.7
MEDTRONIC	04	53	9	22	0.41	0.77	114.8	30	70	589	72.1	2.03	2.45	2.95	2.87	2.4
OWENS & MINOR	12	15	4	21	0.18	1.19	30.7	0	49	97	41.8	0.60	0.71	1.29	0.86	2.3
U.S. SURGICAL	12	22	12	87	0.08	0.37	56.8	-2	44	261	307.3	-2.48	0.25	0.50	0.77	24.7
13 HOUSING & REAL ESTATE																
INDUSTRY AVERAGE		**26**	**15**	**12**	**0.41**	**1.56**	**46.8**	**-16**	**60**	**215**	**78.4**	**2.75**	**2.33**	**2.22**	**2.84**	**9.4**
(A) BUILDING MATERIALS																
GROUP AVERAGE		**30**	**13**	**13**	**0.47**	**1.47**	**57.7**	**-3**	**57**	**231**	**65.0**	**2.91**	**2.49**	**2.41**	**3.12**	**6.5**
LAFARGE	12	18	11	15	0.30	1.69	67.8	-21	33	124	44.7	0.10	1.15	0.26	1.96	14.8
OWENS-CORNING FIBERGLAS	12	29	-16	9	0.00	0.00	44.2	-33	75	282	127.8	2.28b	3.30	2.29	4.09	6.4
PLY-GEM INDUSTRIES	12	19	12	14	0.12	0.64	14.9	45	53	106	101.4	0.76	1.34	1.04	2.01	0.5
PPG INDUSTRIES	12	36	13	14	1.16	3.22	212.8	-6	51	596	37.0	1.39	2.58	1.72	3.30	12.1
RPM	05	18	6	17	0.56	3.18	56.8	2	31	167	38.1	0.93	1.06	1.13	1.19	3.4
SHERWIN-WILLIAMS	12	31	12	14	0.56	1.82	85.5	-17	61	413	46.6	1.85	2.13	2.28	2.38	2.1
TECUMSEH PRODUCTS	12	44	36	8	0.80	1.83	21.9	-5	64	162	60.4	3.72	5.24	5.00	5.30	3.0
TEXAS INDUSTRIES	05	33	29	10	0.20	0.60	12.5	16	67	114	69.1	2.29	3.22	2.23	4.32	10.6
USG	12	20	1	8	0.00	0.00	45.1	-19	55	147	104.2	14.32	2.44	NA	3.36	7.1
VULCAN MATERIALS	12	48	20	19	1.32	2.74	36.5	3	60	165	23.8	2.39	2.59	2.11	3.61	8.9
YORK INTERNATIONAL	12	36	14	15	0.16	0.45	37.0	0	79	263	62.0	2.01	2.37	5.99	2.79	2.5
(B) CONSTRUCTION & REAL ESTATE																
GROUP AVERAGE		**17**	**21**	**9**	**0.27**	**1.77**	**22.9**	**-43**	**66**	**181**	**107.9**	**2.43**	**1.96**	**1.74**	**2.24**	**15.8**
CENTEX	03	20	23	10	0.20	0.98	29.0	-56	79	281	165.1	2.60	1.98	2.23	2.17	16.1
KAUFMAN & BROAD HOME	11	13	12	11	0.30	2.35	32.4	-50	53	224	156.4	0.96	1.20	0.74	1.55	16.1
PULTE	12	20	24	9	0.24	1.19	27.6	-44	58	228	70.8	2.78	2.33	2.91	2.47	17.4
RYLAND GROUP	12	14	19	9	0.60	4.32	15.4	-30	80	104	53.2	-0.34	1.63	1.09	2.11	18.5
U.S. HOME	12	16	24	6	0.00	0.00	10.0	-37	61	66	94.0	6.16	2.66	NA	2.89	11.1
14 LEISURE TIME INDUSTRIES																
INDUSTRY AVERAGE		**24**	**8**	**15**	**0.28**	**0.98**	**111.2**	**-15**	**63**	**336**	**85.1**	**-0.55**	**1.44**	**1.78**	**1.78**	**42.9**
(A) EATING PLACES																
GROUP AVERAGE		**17**	**0**	**17**	**0.14**	**0.62**	**144.0**	**-23**	**52**	**323**	**60.8**	**-4.20**	**0.76**	**1.52**	**1.14**	**72.3**
BRINKER INTERNATIONAL	06	17	6	20	0.00	0.00	71.0	-43	87	364	111.8	0.69	0.83*	1.05	1.05	1.9
FLAGSTAR	12	7	-34	NM	0.00	0.00	42.4	-23	31	51	23.4	-39.23	-0.71	NA	-0.03	233.3
FOODMAKER	09	5	3	NM	0.00	0.00	38.6	-47	31	56	41.0	-1.15	-0.94*	NA	0.07	328.6
MARRIOTT INTERNATIONAL	12	26	6	18	0.28	1.07	124.1	-11	49	377	44.6	1.28	1.48	NA	1.71	2.3

FundsNetwork®: For The New Era In Mutual Fund Investing

"...the network (Fidelity's FundsNetwork) well ahead of its only direct competitor..."
– **MONEY Guide to Mutual Funds,** ***Summer 1994***

"Is it worth opening one of these 'network' accounts? Definitely."
– ***Ellyn E. Spragins,*** **Smart Money,** ***March 1994***

Choose From Over 350 Funds From These Well-Known Companies

American Heritage
Babson
Baron
Benham
Berger
Blanchard
Bramwell
Bull & Bear
Cappiello-Rushmore
Cohen & Steers
Dreman
Dreyfus
Fidelity
Founders
Gabelli
Heartland
IAI
Janus
Kaufmann
Lexington
Montgomery
Neuberger & Berman
Oberweis
PBHG
Robertson Stephens
Royce
Rushmore
Skyline
SteinRoe
Strong
United Services
Warburg Pincus
Wasatch
Wright EquiFunds
Yacktman

Make Your Mutual Fund Investing Easier Than Ever Before

1. ***The Information You Need.*** Investing through FundsNetwork starts with Fidelity's *Investment Planner* and *Performance Directory.* You'll also have access to individual fund reports independently prepared by Morningstar. With these tools, you'll have everything you may need to sort through **over 350 popular mutual fund choices** to find the right ones for your needs.
2. ***One Call Does It All.*** When you know which funds you want to invest in, one call to FundsNetwork is all it takes. Fidelity's representatives can take your buying and selling instructions anytime of the day or night.
3. ***See It All On One Statement.*** Now, with FundsNetwork, your mutual funds and other holdings are consolidated on one easy statement. You may see a more complete financial picture than ever before and, of course, you'll have Fidelity service available 24 hours a day.

Call today for more information. As a FundsNetwork customer, you'll receive the free quarterly *FundsNetwork Performance Directory* and *Investment Planner.*

FundsNetwork Performance Directory
FundsNetwork Investment Planner

For Personal Service, Visit a Fidelity Investor Center or Call 24 Hours

1-800-544-9697

Fidelity Investments®

For more complete information, including charges and expenses, call for a free prospectus. Please read prospectuses carefully before you invest or send money. Fidelity reserves the right to change the funds available with no transaction fees and reinstate the fees on any funds. Fidelity reserves the right to charge a transaction fee if you make five or more short-term redemptions (sales of shares held less than six months) on funds available with no transaction fees in a twelve month period. If you purchased a no-load fund and paid a transaction fee, you will be obligated to pay a transaction fee upon its sale. This program is subject to change without notice. Share prices (except for money market funds), yields and returns will vary. You may have a gain or loss when you sell your shares. Past performance is no guarantee of future results. All fees as described in the fund's prospectus still apply. Fidelity Brokerage Services, Inc. Member NYSE, SIPC.

INVESTMENT OUTLOOK SCOREBOARD

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1994 EST.	1994 DIVIDEND RATE	YIELD %	SHRS. OUT. MILS.	1994 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS		1994 TURNOVER %	EARNINGS PER SHARE				
														1995 ESTIMATES		
															FROM ANALYSTS	
									%	NUMBER		1993 ACTUAL	I/B/E/S 1994 ANALYST EST.	BASED ON 5-YR. TREND	I/B/E/S CONSENSUS	VARIATION %
McDONALD'S	12	28	9	17	0.24	0.85	698.5	-2	58	1009	51.9	1.46	1.67	1.81	1.90	1.1
MORRISON RESTAURANTS	05	27	7	19	0.35	1.32	35.0	-2	51	159	41.7	1.20	1.38	1.67	1.70	3.5
SHONEY'S	10	14	-4	10	0.00	0.00	41.2	-40	56	237	99.8	1.35b	1.44	1.80	1.64	5.5
WENDY'S INTERNATIONAL	12	14	7	15	0.24	1.71	101.5	-19	56	334	72.1	0.77	0.91	1.27	1.08	1.9
(B) HOTEL & MOTEL																
GROUP AVERAGE		**28**	**12**	**18**	**0.17**	**0.25**	**78.9**	**-16**	**60**	**287**	**131.7**	**1.20**	**1.45**	**2.14**	**1.85**	**94.2**
BALLY ENTERTAINMENT	12	6	6	16	0.00	0.00	46.9	-31	25	163	93.8	-0.40	0.36	NA	0.70	35.7
CAESARS WORLD	07	44	22	14	0.00	0.00	24.9	-18	84	217	208.0	3.40	3.19*	3.66	3.85	3.6
CIRCUS CIRCUS ENTERPRISES	01	21	7	13	0.00	0.00	85.7	-44	72	288	171.8	1.34	1.63	1.87	1.99	6.0
HILTON HOTELS	12	70	23	28	1.20	1.73	48.1	15	42	314	91.8	2.14	2.48	2.27	3.20	3.4
HOST MARRIOTT	12	10	5	NM	0.00	0.00	153.2	23	60	259	80.1	0.43	-0.12	NA	-0.01	600.0
MIRAGE RESORTS	12	20	11	16	0.00	0.00	90.9	-17	66	280	109.1	0.58	1.25	0.99	1.42	3.5
PROMUS	12	28	6	20	0.00	0.00	102.4	-39	73	490	167.0	0.89	1.39	1.94	1.80	7.2
(C) OTHER LEISURE																
GROUP AVERAGE		**26**	**11**	**14**	**0.40**	**1.46**	**109.0**	**-11**	**69**	**364**	**77.3**	**0.45**	**1.76**	**1.73**	**2.06**	**8.0**
AMERICAN GREETINGS	02	28	15	14	0.56	2.02	74.4	-18	81	430	120.5	1.77	2.01	2.22	2.28	2.6
BRUNSWICK	12	17	9	14	0.44	2.55	95.4	-4	72	338	85.5	0.57	1.27	0.88	1.72	9.9
CARNIVAL	11	43	13	16	0.60	1.39	141.2	-9	34	324	28.7	2.25	2.71	2.98	3.26	1.8
CML GROUP	07	10	4	10	0.08	0.78	50.0	-57	64	188	235.3	1.11	1.00*	1.61	1.21	2.5
DISNEY (WALT)	09	44	11	21	0.30	0.69	536.1	2	47	1003	52.1	1.23	2.04*	1.75	2.40	3.3
EASTMAN KODAK	12	46	12	17	1.60	3.52	339.7	-17	63	1021	75.7	1.44	2.74	1.96	3.34	5.7
FLEETWOOD ENTERPRISES	04	20	12	10	0.56	2.85	46.0	-17	63	284	73.1	1.46	1.97	1.94	2.27	7.5
HARLEY-DAVIDSON	12	27	5	21	0.16	0.59	76.3	24	71	323	73.3	0.25	1.32	0.77	1.54	4.5
HARMAN INTERNATIONAL INDUSTRIES	06	35	16	17	0.16	0.46	15.1	22	73	120	61.8	1.04	1.98*	0.98	2.47	5.3
HASBRO	12	30	15	14	0.28	0.95	87.6	-19	68	360	74.3	2.22	2.07	2.78	2.50	4.0
HUFFY	12	14	10	12	0.34	2.39	14.0	-27	66	87	48.5	-0.30	1.20	1.11	1.35	3.0
MATTEL	12	27	6	16	0.24	0.90	178.5	27	81	616	57.6	0.77	1.69	1.53	1.96	1.5
MUSICLAND STORES	12	11	9	12	0.00	0.00	34.2	-47	81	138	81.6	1.03	0.91	1.52	1.15	13.9
OUTBOARD MARINE	09	19	10	8	0.40	2.15	19.9	-16	92	225	113.2	-8.42	2.42*	NA	1.85	17.3
POLAROID	12	31	17	13	0.60	1.91	46.4	-7	83	291	53.9	1.45	2.49	2.26	2.89	7.3
ROYAL CARIBBEAN CRUISES	12	28	12	12	0.44	1.60	63.3	3	NA	NA	10.4	1.80	2.22	NA	2.42	3.7
TYCO TOYS	12	6	9	NM	0.00	0.00	34.7	-28	57	71	68.7	-2.08	-0.11	NA	0.40	42.5
15 MANUFACTURING																
INDUSTRY AVERAGE		**33**	**14**	**17**	**0.60**	**1.82**	**68.0**	**-3**	**69**	**306**	**75.5**	**1.25**	**2.18**	**2.10**	**2.77**	**7.2**
(A) GENERAL MANUFACTURING																
GROUP AVERAGE		**33**	**12**	**18**	**0.72**	**2.20**	**97.7**	**3**	**64**	**341**	**53.0**	**1.53**	**1.95**	**2.27**	**2.45**	**5.1**
ALLIANT TECHSYSTEMS	03	35	8	9	0.00	0.00	9.9	20	67	82	125.4	3.21	3.73	3.88	3.80	10.5
AVERY DENNISON	12	32	14	17	0.96	2.98	55.3	8	66	333	46.8	1.44	1.91	2.14	2.29	3.5
CORNING	12	30	11	16	0.68	2.27	213.7	14	57	551	46.7	-0.09	1.89	1.88	2.24	4.0
CRANE	12	26	11	14	0.75	2.88	30.1	6	60	235	39.0	1.62	1.84	1.38	2.18	6.0
DURACELL INTERNATIONAL	06	45	10	27	0.88	1.96	117.6	27	48	262	48.0	1.04	1.68*	2.42	1.95	1.0
FIRST BRANDS	06	34	17	13	0.32	0.93	21.5	-3	87	185	51.8	2.41	2.71*	2.32	2.56	0.8
HARSCO	12	41	22	14	1.40	3.41	25.2	2	55	187	38.2	3.23	2.98	6.22	3.48	3.7
HILLENBRAND INDUSTRIES	11	30	9	15	0.57	1.91	71.2	-28	38	180	25.9	1.86	2.05	2.41	2.28	4.8
ILLINOIS TOOL WORKS	12	41	13	17	0.60	1.48	113.8	4	71	459	28.7	1.83	2.35	2.27	2.73	4.8
JOSTENS	06	17	6	NM	0.88	5.10	45.5	-13	72	256	55.1	-0.18	-0.58*	NA	0.93	15.1
MARK IV INDUSTRIES	02	21	10	15	0.11d	0.53	40.0	13	66	143	73.8	1.09b	1.36	1.39	1.60	3.8
MINNESOTA MINING & MFG.	12	51	16	16	1.76	3.43	422.5	-7	71	1011	34.3	2.91	3.17	3.07	3.65	2.5
NEWELL	12	22	7	17	0.40	1.86	157.8	7	67	472	51.5	1.05	1.24	1.37	1.43	2.1
PARKER HANNIFIN	06	44	21	41	1.00	2.28	49.0	17	73	355	72.9	1.34	1.07*	0.92	3.45	7.0
RUBBERMAID	12	27	8	19	0.50	1.85	161.6	-22	46	479	47.5	1.32	1.42	1.60	1.62	2.5
TRINOVA	12	30	11	13	0.68	2.30	28.8	-4	73	266	61.8	0.37	2.33	0.88	2.98	10.1
(B) MACHINE & HAND TOOLS																
GROUP AVERAGE		**32**	**15**	**20**	**0.63**	**2.14**	**35.5**	**2**	**72**	**229**	**53.6**	**1.12**	**2.02**	**1.57**	**2.66**	**7.1**
BLACK & DECKER	12	24	11	18	0.40	1.67	84.5	22	72	323	90.8	1.00	1.30	1.48	1.66	6.6
CINCINNATI MILACRON	12	24	4	20	0.36	1.51	33.6	9	72	222	59.0	-1.41	1.17	NA	1.82	4.9
DANAHER	12	47	15	18	0.12	0.26	28.6	23	82	156	24.4	1.86	2.63	1.90	3.06	7.2
KENNAMETAL	06	25	12	55	0.60	2.44	26.4	12	79	184	92.2	0.93	0.45*	0.41	1.87	8.0
NACCO INDUSTRIES	12	52	29	12	0.68	1.30	9.0	1	69	178	36.6	1.30	4.30	1.91	5.34	18.0
SNAP-ON	12	32	18	14	1.08	3.43	42.9	-16	73	287	55.8	2.02	2.32	1.85	2.66	3.0
SPX	12	16	12	13	0.40	2.58	14.0	-12	60	175	42.9	1.20	1.20	1.16	1.72	4.7
STANLEY WORKS	12	36	17	13	1.40	3.92	44.8	-20	68	304	26.8	2.06	2.75	2.26	3.15	4.8
(C) SPECIAL MACHINERY																
GROUP AVERAGE		**38**	**16**	**16**	**0.61**	**1.69**	**62.3**	**-3**	**74**	**360**	**101.4**	**0.96**	**2.65**	**2.21**	**3.40**	**8.9**
APPLIED MATERIALS	10	48	12	19	0.00	0.00	83.7	29	88	417	329.9	1.21	2.51*	1.93	3.21	7.5
BRIGGS & STRATTON	06	34	14	9	1.00	2.99	28.9	-19	76	328	89.5	2.43	3.55*	4.34	3.65	6.0
CATERPILLAR	12	54	14	12	0.60	1.11	202.6	21	75	734	107.1	3.36	4.48	4.88	5.44	7.5
CLARK EQUIPMENT	12	55	24	9	0.00	0.00	17.4	5	82	284	116.9	2.41	6.41	4.48	7.28	18.0
DEERE	10	64	28	9	2.20	3.42	86.4	-12	84	683	139.3	2.39	6.91	2.26	7.70	10.1
DOVER	12	51	17	15	1.04	2.03	57.2	-16	61	406	34.6	2.77	3.45	3.21	3.89	2.8
DRESSER INDUSTRIES	10	20	8	10	0.68	3.40	183.8	29	69	566	72.0	0.92	1.98*	1.16	1.29	10.9
FIGGIE INTERNATIONAL	12	7	9	NM	0.00	0.00	18.4	-51	51	70	109.1	-10.09	-3.45	NA	0.50	NM

Next
Rest Stop
40 Miles

"I HAD A TOUGH TIME GOING THE DISTANCE."

Every time I traveled someplace, I was worried about finding a bathroom so I could urinate. It was frustrating.

I saw my doctor, and he told me I was having the symptoms of a prostate condition called BPH. He prescribed **HYTRIN**® And guess what?

HYTRIN® HELPED

HYTRIN is a medication that can improve the symptoms of BPH (benign prostatic hyperplasia), which is an enlargement of the prostate gland. HYTRIN can help in as little as *2 to 4 weeks*. And it only has to be taken once a day.

Are *you* a man over 50 with urinary discomforts? Do you urinate often during the day or night? Is your urine stream difficult to start? Is it weak or interrupted? Does your bladder feel as if it isn't emptying completely?

If so, see your doctor. Your doctor can determine whether you have symptomatic BPH (or other conditions such as prostate cancer). Your doctor can also explain the different treatment options for symptomatic BPH: surgery; "watchful waiting," which consists of having regular checkups over time; and oral medications such as HYTRIN.

HYTRIN can cause a sudden drop in blood pressure at the beginning of treatment (or if you miss doses and then start taking the medication again). You may feel dizzy, faint, or "light-headed," particularly after getting up from a chair or bed.

Talk with your doctor today and call to receive your FREE informative booklet on symptomatic BPH and HYTRIN.

1-800-477-7778

ASK YOUR DOCTOR TODAY ABOUT

HYTRIN®

(terazosin HCl)

IT CAN HELP IN A MATTER OF WEEKS

© 1994, Abbott Laboratories

409-501-3757C

Please see patient
information on adjacent page

HYTRIN®
(terazosin HCl)

PATIENT INFORMATION ABOUT HYTRIN® (HI-TRIN)

Generic Name:
terazosin (ter-A-zo-sin)
hydrochloride

When used to treat
BENIGN PROSTATIC
HYPERPLASIA (BPH)

Please read this leaflet before you start taking HYTRIN. Also, read it each time you get a new prescription. This information should NOT take the place of a full discussion with your doctor. You and your doctor should discuss HYTRIN and your condition before you start taking it and at your regular check-ups.

HYTRIN is used to treat benign prostatic hyperplasia or BPH. HYTRIN is also used to treat high blood pressure (hypertension). This leaflet describes HYTRIN only as a treatment for BPH.

What is BPH?

The prostate is a gland located below the bladder. It surrounds the urethra (you-REETH-rah), which is a tube that drains urine from the bladder. BPH is an enlargement of the prostate gland. The symptoms of BPH, however, can be caused by an increase in the tightness of muscles in the prostate. If the muscles inside the prostate tighten, they can squeeze the urethra and slow the flow of urine. This can lead to symptoms such as:

- a weak or interrupted stream when urinating
- a feeling that you cannot empty your bladder completely
- a feeling of delay when you start to urinate
- a need to urinate often, especially at night, or
- a feeling that you must urinate right away

Treatment options for BPH

There are three main treatment options for BPH:

- Program of monitoring or "Watchful Waiting". Some men have an enlarged prostate gland, but no symptoms, or symptoms that are not bothersome. If this applies, you and your doctor may decide on a program of monitoring including regular check-ups, instead of medication or surgery.
- Medication. There are different kinds of medication used to treat BPH. Your doctor has prescribed HYTRIN for you. See "What HYTRIN does" below.
- Surgery. Some patients may need surgery. Your doctor can describe several different surgical procedures to treat BPH. Which procedure is best depends on your symptoms and medical condition.

What HYTRIN does

HYTRIN relaxes the tightness of a certain type of muscle in the prostate and at the opening of the bladder. This may increase the rate of urine flow and/or decrease the symptoms you are having.

- HYTRIN helps relieve the symptoms of BPH. It does NOT change the size of the prostate, which may continue to grow. However, a larger prostate does not necessarily cause more or worse symptoms.
- If HYTRIN is helping you, you should notice an effect on your particular symptoms in 2 to 4 weeks of starting to take the medication.
- Even though you take HYTRIN and it may help you, HYTRIN may not prevent the need for surgery in the future.

What you should know while taking HYTRIN for BPH

WARNINGS

HYTRIN Can Cause A Sudden Drop in Blood Pressure After the VERY FIRST DOSE. You may feel dizzy, faint, or "light-headed" particularly after you get up from bed or from a chair. This is more likely to occur after you've taken the first few doses, but can occur at any time while you are taking the drug. It can also occur if you stop taking the drug and then re-start treatment.

Because of this effect, your doctor may have told you to take HYTRIN at bedtime. If you take HYTRIN at bedtime but need to get up from bed to go to the bathroom, get up slowly and cautiously until you are sure how the medicine affects you. It is also important to get up slowly from a chair or bed at any time until you learn how you react to HYTRIN. You should not drive or do any hazardous tasks until you are used to the effects of the medication. If you begin to feel dizzy, sit or lie down until you feel better.

- You will start with a 1 mg dose of HYTRIN. Then the dose will be increased as your body gets used to the effect of the medication.
- Other side effects you could have while taking HYTRIN include drowsiness, blurred or hazy vision, nausea, or "puffiness" of the feet or hands. Discuss any unexpected effects you notice with your doctor.

Other important facts

- You should see an effect on your symptoms in 2 to 4 weeks. So, you will need to continue seeing your doctor to check your progress regarding your BPH and to monitor your blood pressure in addition to your other regular check-ups.
- Your doctor has prescribed HYTRIN for your BPH and not for prostate cancer. However, a man can have BPH and prostate cancer at the same time. Doctors usually recommend that men be checked for prostate cancer once a year when they turn 50 (or 40 if a family member has had prostate cancer). These checks should continue even if you are taking HYTRIN. HYTRIN is not a treatment for prostate cancer.
- About Prostate Specific Antigen (PSA). Your doctor may have done a blood test called PSA. Your doctor is aware that HYTRIN does not affect PSA levels. You may want to ask your doctor more about this if you have had a PSA test done.

How to take HYTRIN

Follow your doctor's instructions about how to take HYTRIN. You must take it every day at the dose prescribed. Talk with your doctor if you don't take it for a few days; you may have to restart it at a 1 mg dose and be cautious about possible dizziness. Do not share HYTRIN with anyone else; it was prescribed only for you.

Keep HYTRIN and all medicines out of the reach of children.

FOR MORE INFORMATION ABOUT HYTRIN AND BPH, TALK WITH YOUR DOCTOR, NURSE, PHARMACIST OR OTHER HEALTH CARE PROVIDER.

Ref. 03-4458-R1-Revised Sept., 1993

Abbott Laboratories
North Chicago, IL 60064

PRINTED IN U.S.A.

Whaddya Say To A Guy Who's Had The Same Job For 50 Years, Has Never Called In Sick Or Showed Up Late, Never Taken A Vacation Or A Holiday, Never Asked For A Raise Or Griped About His Bonus And, Believe It Or Not, Has No Plans For Retirement?

Thanks.

Remember - only you can prevent forest fires.

NVESTMENT OUTLOOK SCOREBOARD

												EARNINGS PER SHARE				
														1995 ESTIMATES		
															FROM ANALYSTS	
COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1994 EST.	1994 DIVIDEND RATE	YIELD %	SHRS. OUT. MILS.	1994 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	INSTITUTIONAL HOLDINGS NUMBER	1994 TURNOVER %	1993 ACTUAL	I/B/E/S 1994 ANALYST EST.	BASED ON 5-YR. TREND	I/B/E/S CONSENSUS	VARIATION %
MC	12	58	11	13	0.00	0.00	36.5	25	67	315	42.9	1.11	4.52	2.50	5.40	5.7
ENERAL SIGNAL	12	32	12	14	0.90	2.79	47.2	-6	82	298	70.2	1.47	2.29	1.11	2.67	3.7
ARNISCHFEGER INDUSTRIES	10	27	15	36	0.40	1.50	27.9	18	88	212	97.5	-0.67	0.74*	0.85	1.38	9.4
NGERSOLL-RAND	12	32	14	17	0.74	2.29	105.5	-16	65	497	49.3	1.56	1.95	1.52	2.49	6.8
IcDERMOTT INTERNATIONAL	03	24	10	31	1.00	4.21	53.5	-10	83	305	78.0	1.57	0.77	0.73	1.47	25.9
ENTAIR	12	39	20	16	0.72	1.83	18.2	20	63	147	72.8	2.26	2.48	2.57	2.93	2.7
TEWART & STEVENSON SERVICES	01	31	12	15	0.28	0.90	33.0	-39	75	264	184.4	1.73	2.09	2.34	2.49	3.2
IMKEN	12	32	23	18	1.00	3.10	31.0	-3	61	252	45.0	-0.57	1.81	0.60	2.93	16.7
YCO INTERNATIONAL	06	46	23	17	0.40	0.87	46.4	-11	77	339	82.1	1.58	2.70*	1.92	3.25	2.5
ARITY	01	37	18	15	0.00	0.00	44.0	-17	79	369	105.2	1.80	2.44	1.20	3.29	12.2
D) TEXTILES																
ROUP AVERAGE		**20**	**13**	**12**	**0.26**	**0.92**	**52.1**	**-19**	**63**	**173**	**85.4**	**1.50**	**1.73**	**1.97**	**1.97**	**7.5**
URLINGTON INDUSTRIES	09	10	8	7	0.00	0.00	67.7	-36	75	147	81.6	1.19	1.46*	NA	1.30	23.1
ONE MILLS	12	12	7	9	0.00	0.00	27.7	-29	54	90	53.2	1.68	1.28	2.70	1.52	12.5
IELDCREST CANNON	12	25	25	9	0.00	0.00	8.7	3	84	109	163.7	1.24	2.75	1.75	2.95	7.5
IDHAWK INDUSTRIES	12	17	8	12	0.00	0.00	32.5	-15	53	125	124.7	1.16	1.45	2.18	1.77	1.7
HAW INDUSTRIES	06	14	5	15	0.22	1.57	139.9	-47	60	325	99.6	0.72	0.91*	0.90	1.20	3.3
PRINGS INDUSTRIES	12	37	32	12	1.20	3.23	17.6	-2	52	233	32.9	2.65	3.21	2.58	3.54	1.4
NIFI	06	25	9	23	0.40	1.61	70.5	-7	65	182	41.7	1.87	1.08*	1.71	1.54	3.2
.6 METALS & MINING																
NDUSTRY AVERAGE		**27**	**14**	**56**	**0.39**	**1.13**	**68.1**	**3**	**60**	**247**	**89.8**	**-0.59**	**1.28**	**0.96**	**2.96**	**25.2**
A) ALUMINUM																
ROUP AVERAGE		**41**	**23**	**145**	**0.65**	**1.02**	**63.5**	**17**	**61**	**312**	**85.4**	**-2.71**	**0.21**	**0.11**	**2.52**	**46.6**
LUMAX	12	26	25	219	0.00	0.00	44.5	22	74	202	130.1	-3.24	0.12	NA	1.79	36.3
LUMINUM CO. OF AMERICA	12	82	40	40	1.60	1.96	89.3	19	78	600	114.2	0.03	2.03	0.08	4.79	25.7
AISER ALUMINUM	12	11	1	NM	0.00	0.00	58.2	18	12	45	16.0	-2.25	-1.60	NA	0.61	91.8
EYNOLDS METALS	12	47	27	175	1.00	2.12	62.0	6	79	399	81.3	-5.38	0.27	0.14	2.87	32.4
B) STEEL																
ROUP AVERAGE		**23**	**9**	**44**	**0.24**	**0.90**	**56.9**	**-1**	**62**	**196**	**89.6**	**-0.43**	**1.51**	**1.19**	**3.29**	**15.6**
K STEEL HOLDING	12	27	-1	6	0.00	0.00	26.1	NA	72	103	NA	-1.08	4.59	NA	7.94	15.2
LLEGHENY LUDLUM	12	19	5	68	0.48	2.53	70.7	-21	50	168	59.1	1.06	0.28	0.31	1.41	17.7
RMCO	12	6	-4	306	0.00	0.00	104.7	1	65	202	55.4	-2.64	0.02	NA	0.43	37.2
ETHLEHEM STEEL	12	18	10	40	0.00	0.00	109.8	5	86	314	138.0	-3.37	0.44	NA	3.34	20.4
OMMERCIAL METALS	08	25	20	14	0.48	1.92	12.2	-26	59	75	29.4	1.46	1.75*	1.25	2.02	10.4
NLAND STEEL INDUSTRIES	12	33	12	18	0.00	0.00	44.4	7	78	291	108.3	-1.96	1.83	NA	4.59	16.1
TV	12	16	9	14	0.00	0.00	102.6	20	67	203	105.5	4.88	1.13	2.04	2.66	9.0
UKENS	12	28	18	26	1.00	3.60	14.6	-24	80	141	80.8	0.76	1.07	0.69	2.08	18.8
IATIONAL STEEL	12	14	6	NM	0.00	0.00	36.4	17	35	52	70.6	-7.55	0.00	NA	4.31	17.6
IUCOR	12	55	12	22	0.18	0.33	87.2	3	73	489	59.2	1.42	2.43	2.36	3.61	10.3
OUGE STEEL	12	26	11	5	0.04	0.15	24.7	NA	29	80	NA	3.31	4.93	NA	5.90	11.9
ISX-U.S. STEEL GROUP	12	34	11	20	1.00	2.91	75.6	-15	70	348	131.5	-2.96	1.74	NA	5.03	18.5
VEIRTON STEEL	12	8	0	NM	0.00	0.00	26.7	33	48	44	111.1	-1.74	-0.19	NA	1.82	5.5
VHX	12	14	25	9	0.00	0.00	27.2	-15	62	128	171.0	1.02	1.51	0.40	2.90	15.5
VORTHINGTON INDUSTRIES	05	20	6	17	0.40	2.00	90.7	-2	51	303	44.5	0.94	1.16	1.24	1.37	10.2
C) OTHER METALS																
ROUP AVERAGE		**27**	**18**	**37**	**0.60**	**1.80**	**99.2**	**4**	**53**	**331**	**93.3**	**0.44**	**1.40**	**0.98**	**2.43**	**34.8**
SARCO	12	27	36	31	0.40	1.47	42.0	20	55	265	113.7	-1.70	0.87	0.49	2.82	36.2
YPRUS AMAX MINERALS	12	25	25	17	0.80	3.20	92.5	-2	62	471	97.9	1.85	1.44	0.94	2.70	13.0
REEPORT-McMORAN	12	17	-2	90	0.00	0.00	137.8	-15	62	254	50.0	-0.74	0.19	0.19	0.54	79.6
REEPORT-McMORAN COPPER & GOLD	12	20	2	56	0.60	2.98	205.9	-17	20	277	27.0	0.16	0.36	0.24	0.81	18.5
IAGMA COPPER	12	16	16	14	0.00	0.00	46.0	22	42	156	137.8	0.42	1.16	0.63	1.78	39.3
HELPS DODGE	12	57	30	13	1.80	3.14	70.7	18	80	561	133.5	2.66	4.38	3.40	5.90	22.0
7 NONBANK FINANCIAL																
NDUSTRY AVERAGE		**34**	**26**	**14**	**0.85**	**2.51**	**87.2**	**-14**	**63**	**296**	**59.3**	**2.76**	**2.63**	**4.44**	**3.71**	**8.7**
A) FINANCIAL SERVICES																
ROUP AVERAGE		**36**	**23**	**20**	**0.89**	**2.45**	**114.1**	**-13**	**68**	**395**	**68.3**	**3.65**	**3.19**	**4.86**	**3.93**	**9.2**
LEXANDER & ALEXANDER	12	19	10	236	0.10	0.53	43.9	-2	69	220	63.7	0.40	0.08	0.11	1.08	38.9
MERICAN EXPRESS	12	30	13	11	0.90	3.04	507.7	-1	74	896	73.7	3.17	2.72	2.47	3.05	4.9
T&T CAPITAL	12	21	21	10	0.40	1.89	46.9	-14	11	43	11.0	1.67	2.11	NA	2.40	NM
EAR STEARNS	06	16	15	5	0.60d	3.84	111.9	-30	58	268	72.1	2.86	2.89*	4.09	1.87	24.6
ENEFICIAL	12	37	25	9	1.72	4.71	52.4	-4	76	349	36.6	3.45	4.07	4.16	4.52	1.8
LOCK (H&R)	04	35	6	18	1.25	3.61	104.3	-16	75	544	70.2	1.54	1.97	2.08	2.31	5.6
COUNTRYWIDE CREDIT INDUSTRIES	02	14	10	12	0.32	2.25	91.3	-15	83	212	157.2	1.97	1.24	2.92	1.86	16.7
EAN WITTER, DISCOVER	12	35	23	8	0.50	1.43	170.9	1	69	558	62.9	3.66	4.41	NA	4.85	2.5
EDWARDS (A.G.)	02	17	14	8	0.56	3.25	60.4	-24	47	198	46.8	2.57	2.05	3.04	2.19	11.9
QUIFAX	12	26	3	16	0.62	2.41	73.7	-7	62	315	49.7	0.85	1.60	1.43	1.84	1.6
ANNIE MAE	12	71	32	9	2.40	3.37	273.3	-9	86	1229	67.7	7.44	7.79	10.10	8.84	0.8
EDERAL HOME LOAN MORTGAGE	12	50	24	10	1.04	2.09	180.7	0	83	616	52.5	4.07	5.11	5.63	5.81	2.1

Pentium takes multimedia to a new dimension...

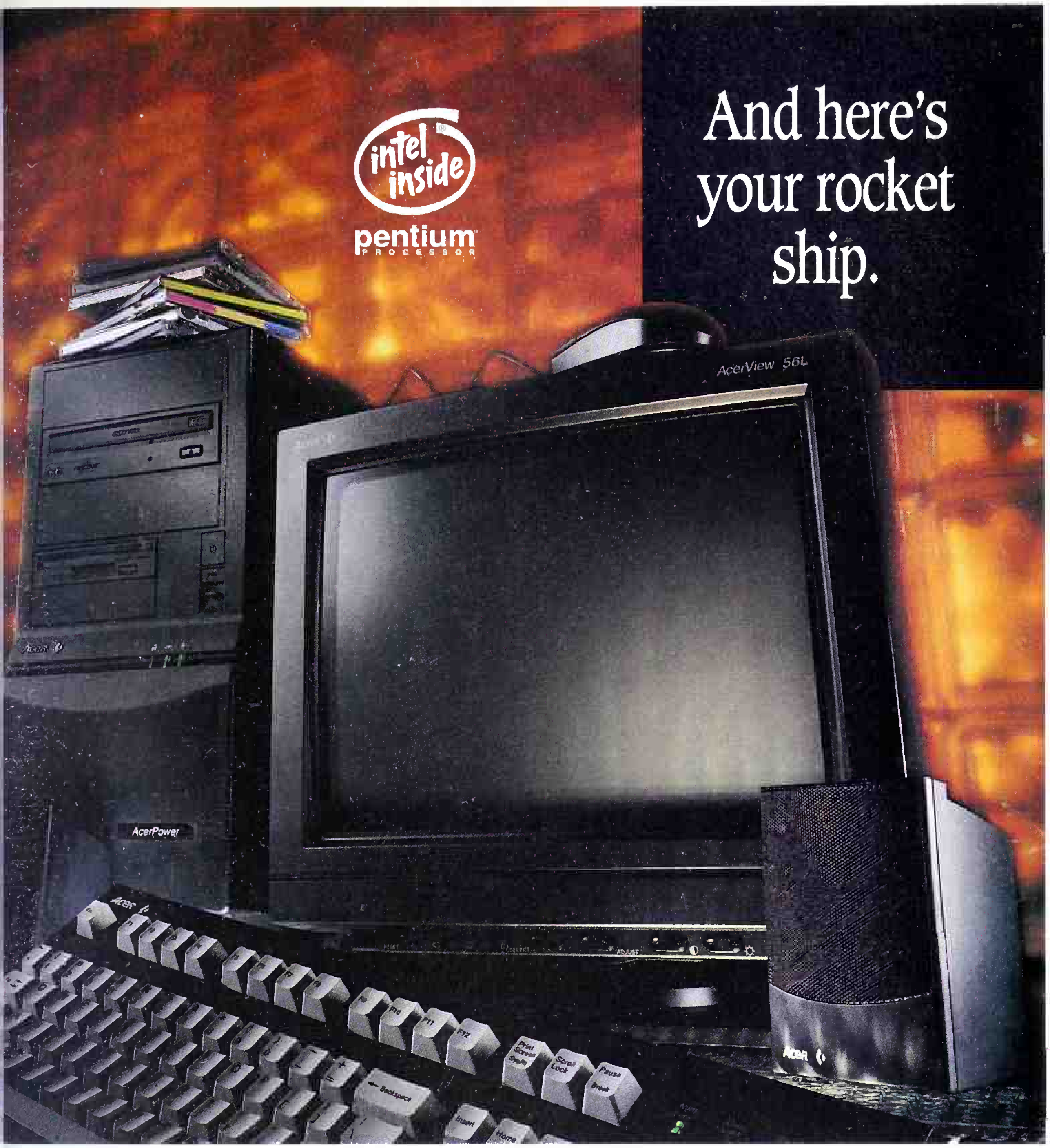
Explore the Multimedia Universe with Acer.

Multimedia technology takes your computing experience to a new dimension. And with Acer Pentium-based PCs driving your multimedia software, a new universe of video, sound and three-dimensional information is yours to explore.

Acer multimedia systems, supercharged with Pentium processors, stand out from the crowd with their exciting, high-tech designs. They're mission-ready with high-speed CD-ROM drives and best-of-class CD multimedia software. Plu fax/modems for access to the outer limits of the Internet and online services.

ACER COMPUTERS
THE INDUSTRY SOURCE

The OOBE™ "Out-Of-Box Experience" make setup as easy as 1-2-3, right out of the box. An with the Acer Computer Explorer, your maiden voyage takes off without a hitch. Never has Pentium power been so easy to use. And at thes prices, it's never been easier to afford.


And here's your rocket ship.
intel inside
pentium
PROCESSOR
AcerView 56L
AcerPower

ACER

The Industry Source Means Value.

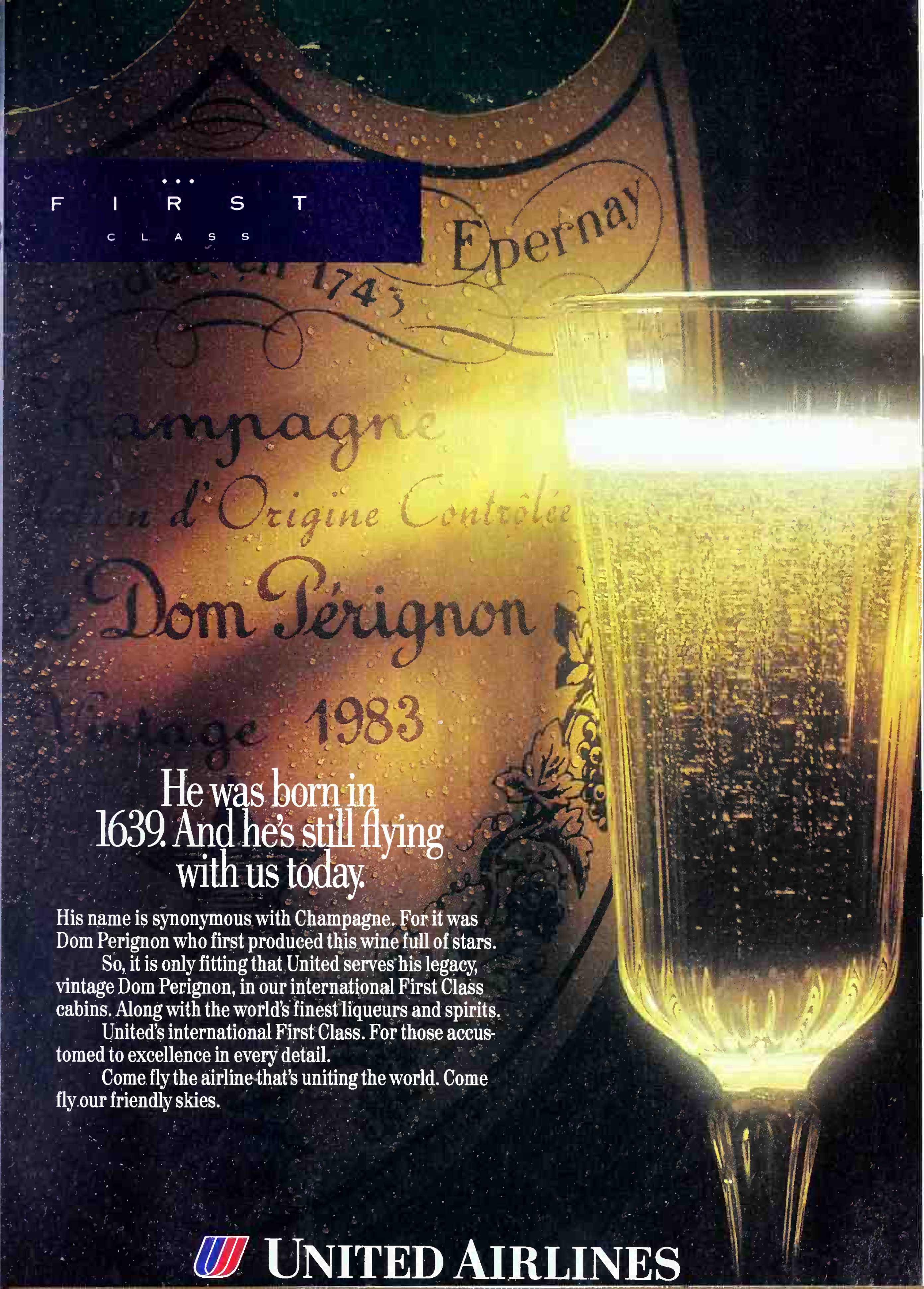
Call 1-800-391-ACER for more information.

AcerXpress Fax Back System: 1-800-554-2494 Acer BBS: 1-408-428-0140

Acer and the Acer logo are registered trademarks and AcerPower and OOBE are trademarks of Acer America Corporation and Acer, Incorporated. Intel and the Intel Inside logo are registered trademarks and Pentium and the Pentium Processor logo are trademarks of Intel Corporation. All other brands and product names are trademarks or registered trademarks of their respective companies. © 1994 Acer America Corporation. All rights reserved.

INVESTMENT OUTLOOK SCOREBOARD

												EARNINGS PER SHARE				
														1995 ESTIMATES		
															FROM ANALYSTS	
COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1994 EST.	1994 DIVIDEND RATE	YIELD %	SHRS. OUT. MILS.	1994 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	NUMBER	1994 TURNOVER %	1993 ACTUAL	I/B/E/S 1994 ANALYST EST.	BASED ON 5-YR. TREND	I/B/E/S CONSENSUS	VARIATION %
FIRST AMERICAN FINANCIAL	12	19	26	9	0.60	3.20	11.4	-46	57	77	48.7	5.47	2.15	5.45	2.40	20.0
FIRST FINANCIAL MANAGEMENT	12	59	22	23	0.10	0.17	62.5	8	85	435	58.6	2.10	2.55	1.56	3.04	2.3
FIRST USA	06	32	10	19	0.12	0.37	56.4	-9	97	231	118.3	0.73	1.69*	6.81	2.60	5.0
HOUSEHOLD INTERNATIONAL	12	39	22	11	1.26	3.27	96.3	20	71	413	59.3	2.85b	3.49	2.83	4.15	2.7
LEHMAN BROTHERS HOLDINGS	11	15	25	18	0.20c	1.34	105.5	NA	68	343	NA	-3.20	0.81	NA	1.70	21.8
LOEWS	12	86	93	12	1.00	1.16	59.4	-10	52	332	34.6	9.27	7.19	7.26	8.87	13.8
MARSH & McLENNAN	12	72	20	14	2.90	4.02	73.8	-11	70	490	35.3	4.52	5.10	5.00	5.71	3.3
MERRILL LYNCH	12	38	30	7	0.92	2.42	192.8	-14	61	508	109.4	6.14	5.20	12.11	5.34	9.0
MORGAN STANLEY GROUP	01	59	49	11	1.20	2.03	77.0	-13	75	316	59.0	9.59	5.61	7.85	6.88	9.0
PAINEWEBBER GROUP	12	14	16	9	0.48	3.52	75.6	-26	53	169	80.3	3.11	1.48	3.93	2.13	6.1
SALLIE MAE	12	34	17	7	1.48	4.32	76.6	-30	95	364	118.0	6.41	5.02	7.50	4.82	8.1
SALOMON	12	36	35	NM	0.64	1.77	105.8	-27	76	409	74.4	7.34	-1.98	NA	4.55	21.3
SCHWAB (CHARLES)	12	32	8	14	0.28	0.88	56.9	-3	45	171	109.2	2.09	2.29	4.68	2.54	5.5
SUNAMERICA	09	36	15	10	0.60	1.69	33.3	-18	66	226	83.9	2.75	3.58*	4.80	4.39	2.5
TRANSAMERICA	12	47	37	9	2.00	4.22	70.4	-23	60	399	33.9	5.44	5.16	5.13	5.73	3.1
TRAVELERS	12	33	24	8	0.60	1.83	322.4	-17	73	733	56.0	3.88	3.93	5.65	4.51	3.5
(B) INSURANCE																
GROUP AVERAGE		**34**	**28**	**12**	**0.88**	**2.56**	**75.1**	**-17**	**59**	**253**	**50.7**	**2.68**	**2.74**	**4.31**	**3.74**	**8.2**
AETNA LIFE & CASUALTY	12	45	52	10	2.76	6.17	112.6	-26	82	531	64.2	-5.54	4.53	4.19	5.99	7.0
AFLAC	12	34	17	12	0.46	1.36	99.9	15	55	315	44.1	2.32	2.77	3.70	3.24	3.7
ALLMERICA PROPERTY & CASUALTY	12	15	20	9	0.16	1.07	61.8	-31	89	105	13.6	4.08	1.62	2.97	2.31	13.9
ALLSTATE	12	24	20	20	0.72	3.05	449.9	-20	96	241	17.3	2.95	1.19	NA	2.99	6.4
AMERICAN BANKERS INSURANCE GROUP	12	20	19	8	0.72	3.65	20.2	-25	65	114	59.7	2.85	2.53	3.55	3.06	2.9
AMERICAN GENERAL	12	26	19	9	1.16	4.42	205.6	-4	74	559	39.9	1.15	2.96	2.21	3.26	2.5
AMERICAN INTERNATIONAL GROUP	12	92	51	14	0.46	0.50	316.1	4	55	1079	35.5	6.04	6.63	6.96	7.53	1.6
AMERICAN NATIONAL INSURANCE	12	47	74	8	2.36	5.02	26.5	-8	19	87	9.6	7.00	5.70	7.92	6.00	NM
AMERICAN RE	12	26	17	12	0.00	0.00	47.1	-9	29	104	23.6	2.22	2.15	NA	2.97	8.1
AMERICAN PREMIER UNDERWRITERS	12	23	34	14	0.88	3.85	47.6	-29	73	146	31.4	5.03	1.58	2.19	1.80	9.4
AON	12	32	22	10	1.28	4.05	102.1	-1	48	297	22.7	2.81	3.07	2.89	3.37	1.8
BANKERS LIFE HOLDING	12	17	9	7	0.60	3.53	53.5	-22	27	108	39.9	2.63	2.41	NA	2.73	2.9
CHUBB	12	70	49	13	1.84	2.62	87.3	-10	72	596	60.2	3.91	5.55	5.20	6.99	4.6
CIGNA	12	63	82	10	3.04	4.80	72.2	1	87	472	68.0	3.25	6.38	4.72	7.20	13.3
CINCINNATI FINANCIAL	12	48	40	13	1.28	2.68	50.4	-11	33	159	17.5	3.94	3.63	4.42	4.25	6.4
CITIZENS	12	16	15	14	0.20	1.25	36.1	-18	11	50	12.6	2.39	1.13	NA	1.80	10.0
CNA FINANCIAL	12	62	73	35	0.00	0.00	61.8	-20	100	128	20.1	4.26	1.78	1.86	3.99	30.6
CONSECO	12	39	20	6	0.50	1.28	24.4	-32	48	149	197.5	9.86	6.35	13.85	7.36	4.5
CONTINENTAL CORP.	12	15	25	NM	0.00	0.00	55.5	-47	74	281	98.5	2.83	-8.46	NA	1.16	15.5
EQUITABLE	12	18	15	12	0.20	1.14	142.4	-35	33	207	54.5	1.19	1.45	NA	1.95	7.7
FIRST COLONY	12	19	19	9	0.32	1.66	49.3	-24	57	192	38.3	4.12	2.16	2.90	2.42	3.3
GEICO	12	50	21	17	1.00	2.02	68.7	-6	83	139	8.2	4.01	2.97	3.33	3.47	11.2
GENERAL RE	12	117	59	16	1.92	1.64	82.0	8	85	679	59.6	8.11	7.27	7.88	8.77	3.6
HOME HOLDINGS	12	5	22	15	0.00	0.00	23.4	-79	18	30	28.6	-14.94	0.35	NA	1.17	61.5
JEFFERSON-PILOT	12	51	36	13	1.72	3.40	48.5	6	42	297	32.0	4.36	4.02	5.08	4.45	3.6
JOHN ALDEN FINANCIAL	12	26	16	7	0.40	1.56	25.3	-20	90	138	84.6	3.29	3.66	3.95	4.21	4.5
KEMPER	12	41	29	12	0.92	2.24	34.2	17	53	183	248.5	-2.52	3.44	3.67	4.16	9.1
LINCOLN NATIONAL	12	39	29	11	1.64	4.22	104.2	-1	67	449	41.1	4.06	3.65	4.33	4.21	5.2
NWNL	12	28	25	8	0.90	3.24	29.7	-12	69	189	66.9	2.45b	3.56	3.03	3.96	3.0
OHIO CASUALTY	12	29	25	12	1.46	5.12	36.0	-11	51	129	43.8	2.42	2.40	2.56	2.85	9.5
OLD REPUBLIC INTERNATIONAL	12	19	25	8	0.48	2.51	51.9	-15	72	195	30.0	2.69b	2.29	2.92	2.53	4.0
ORION CAPITAL	12	32	26	9	0.80	2.50	14.2	-1	74	120	26.1	3.86b	3.67	4.84	4.18	2.9
PAUL REVERE	12	14	24	8	0.24	1.75	45.0	-43	13	75	14.7	1.91	1.62	NA	1.88	13.8
PROGRESSIVE	12	33	14	12	0.22	0.66	71.3	-19	66	195	51.5	3.59	2.80	4.03	3.07	7.5
PROTECTIVE LIFE	12	44	20	9	1.12	2.57	13.7	-1	61	131	19.8	4.13	4.61	6.04	5.10	1.8
PROVIDENT LIFE & ACCIDENT	12	23	25	7	1.04	4.60	45.3	-27	47	136	14.7	-2.03	3.22	2.76	3.52	8.5
PROVIDIAN	12	30	22	8	0.80	2.64	98.9	-21	69	435	46.4	3.12	3.71	3.85	4.08	2.2
RELIANCE GROUP HOLDINGS	12	5	4	12	0.32	6.24	113.1	-35	26	116	37.1	0.92	0.42	0.66	0.86	2.3
SAFECO	12	49	46	10	1.96	3.98	63.0	-10	69	385	99.4	6.77	4.74	5.67	5.84	3.1
ST. PAUL	12	41	33	9	1.50	3.64	84.1	-9	81	439	55.5	4.92	4.42	4.85	4.98	6.2
TIG HOLDINGS	12	18	17	18	0.20	1.14	64.0	-24	92	180	40.0	-2.04	0.98	NA	1.98	8.1
TORCHMARK	12	33	18	8	1.12	3.38	71.5	-28	54	383	42.9	3.76	3.99	4.48	4.48	2.7
TRANSATLANTIC HOLDINGS	12	52	33	13	0.36	0.69	22.9	0	84	139	21.7	3.79	3.93	4.38	4.91	6.7
20TH CENTURY INDUSTRIES	12	10	6	NM	0.00	0.00	51.5	-63	39	88	94.5	2.11	-7.61	NA	1.24	25.0
UNITRIN	12	44	38	18	1.60	3.66	47.1	-9	44	145	55.9	1.83	2.48	2.26	3.10	4.5
UNUM	12	37	25	10	0.96	2.63	76.0	-30	64	424	85.1	3.96	3.79	4.96	4.32	5.6
USF&G	12	14	10	15	0.20	1.47	89.3	-3	39	278	75.8	0.93	0.91	NA	1.36	14.0
USLIFE	12	32	39	8	1.32	4.09	23.0	-15	72	277	38.6	4.25	4.28	4.50	4.59	2.4
WESTERN NATIONAL	12	11	7	7	0.16	1.52	62.3	NA	37	89	NA	2.17	1.54	NA	1.72	4.7
(C) SAVINGS & LOAN																
GROUP AVERAGE		**19**	**23**	**9**	**0.48**	**2.43**	**64.0**	**-2**	**73**	**205**	**84.1**	**-0.17**	**-0.38**	**3.13**	**2.56**	**9.9**
AHMANSON (H.F.)	12	17	25	9	0.88	5.29	116.9	-15	92	348	56.6	-1.51	1.85	1.56	2.35	5.5
CALIFORNIA FEDERAL BANK	12	11	14	NM	0.00	0.00	46.6	32	53	99	130.5	-5.98	-10.08	NA	1.23	14.6
FIRSTFED MICHIGAN	12	20	24	7	0.56	2.80	18.7	-21	53	93	93.1	2.21	2.81	NA	3.28	8.2
GLENDALE FEDERAL BANK	06	9	23	NM	0.00	0.00	37.7	32	76	89	133.5	-4.07	-6.48*	NA	0.54	27.8
GOLDEN WEST FINANCIAL	12	35	35	9	0.34	0.97	61.0	-14	71	303	44.2	4.28	3.91	5.09	4.28	4.2
GREAT WESTERN FINANCIAL	12	17	16	11	0.92	5.41	133.3	-15	88	330	68.8	0.28	1.56	0.62	2.15	6.5
STANDARD FEDERAL BANK	12	25	25	7	0.64	2.56	31.4	-16	78	176	68.5	3.60	3.76	5.25	4.08	2.5


1743
Epernay
ampagne
n d'Origine Contrôlée
Dom Pérignon
ntage 1983

FIRST
CLASS

He was born in 1639. And he's still flying with us today.

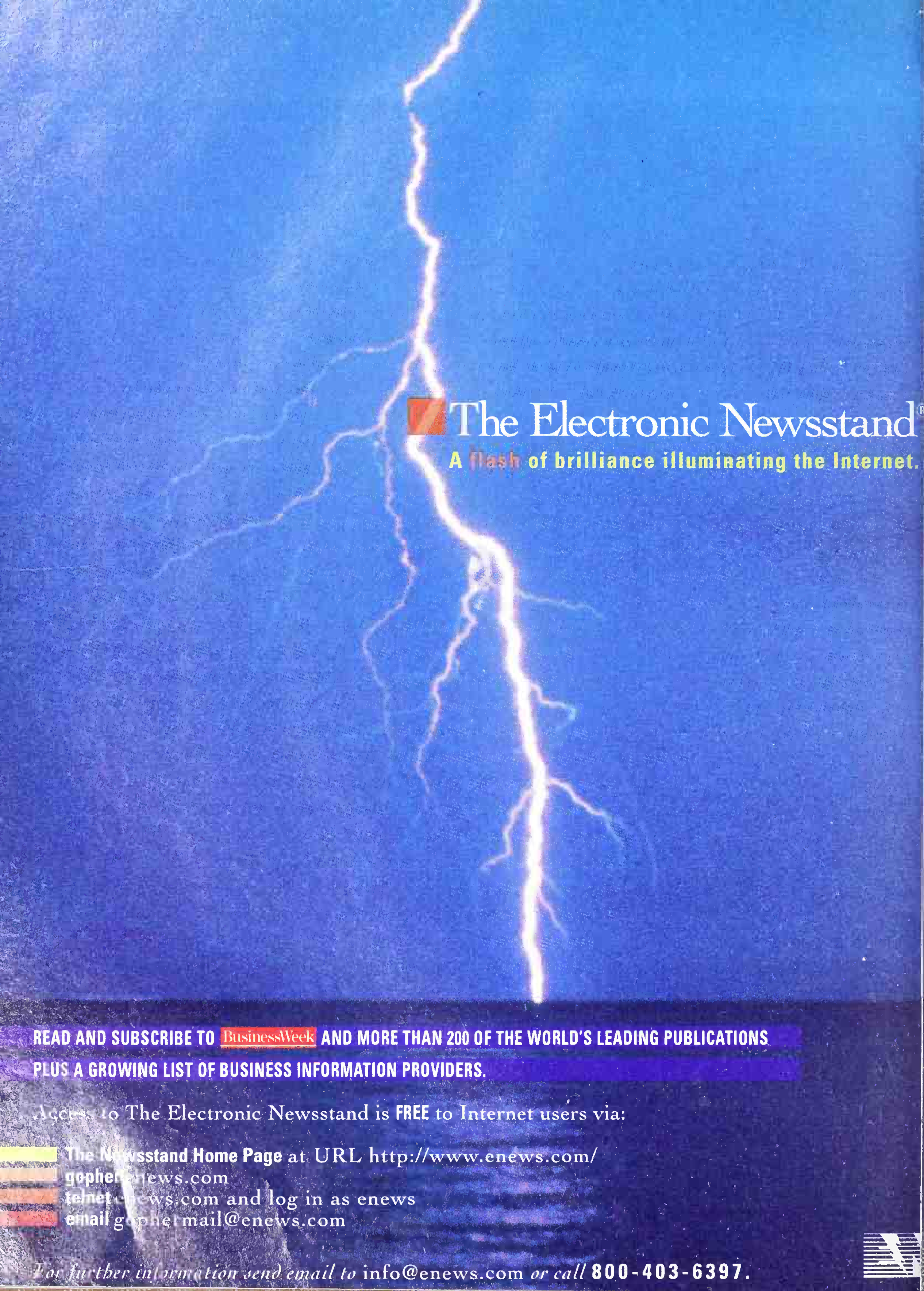
His name is synonymous with Champagne. For it was Dom Perignon who first produced this wine full of stars.

So, it is only fitting that United serves his legacy, vintage Dom Perignon, in our international First Class cabins. Along with the world's finest liqueurs and spirits.

United's international First Class. For those accustomed to excellence in every detail.

Come fly the airline that's uniting the world. Come fly our friendly skies.

UNITED AIRLINES



The Electronic Newsstand®

A flash of brilliance illuminating the Internet.

READ AND SUBSCRIBE TO BusinessWeek AND MORE THAN 200 OF THE WORLD'S LEADING PUBLICATIONS PLUS A GROWING LIST OF BUSINESS INFORMATION PROVIDERS.

Access to The Electronic Newsstand is **FREE** to Internet users via:

- **The Newsstand Home Page** at URL http://www.enews.com/
- **gopher** enews.com
- **telnet** enews.com and log in as enews
- **email** gophermail@enews.com

For further information send email to info@enews.com *or call* **800-403-6397.**

Rich Information.

McGRAW-HILL PUBLICATIONS ONLINE

Information-Rich!

The Full-text Database with McGraw-Hill Credibility

- Business Week
- Aerospace Daily
- Airports
- Architectural Record
- Aviation Daily
- Aviation Europe
- Aviation Week & Space Technology
- Biotechnology Newswatch
- Byte
- Chemical Engineering
- Coal Tech International
- Coal Week
- Data Communications
- Electrical World
- Electric Utility Week
- Engineering News-Record
- Federal Technology Report
- Hazardous Waste Business
- Independent Power Report
- Industrial Energy Bulletin
- Inside Energy/with Federal Lands
- Inside F.E.R.C.
- Inside N.R.C.
- Integrated Waste Management
- LAN Times
- Modern Plastics
- Nucleonics Week
- Open Computing (formerly UnixWorld)
- Platt's International Petrochemical Report
- Platt's Oilgram News
- Platt's Oilgram Price Report
- The Physician & Sportsmedicine
- Postgraduate Medicine
- S&P's Emerging & Special Situations
- S&P's Metals Week
- S&P's Review of Banking & Financial Services
- S&P's Review of Securities & Commodities Regulation
- Securities Week
- Telecom Strategy Letter
- Utility Environment Report
- The Weekly of Business Aviation

And More . . .

You have it all, word for word. You're connected to an unabridged electronic library containing the full text of articles exactly as published, except graphics, in McGraw-Hill magazines and newsletters. And, best of all, because it's from McGraw-Hill, a leading international multimedia publishing and information services company, you get unparalleled excellence and reliability of content.

You access it fast and easy. You can search the entire McGraw-Hill database (over 50 of our leading publications) faster with more user-friendly ease than any other text. There are no cumbersome preliminaries...you get right into your hunt for information about companies, people and products on any topic.

And now you can make the information-rich connection to McGraw-Hill Publications Online today. For more information and our latest, complete list of publications, contact Andrea Broadbent at (609) 426-5523. Or fax this coupon to (609) 426-7352. Or send it to the address on the coupon.

Available online through
• Dialog® • NewsNet® • Dow Jones News/Retrieval®
• Lexis/Nexis® • F.T. Profile (U.K.)

Now Available on CD-ROM
THE McGRAW-HILL ENERGY LIBRARY
PRODUCED BY
SILVERPLATTER INFORMATION

McGraw-Hill
Publications Online
Princeton-Hightstown Road
N-1
Hightstown, NJ 08520 U.S.A.

☐ Send me the complete list of your publications online.
☐ Send me details on The McGraw-Hill Energy Library produced by SilverPlatter Information.

Name
Title
Company
Address
City
State
Zip/Postal Code
Country
Tel.

BW

INVESTMENT OUTLOOK SCOREBOARD

												EARNINGS PER SHARE				
														1995 ESTIMATES		
															FROM ANALYSTS	
								1994	INSTITUTIONAL HOLDINGS							
COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1994 EST.	1994 DIVIDEND RATE	YIELD %	SHRS. OUT. MILS.	MARKET VALUE CHANGE %	%	NUMBER	1994 TURNOVER %	1993 ACTUAL	I/B/E/S 1994 ANALYST EST.	BASED ON 5-YR. TREND	I/B/E/S CONSENSUS	VARIATION %
18 OFFICE EQUIPMENT & COMPUTERS																
INDUSTRY AVERAGE		29	11	18	0.23	0.58	116.4	11	62	342	235.0	-0.45	1.23	2.19	2.03	24.1
(A) BUSINESS MACHINES & SERVICES																
GROUP AVERAGE		18	9	19	0.37	1.60	52.0	-22	62	213	160.0	1.11	1.24	1.49	1.50	11.2
COMPUCOM SYSTEMS	12	4	2	8	0.00	0.00	33.4	-5	7	31	45.3	0.34	0.43	0.69	0.58	22.4
CUC INTERNATIONAL	01	31	3	31	0.00	0.00	114.1	-13	84	394	57.4	0.77	0.99	1.75	1.26	2.4
DELUXE	12	28	10	15	1.48	5.33	82.3	-24	59	407	49.2	1.71	1.81	1.91	2.04	5.4
EGGHEAD	03	10	8	64	0.00	0.00	17.2	14	58	49	151.0	-0.03	0.16	0.10	0.38	47.4
INTELLIGENT ELECTRONICS	01	13	7	9	0.40	3.11	34.3	-54	74	160	317.5	1.14	1.45	1.47	1.82	6.6
MERISEL	12	9	8	12	0.00	0.00	29.7	-53	66	123	292.7	1.00	0.74	1.19	1.09	8.3
MICROAGE	10	12	12	9	0.00	0.00	13.9	-46	75	98	513.4	1.15	1.25	1.20	1.47	11.6
MILLER (HERMAN)	05	25	12	14	0.52	2.07	24.6	-20	59	149	89.4	1.60	1.78	1.58	2.05	5.9
PITNEY BOWES	12	33	12	14	1.04	3.13	155.9	-21	78	642	46.8	2.22	2.39	2.99	2.69	7.4
STANDARD REGISTER	12	17	13	11	0.68	4.00	28.7	-18	50	136	26.1	1.47	1.54	1.65	1.78	3.4
TECH DATA	01	17	6	16	0.00	0.00	37.8	-2	74	158	171.5	0.83	1.05	1.90	1.31	3.1
(B) COMPUTERS & PERIPHERALS																
GROUP AVERAGE		30	15	15	0.22	0.27	113.7	24	61	333	289.4	-1.51	1.09	2.59	2.32	36.4
AMDAHL	12	10	7	19	0.00	0.00	116.0	65	41	211	65.1	-5.17	0.51	0.19	0.72	26.4
APPLE COMPUTER	09	37	20	14	0.48	1.29	118.3	29	51	418	402.6	0.73	2.61*	1.42	3.47	15.6
AST RESEARCH	06	15	11	9	0.00	0.00	32.4	-32	56	145	747.5	-1.72	1.64*	1.89	-1.37	27.7
COMPAQ COMPUTER	12	39	13	12	0.00	0.00	258.4	62	81	701	283.6	1.82	3.27	2.28	3.84	5.5
CONNER PERIPHERALS	12	12	6	9	0.00	0.00	51.8	-14	66	164	251.8	-9.03	1.41	1.77	1.80	18.3
CRAY RESEARCH	12	18	32	8	0.00	0.00	25.7	-29	75	239	135.2	2.33	2.24	2.13	2.04	23.0
DATA GENERAL	09	11	9	NM	0.00	0.00	36.0	16	76	196	100.1	-1.73	-2.45*	NA	0.26	130.8
DELL COMPUTER	01	43	14	15	0.00	0.00	38.5	95	57	148	933.0	-1.06	2.91	7.80	4.07	9.3
DIGITAL EQUIPMENT	06	34	22	NM	0.00	0.00	142.7	3	54	382	183.2	-1.93	-15.43*	NA	-0.51	170.6
EMC	12	23	3	21	0.00	0.00	195.9	43	67	351	175.5	0.65	1.08	2.39	1.36	5.9
GATEWAY 2000	12	22	5	18	0.00	0.00	72.4	11	7	60	184.9	2.13	1.19	NA	1.92	9.9
HEWLETT-PACKARD	10	98	39	16	1.20	1.23	254.2	24	59	994	74.2	4.65	6.14*	5.84	7.20	3.2
INTERGRAPH	12	8	12	NM	0.00	0.00	44.6	-27	48	187	79.2	-2.56	-1.15	NA	0.08	187.5
INTERNATIONAL BUSINESS MACHINES	12	71	36	16	1.00	1.41	587.2	26	44	1156	95.8	-14.02	4.53	NA	6.13	9.8
MAXTOR	03	4	1	NM	0.00	0.00	49.9	19	21	50	132.5	-8.00	-1.88	NA	-0.20	185.0
QUANTUM	03	16	12	5	0.00	0.00	45.2	16	92	203	588.8	0.06	2.97	0.60	3.49	12.3
SEAGATE TECHNOLOGY	06	24	18	8	0.00	0.00	72.7	3	89	283	443.9	2.71b	2.83*	4.83	3.38	4.7
SILICON GRAPHICS	06	31	7	34	0.00	0.00	141.7	30	73	368	100.0	0.60	0.91*	1.17	1.22	7.4
STORAGE TECHNOLOGY	12	31	24	22	0.00	0.00	44.0	-1	69	177	350.3	-2.98	1.37	0.82	3.05	20.0
SUN MICROSYSTEMS	06	34	18	17	0.00	0.00	94.8	17	77	405	355.0	1.49	2.02*	2.47	2.65	5.7
TANDEM COMPUTERS	09	17	8	11	0.00	0.00	115.2	58	74	323	117.2	-4.72	1.50*	1.12	1.66	9.0
3COM	05	44	5	24	0.00	0.00	64.7	93	86	263	1020.6	-0.46	1.80	1.64	2.15	5.6
UNISYS	12	9	7	13	0.00	0.00	170.8	-26	44	307	143.4	1.48b	0.74	NA	1.03	11.7
WANG LABORATORIES	06	11	8	NM	0.00	0.00	32.0	-36	34	51	160.0	-1.15	-0.51*	NA	0.07	28.6
WESTERN DIGITAL	06	19	7	10	0.00	0.00	45.3	156	69	155	328.4	-0.79	1.77*	NA	2.78	5.8
XEROX	12	98	38	15	3.00	3.05	105.8	12	88	712	72.3	-2.46	6.44	5.68	7.93	6.8
(C) COMPUTER SOFTWARE & SERVICES																
GROUP AVERAGE		35	8	23	0.13	0.34	172.1	14	64	460	193.1	0.27	1.48	2.25	1.91	11.5
AUTOMATIC DATA PROCESSING	06	56	12	24	0.60	1.07	141.0	1	75	634	38.4	2.08	2.37*	2.68	2.73	0.7
CERIDIAN	12	25	4	18	0.00	0.00	44.8	34	91	296	99.4	-0.53	1.39	NA	1.63	2.5
CISCO SYSTEMS	07	32	4	27	0.00	0.00	257.7	2	81	712	407.5	0.67	1.19*	3.22	1.67	3.6
COMDISCO	09	21	18	10	0.36	1.68	37.3	8	54	166	38.8	1.97	2.25*	1.38	2.51	1.2
COMPUSA	06	14	8	NM	0.00	0.00	18.5	-30	26	81	355.8	0.67	-0.92*	NA	0.26	80.8
COMPUTER ASSOCIATES INTERNATIONAL	03	46	8	14	0.20	0.44	160.8	11	58	558	108.2	2.34	3.18	3.80	3.80	4.7
COMPUTER SCIENCES	03	46	17	22	0.00	0.00	50.9	40	84	371	74.2	1.77	2.09	2.13	2.47	2.0
COMPUTERVISION	12	3	-11	20	0.00	0.00	48.3	-7	36	48	61.0	-11.89	0.17	NA	0.30	33.3
ELECTRONIC DATA SYSTEMS	12	37	15	22	0.48	1.31	263.1	26	49	522	50.7	1.51	1.71	1.94	1.97	1.5
FIRST DATA	12	48	10	26	0.12	0.25	109.8	17	97	401	52.1	1.56	1.86	2.19	2.22	1.8
LOTUS DEVELOPMENT	12	45	11	35	0.00	0.00	47.7	-14	90	387	854.2	1.24	1.29	1.43	1.90	12.1
MICROSOFT	06	63	8	33	0.00	0.00	581.0	60	42	1017	171.4	1.58	1.88*	3.06	2.28	6.1
NOVELL	10	20	4	23	0.00	0.00	362.7	13	45	604	211.7	-0.11	0.87	1.55	1.14	5.3
ORACLE SYSTEMS	05	41	3	30	0.00	0.00	286.1	42	64	637	179.5	0.96	1.39	1.39	1.86	4.8
19 PAPER & FOREST PRODUCTS																
INDUSTRY AVERAGE		41	24	20	1.02	2.49	77.4	3	65	393	74.4	0.54	1.65	1.69	3.40	19.6
(A) FOREST PRODUCTS																
GROUP AVERAGE		39	22	15	0.84	2.14	64.6	-10	65	380	105.0	0.55	1.68	2.36	3.89	17.5
BOISE CASCADE	12	24	22	NM	0.60	2.47	38.2	4	78	271	107.9	-3.17	-2.68	NA	1.47	32.7
GEORGIA-PACIFIC	12	72	27	25	1.60	2.24	90.4	4	64	596	118.3	-0.21	2.85	NA	6.75	22.1
LOUISIANA-PACIFIC	12	28	15	9	0.50	1.79	109.6	-32	49	474	88.3	2.32	3.14	2.99	3.64	10.2
RAYONIER	12	28	21	12	0.54	1.93	29.6	NA	71	267	NA	1.77	2.32	NA	2.99	12.7
WILLAMETTE INDUSTRIES	12	42	24	15	0.96	2.27	55.0	-14	62	291	105.5	2.02	2.79	1.73	4.59	10.0

IN THE UNIVERSE
OF MUTUAL FUNDS,
SOME SHINE
BRIGHTER.

There are a lot of mutual funds to choose from these days. Your options include galaxies of growth funds, income funds, combination funds, specialty funds and more. But among them all, some shine brighter.

Janus Mercury Fund was ranked #2 out of 154 capital appreciation funds by Lipper Analytical Services, Inc. for the one-year period ended September 30, 1994.* This aggressive fund is nondiversified and seeks capital growth through investments primarily in common stocks of issuers of any size, including larger, established companies and smaller, emerging growth companies. Janus Mercury Fund seeks out and explores undervalued stocks that have been overlooked by the market, but which may offer high future growth potential.

To explore Janus Mercury Fund, call or send in the coupon for a free prospectus containing more complete information, including expenses. Please read it carefully before you invest or send money.

BECAUSE IT'S NOT HOW MUCH YOU INVEST. IT'S HOW SMART.

JANUS MERCURY FUND
Average Annual Total Returns
for the Period Ended September 30, 1994

One Year	19.38%
Life of the Fund *From Inception - May 3, 1993*	23.92%

JANUS MERCURY FUND

P.O. Box 173375, Denver, CO 80217-3375
1-800-525-8983 Ext. 634

*A capital appreciation fund is defined by Lipper Analytical Services as one "which aims at maximum capital appreciation, frequently by means of 100% or more portfolio turnover, leveraging, purchasing unregistered securities, purchasing options, etc." This ranking is based on total return, including reinvestment of dividends and capital gains for the stated period. Past performance does not guarantee future results. Your return and share price will vary and may be worth more or less at redemption than at purchase.

YES - I would like to know more about Janus Mercury Fund!

Name ______________________________

Address ______________________________

City/State/Zip ______________________________

Janus Funds are no-load mutual funds.

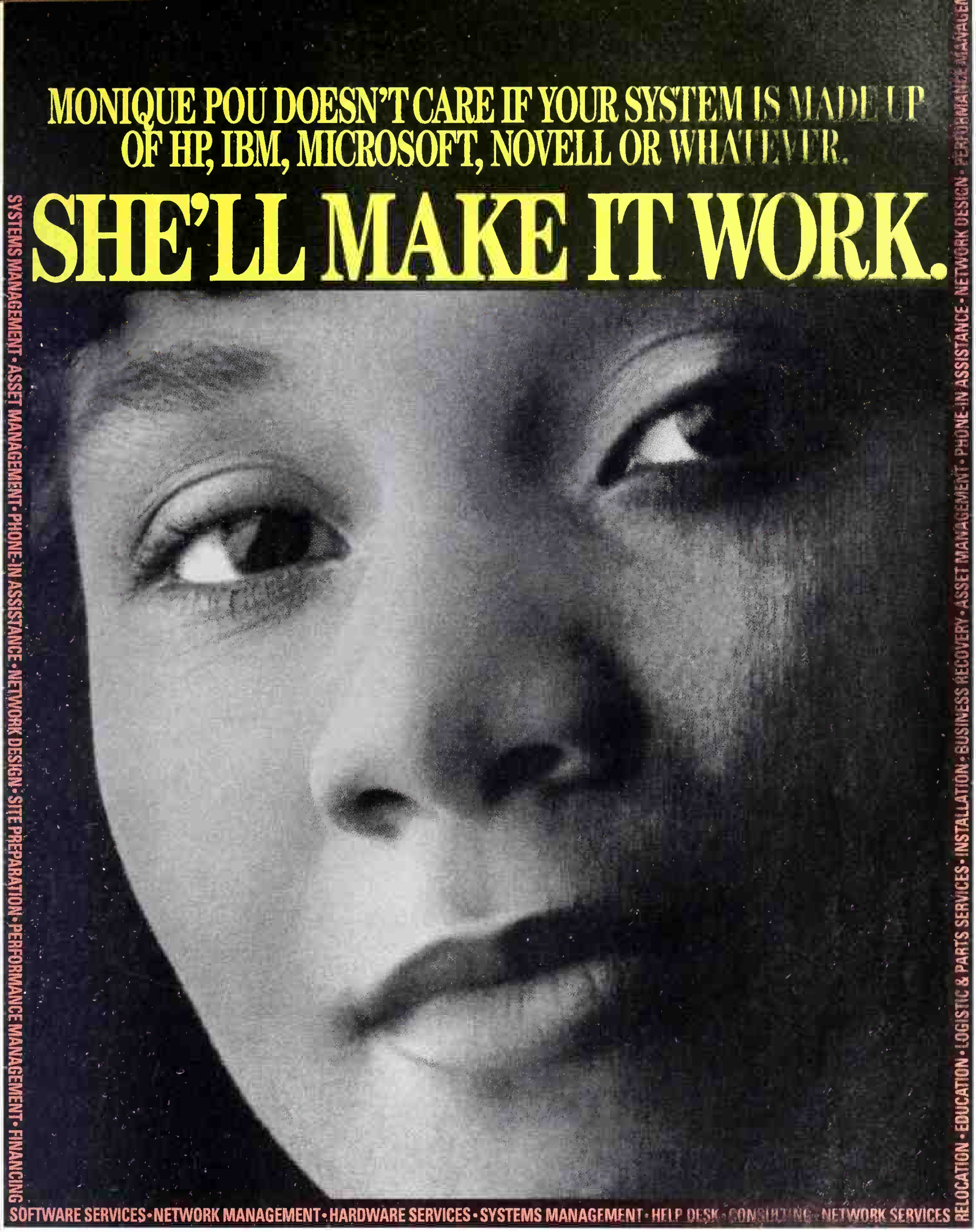
Funds distributed by Janus Distributors, Inc. Member NASD.

Send to:
Janus Funds
P.O. Box 173375
Denver, CO
80217-3375
1-800-525-8983
Ext. 634

BW 634

INVESTMENT OUTLOOK SCOREBOARD

									INSTITUTIONAL HOLDINGS			EARNINGS PER SHARE				
														1995 ESTIMATES		
															FROM ANALYSTS	
COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1994 EST.	1994 DIVIDEND RATE	YIELD %	SHRS. OUT. MILS.	1994 MARKET VALUE CHANGE %	%	NUMBER	1994 TURNOVER %	1993 ACTUAL	I/B/E/S 1994 ANALYST EST.	BASED ON 5-YR TREND	I/B/E/S CONSENSUS	VARIATION %
(B) PAPER																
GROUP AVERAGE		**42**	**25**	**21**	**1.08**	**2.62**	**82.4**	**6**	**65**	**398**	**65.0**	**0.54**	**1.64**	**1.56**	**3.22**	**20.3**
BOWATER	12	25	19	NM	0.60	2.36	36.7	11	80	162	77.2	-1.84	-1.23	NA	1.36	48.5
CHAMPION INTERNATIONAL	12	35	31	NM	0.20	0.58	93.2	4	84	360	67.0	-1.75	-0.23	NA	2.39	25.5
CHESAPEAKE	12	33	16	20	0.72	2.20	23.7	29	60	146	55.4	0.44	1.62	0.63	2.61	20.3
CONSOLIDATED PAPERS	12	45	22	24	1.28	2.88	44.2	3	26	164	38.8	1.46	1.84	1.06	2.96	17.9
INTERNATIONAL PAPER	12	72	52	22	1.68	2.35	125.0	6	70	753	99.5	2.34	3.32	1.53	5.76	15.6
JAMES RIVER CORP. OF VIRGINIA	12	21	18	NM	0.60	2.84	81.7	10	64	277	66.7	-0.40	-0.30	NA	0.97	37.1
KIMBERLY-CLARK	12	50	17	14	1.76	3.51	160.1	-4	62	704	42.7	3.18	3.46	3.30	3.89	4.4
MEAD	12	46	28	16	1.00	2.19	59.5	2	77	387	77.5	2.08	2.86	1.59	4.01	9.5
POTLATCH	12	38	31	23	1.60	4.27	29.2	-20	50	247	37.1	1.31	1.65	1.09	3.19	21.0
SCOTT PAPER	12	65	23	25	0.80	1.23	75.2	61	75	494	133.6	-3.91	2.58	1.99	4.62	14.7
UNION CAMP	12	46	26	32	1.56	3.36	70.0	-2	75	448	49.9	0.72	1.44	0.52	3.26	21.5
WESTVACO	10	34	27	22	1.10	3.20	67.1	-3	60	290	38.8	0.85	1.55*	0.91	2.68	17.9
WEYERHAEUSER	12	38	20	14	1.20	3.13	205.6	-14	59	746	60.7	2.58	2.78	3.00	4.10	10.5
20 PUBLISHING & BROADCASTING																
INDUSTRY AVERAGE		**52**	**16**	**46**	**1.02**	**1.91**	**146.2**	**-9**	**52**	**418**	**56.3**	**2.04**	**2.44**	**2.63**	**2.76**	**39.5**
(A) BROADCASTING																
GROUP AVERAGE		**38**	**8**	**104**	**0.13**	**0.33**	**229.1**	**-10**	**47**	**444**	**87.0**	**1.34**	**1.39**	**2.25**	**1.62**	**37.5**
CAPITAL CITIES/ABC	12	82	26	20	0.20	0.24	154.0	32	83	685	44.9	2.85	4.18	3.50	4.77	5.5
CBS	12	56	4	15	0.40	0.72	61.3	-24	24	461	123.9	4.08	3.66	4.62	3.78	10.6
COMCAST	12	16	-3	NM	0.09c	0.59	238.9	-29	66	432	129.1	-0.46	-0.20	NA	-0.09	1188.9
TELE-COMMUNICATIONS	12	24	5	295	0.00	0.00	571.1	-1	62	733	107.6	-0.02	0.08	NA	0.23	43.5
TURNER BROADCASTING	12	15	0	110	0.07	0.46	205.7	-38	20	147	11.4	0.27	0.14	0.30	0.41	41.5
VIACOM	12	38	13	78	0.00	0.00	143.5	2	25	208	105.3	1.30	0.49	0.58	0.60	86.7
(B) PUBLISHING																
GROUP AVERAGE		**58**	**20**	**20**	**1.43**	**2.64**	**107.9**	**-9**	**55**	**406**	**42.2**	**2.36**	**2.97**	**2.77**	**3.33**	**40.3**
DOW JONES	12	29	15	16	0.84	2.90	98.0	-20	38	317	45.5	1.48	1.77	NA	2.00	6.0
DUN & BRADSTREET	12	53	7	14	2.60	4.92	169.8	-14	76	786	34.1	2.42	3.68	3.11	4.07	2.0
GANNETT	12	47	12	15	1.36	2.87	139.2	-22	73	653	57.8	2.72	3.17	3.00	3.53	2.3
KNIGHT-RIDDER	12	48	23	15	1.48	3.06	53.5	-21	62	366	54.9	2.68	3.24	2.75	3.61	5.3
McGRAW-HILL	12	68	17	NA	2.32	3.42	49.7	1	69	460	52.2	0.23	††	1.70	††	††
†† Because Business Week is owned by McGraw-Hill, the Scoreboard does not include forecasts of the company's earnings.																
MEREDITH	06	48	19	25	0.72	1.50	13.7	15	56	232	41.5	1.22	1.91*	0.69	2.15	4.2
NEW YORK TIMES	12	24	16	23	0.56	2.36	99.6	-16	61	323	48.1	0.07	1.05	0.25	1.30	3.8
READER'S DIGEST ASSOCIATION	06	46	7	20	1.60	3.46	113.3	1	34	287	24.9	2.16	2.34*	2.68	2.47	3.2
SCRIPPS (E. W.)	12	30	13	21	0.44	1.46	79.8	17	24	102	8.9	1.72	1.45	1.83	1.70	5.3
TIME WARNER	12	35	3	NM	0.36	1.04	379.1	-22	56	768	62.1	-0.75	-0.23	NA	0.03	433.3
TIMES MIRROR	12	31	15	31	1.08	3.50	128.6	-7	51	388	41.8	1.27	0.99	0.63	1.27	11.8
TRIBUNE	12	50	16	17	1.04	2.07	67.0	-17	56	410	57.9	2.36b	2.99	2.30	3.47	3.5
WASHINGTON POST	12	245	97	18	4.20	1.72	11.5	-6	52	192	18.8	13.10	13.27	11.50	14.38	2.5
21 SERVICE INDUSTRIES																
INDUSTRY AVERAGE		**24**	**11**	**17**	**0.45**	**1.92**	**64.1**	**-4**	**59**	**222**	**58.4**	**0.86**	**1.56**	**1.71**	**1.87**	**6.4**
(A) CONSTRUCTION & ENGINEERING																
GROUP AVERAGE		**24**	**11**	**18**	**0.52**	**2.60**	**46.2**	**-18**	**63**	**301**	**76.8**	**1.47**	**1.37**	**1.55**	**1.62**	**11.2**
EG&G	12	15	9	12	0.56	3.80	55.1	-21	74	276	49.8	1.41	1.26	1.44	1.18	14.4
FLUOR	10	43	14	18	0.52	1.21	82.5	6	66	541	100.1	2.03	2.32*	2.44	2.66	2.3
FOSTER WHEELER	12	29	13	16	0.74	2.59	35.9	-14	71	337	93.5	1.62	1.82	2.03	2.08	1.9
JACOBS ENGINEERING GROUP	09	19	8	25	0.00	0.00	25.0	-20	47	111	45.8	1.15	0.75*	1.22	1.30	6.2
MORRISON KNUDSEN	12	15	12	21	0.80	5.42	32.7	-39	57	240	94.7	1.15	0.71	0.59	0.89	31.5
(B) INDUSTRIAL DISTRIBUTION																
GROUP AVERAGE		**26**	**13**	**17**	**0.51**	**2.36**	**39.3**	**-1**	**57**	**181**	**63.1**	**1.30**	**1.69**	**2.14**	**2.04**	**5.2**
ARROW ELECTRONICS	12	36	17	12	0.00	0.00	35.3	-2	78	221	105.4	2.62	3.05	7.02	3.52	1.7
AVNET	06	36	28	17	0.60	1.67	40.7	-8	80	282	69.3	1.91	2.16*	2.11	2.98	3.0
BEARINGS	06	33	20	20	0.72	2.17	7.5	20	68	84	31.0	1.23	1.68*	1.13	2.18	4.6
EOTT ENERGY PARTNERS	12	18	10	15	1.70	9.44	17.0	NA	4	8	NA	0.97	1.17	NA	1.46	9.6
FISHER SCIENTIFIC INTERNATIONAL	12	26	12	13	0.08	0.31	16.0	-28	90	162	86.4	1.88b	2.00	3.06	2.24	6.3
GENUINE PARTS	12	35	12	15	1.15	3.29	123.3	-8	72	461	26.9	2.08	2.31	2.35	2.57	1.6
GRAINGER (W.W.)	12	52	21	15	0.80	1.54	50.7	-10	63	453	43.8	2.88	3.35	3.44	3.79	2.4
KAMAN	12	10	10	12	0.44	4.35	18.2	0	42	82	47.6	-1.63	0.83	1.06	1.00	4.0
MARSHALL INDUSTRIES	05	25	14	12	0.00	0.00	17.2	1	79	131	42.7	1.91	2.15	2.38	2.47	1.6
PREMIER INDUSTRIAL	05	24	5	19	0.40	1.66	84.8	-15	19	124	10.5	1.10	1.27	1.31	1.43	2.8
STAPLES	01	22	5	35	0.00	0.00	59.5	44	75	230	221.2	0.47	0.62	0.91	0.81	2.5
UNITED STATIONERS	08	11	13	12	0.40	3.81	18.6	-31	52	73	61.8	1.15	0.85*	0.74	0.98	4.1
UNIVAR	02	12	8	23	0.30	2.42	21.8	21	16	44	10.5	0.28	0.55	0.23	1.03	23.3
(C) POLLUTION CONTROL																
GROUP AVERAGE		**18**	**9**	**20**	**0.32**	**1.21**	**246.2**	**-5**	**36**	**401**	**39.9**	**0.41**	**1.05**	**0.85**	**1.24**	**5.3**
BROWNING-FERRIS INDUSTRIES	09	27	12	18	0.68	2.52	196.0	18	77	599	68.5	1.15	1.52*	1.06	1.78	2.2
CHEMICAL WASTE MANAGEMENT	12	9	4	31	0.00	0.00	209.1	12	12	87	26.9	-1.43	0.30	0.28	0.37	10.8
RUST INTERNATIONAL	12	11	11	15	0.00	0.00	83.2	-52	2	36	3.8	0.98	0.75	0.62	0.93	5.4
WMX TECHNOLOGIES	12	26	9	16	0.60	2.33	496.3	0	56	882	60.3	0.93	1.64	1.43	1.87	2.7


MONIQUE POU DOESN'T CARE IF YOUR SYSTEM IS MADE UP OF HP, IBM, MICROSOFT, NOVELL OR WHATEVER.
SHE'LL MAKE IT WORK.
SYSTEMS MANAGEMENT • ASSET MANAGEMENT • PHONE-IN ASSISTANCE • NETWORK DESIGN • SITE PREPARATION • PERFORMANCE MANAGEMENT • FINANCING
SOFTWARE SERVICES • NETWORK MANAGEMENT • HARDWARE SERVICES • SYSTEMS MANAGEMENT • HELP DESK • CONSULTING • NETWORK SERVICES
RELOCATION • EDUCATION • LOGISTIC & PARTS SERVICES • INSTALLATION • BUSINESS RECOVERY • ASSET MANAGEMENT • PHONE-IN ASSISTANCE • NETWORK DESIGN • PERFORMANCE MANAGE

Monique Pou · Computer Systems Engineer

She's one of over 17,500 HP service specialists worldwide. And no matter what hardware, software or network your system consists of, Monique and her team are there to take care of it.

Whatever services you need, you'll find HP Service and Support has little to do with our hardware. And everything to do with your system.

HP works on your side.

HEWLETT® PACKARD

©1994 Hewlett-Packard Company

INVESTMENT OUTLOOK SCOREBOARD

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1994 EST.	1994 DIVIDEND RATE	YIELD %	SHRS. OUT. MILS.	1994 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS		1994 TURNOVER %	EARNINGS PER SHARE				
														1995 ESTIMATES		
															FROM ANALYSTS	
									%	NUMBER		1993 ACTUAL	I/B/E/S 1994 ANALYST EST.	BASED ON 5-YR. TREND	I/B/E/S CONSENSUS	VARIATION %
(D) PRINTING & ADVERTISING																
GROUP AVERAGE		**33**	**10**	**17**	**0.64**	**1.74**	**71.8**	**3**	**74**	**312**	**38.8**	**1.46**	**1.98**	**1.96**	**2.28**	**1.9**
AOVO	09	18	5	17	0.10	0.56	20.9	-3	64	94	39.3	0.21	1.05*	0.77	1.24	1.6
OONNELLEY (R.R.) & SONS	12	29	13	16	0.64	2.24	153.4	-8	75	468	31.8	1.16	1.77	1.51	2.04	3.4
INTERPUBLIC GROUP	12	32	8	17	0.56	1.77	76.5	1	80	390	35.8	1.67	1.87	2.10	2.11	1.9
OMNICOM GROUP	12	52	15	16	1.24	2.38	36.5	24	78	295	48.2	2.79	3.24	3.47	3.72	0.5
(E) OTHER SERVICES																
GROUP AVERAGE		**22**	**10**	**16**	**0.36**	**1.52**	**39.3**	**-2**	**62**	**155**	**58.8**	**0.18**	**1.53**	**1.50**	**1.87**	**7.6**
BORG-WARNER SECURITY	12	9	2	10	0.00	0.00	22.9	-54	79	74	37.4	-9.41	0.92	NA	1.28	6.3
COI	12	18	7	18	0.00	0.00	19.7	43	31	62	25.6	0.40	0.99	0.41	1.28	2.3
EMPHESYS FINANCIAL GROUP	12	29	17	8	0.60	2.07	17.0	NA	92	71	NA	3.42	3.61	NA	3.99	2.3
HANOLEMAN	04	12	9	11	0.44	3.83	33.5	-13	69	228	54.3	0.83	1.07	1.05	1.17	6.0
HEALTH SYSTEMS INTERNATIONAL	12	25	4	14	0.00	0.00	48.4	NA	15	82	37.9	0.48	1.73	NA	2.05	3.9
INACOM	12	10	13	NM	0.00	0.00	9.9	-26	68	64	196.0	1.23	-0.07	NA	0.84	33.3
KELLY SERVICES	12	28	11	18	0.72	2.62	38.0	0	40	136	43.9	1.18	1.50	1.06	1.77	7.3
MANPOWER	12	29	2	29	0.07	0.22	73.7	65	95	200	86.1	-0.66	1.01	NA	1.30	5.4
OLSTEN	12	31	8	20	0.24	0.77	41.5	9	69	224	48.3	-0.30	1.60	1.59	2.02	1.0
PHH	04	35	30	9	1.28	3.64	17.2	-16	88	206	46.6	3.64	4.06	3.98	4.55	NM
PINKERTON'S	12	18	14	20	0.00	0.00	8.3	-8	58	58	59.3	0.39	0.89	0.56	1.17	21.4
SAFETY-KLEEN	12	15	7	17	0.36	2.48	57.8	-11	63	282	68.1	-1.76	0.84	0.78	1.00	5.0
SERVICE CORP. INTERNATIONAL	12	26	11	18	0.42	1.64	86.2	-1	79	348	46.8	1.24	1.46	1.74	1.72	2.3
SERVICEMASTER	12	23	4	13	0.92	4.04	76.5	-17	14	140	14.5	1.90	1.79	2.33	2.07	2.4
22 TELECOMMUNICATIONS																
INDUSTRY AVERAGE		**32**	**13**	**21**	**1.28**	**3.65**	**427.9**	**-6**	**45**	**678**	**74.9**	**1.11**	**2.18**	**2.00**	**2.40**	**4.2**
(A) EQUIPMENT & SERVICES																
GROUP AVERAGE		**28**	**10**	**34**	**0.35**	**0.94**	**485.2**	**0**	**60**	**713**	**153.9**	**1.07**	**1.46**	**1.57**	**1.73**	**6.5**
AIRTOUCH COMMUNICATIONS	12	27	7	109	0.00	0.00	493.5	10	51	796	47.4	0.09	0.25	NA	0.38	18.4
AT&T	12	49	11	15	1.32	2.69	1562.7	8	31	1413	29.4	2.94	3.18	2.90	3.57	2.8
OSC COMMUNICATIONS	12	31	7	23	0.00	0.00	113.3	5	85	472	499.5	0.77	1.34	0.95	1.66	4.8
LOOS COMMUNICATIONS	12	20	14	19	0.00	0.00	123.1	-14	38	288	190.7	0.85	1.05	1.79	1.32	4.5
MCI COMMUNICATIONS	12	20	13	14	0.05	0.26	679.6	-13	60	897	101.8	1.12	1.44	1.44	1.60	3.8
SCIENTIFIC-ATLANTA	06	20	5	43	0.06	0.30	75.8	19	89	277	153.9	0.33	0.46*	0.24	0.85	5.9
SPRINT	12	30	13	12	1.00	3.35	348.5	-13	65	849	54.4	1.39	2.50	2.11	2.75	5.1
(B) TELEPHONE COMPANIES																
GROUP AVERAGE		**35**	**14**	**14**	**1.83**	**5.22**	**394.5**	**-10**	**37**	**658**	**28.9**	**1.13**	**2.60**	**2.21**	**2.79**	**2.8**
ALLTEL	12	28	9	17	0.96	3.41	187.6	-5	35	355	22.0	1.39	1.62	1.60	1.83	1.6
AMERITECH	12	40	15	13	1.92	4.86	550.4	4	35	770	22.2	2.78	2.98	3.04	3.22	2.8
BELL ATLANTIC	12	50	15	14	2.76	5.51	436.2	-15	33	819	27.0	3.39	3.55	3.72	3.82	1.0
BELLSOUTH	12	52	28	13	2.76	5.32	496.2	-11	31	867	24.9	2.08	4.15	3.02	4.45	2.0
CINCINNATI BELL	12	17	8	16	0.80	4.64	65.7	-3	32	134	16.3	-0.93	1.10	0.67	1.21	7.4
GTE	12	31	11	13	1.88	6.16	959.1	-12	41	1090	34.3	1.03	2.37	1.57	2.55	2.0
NYNEX	12	38	20	12	2.36	6.27	421.9	-5	37	714	33.5	-0.66	3.02	3.29	3.27	3.1
PACIFIC TELESIS GROUP	12	29	12	11	2.18	7.52	424.1	-46	40	835	44.5	0.46	2.72	1.16	2.78	2.2
ROCHESTER TELEPHONE	12	22	11	16	0.81	3.72	73.2	4	43	247	33.6	1.21	1.37	1.41	1.55	3.9
SOUTHERN NEW ENGLAND TELECOMMS.	12	33	14	12	1.76	5.33	64.3	-8	34	232	21.8	-0.68	2.72	2.51	2.78	3.6
SOUTHWESTERN BELL	12	41	13	15	1.58	3.82	599.7	0	37	950	28.3	2.39	2.75	2.86	3.03	1.7
U S WEST	12	35	15	12	2.14	6.09	455.6	-21	44	886	38.4	1.13	2.87	1.72	2.97	2.7
23 TRANSPORTATION																
INDUSTRY AVERAGE		**31**	**15**	**17**	**0.47**	**1.29**	**60.3**	**-19**	**67**	**277**	**108.9**	**-1.06**	**1.42**	**2.53**	**2.74**	**17.8**
(A) AIRLINES																
GROUP AVERAGE		**34**	**8**	**13**	**0.03**	**0.07**	**57.6**	**-30**	**51**	**211**	**160.5**	**-10.48**	**-1.20**	**1.12**	**2.46**	**47.0**
ALASKA AIRGROUP	12	16	15	12	0.00	0.00	13.4	16	49	91	194.7	-2.51	1.42	0.78	1.65	37.6
AMR	12	51	46	13	0.00	0.00	76.0	-24	86	513	145.2	-2.05	3.92	NA	5.91	17.8
CONTINENTAL AIRLINES	12	15	24	NM	0.00	0.00	26.7	-24	33	70	88.8	-56.63	-4.55	NA	0.98	180.6
OELTA AIR LINES	06	50	33	NM	0.20	0.40	50.6	-8	72	338	114.8	-10.54	-10.32*	NA	2.93	38.2
NORTHWEST AIRLINES	12	17	-21	6	0.00	0.00	78.4	NA	37	60	NA	-2.82	2.70	NA	3.00	10.7
SOUTHWEST AIRLINES	12	21	9	15	0.04	0.19	143.1	-43	54	404	112.7	1.05	1.40	1.45	1.69	9.5
UAL	12	96	-26	19	0.00	0.00	12.4	-67	30	26	264.8	-2.64	5.09	NA	8.09	20.4
USAIR GROUP	12	5	-11	NM	0.00	0.00	59.8	-62	49	182	202.3	-7.68	-9.22	NA	-4.58	61.4
(B) RAILROADS																
GROUP AVERAGE		**40**	**20**	**13**	**0.94**	**1.81**	**120.8**	**-15**	**64**	**484**	**68.7**	**2.36**	**3.26**	**3.29**	**3.83**	**4.3**
BURLINGTON NORTHERN	12	49	20	11	1.20	2.46	89.2	-15	75	628	93.9	3.06	4.33	3.94	5.28	4.9
CHICAGO & NORTHWESTERN HOLDINGS	12	20	6	10	0.00	0.00	43.9	-22	62	144	53.3	1.44	1.90	NA	2.20	3.6
CONRAIL	12	52	35	14	1.50	2.88	78.9	-23	85	523	96.5	2.51b	3.80	4.56	4.51	4.9
CSX	12	70	34	12	1.76	2.53	104.7	-15	63	645	52.5	3.46	5.83	2.07	6.97	3.0
KANSAS CITY SOUTHERN INDUSTRIES	12	32	15	12	0.30	0.94	43.5	-37	53	252	99.3	2.16	2.67	3.18	3.13	3.5
NORFOLK SOUTHERN	12	61	35	12	1.92	3.17	134.7	-17	61	680	36.1	3.94	4.87	3.95	5.37	2.4
SANTA FE PACIFIC	12	17	6	18	0.10	0.60	187.0	-24	67	441	99.7	1.81	0.95	1.74	1.10	3.6
SOUTHERN PACIFIC RAIL	12	18	4	21	0.00	0.00	200.0	41	41	208	39.4	-0.54	0.88	NA	1.31	8.4
UNION PACIFIC	12	47	24	11	1.72	3.70	205.1	-26	66	836	47.1	3.43	4.07	3.59	4.64	3.9

THEME.

AND VARIATIONS.

THE IDEA BEHIND OUR NEW GLOBAL THEME FUNDS.

Introducing G.T. Global Theme Funds. A new way of investing for a new world. Five funds that offer investors access to industries we believe will benefit from economic, political and regulatory trends we see developing in certain countries.

G.T. GLOBAL TELECOMMUNICATIONS FUND: Invests in companies worldwide that develop, manufacture or sell telecommunications services or equipment.

G.T. GLOBAL INFRASTRUCTURE FUND: Seeks companies that build, improve or maintain a country's infrastructure.

G.T. GLOBAL HEALTH CARE FUND: Invests in the growing health care industries worldwide.

G.T. GLOBAL NATURAL RESOURCES FUND: Concentrates on companies that own, explore or develop natural resources.

G.T. GLOBAL FINANCIAL SERVICES FUND: Focuses on the worldwide opportunities from the demand for financial services and products.

Of course, it's important to understand the special risks associated with global investing, including political and currency risk, as well as the risk of investing in similar industries. For complete information, talk to your financial adviser, or call G.T. Global – the specialist in global investment innovation for 25 years.

1-800-824-1580

G.T. GLOBAL

London Hong Kong San Francisco Tokyo
Sydney Singapore Toronto

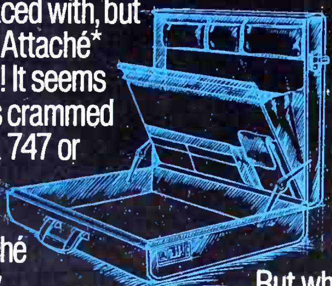
When you invest for your future,
think global . . . G.T. Global.℠

Ask for the G.T. Global Theme Funds prospectus for more complete information, including charges, expenses and the risks associated with global investing, including political and currency risk. Please read the prospectus carefully before investing or sending money. G.T. Global Financial Services, Inc., Distributor.

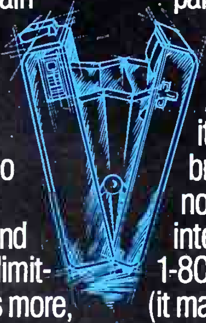
INVESTMENT OUTLOOK SCOREBOARD

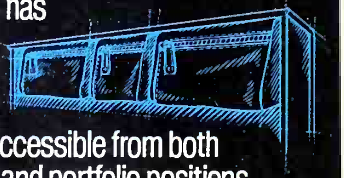
												EARNINGS PER SHARE				
														1995 ESTIMATES		
															FROM ANALYSTS	
COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1994 EST.	1994 DIVIDEND RATE	YIELD %	SHRS. OUT. MILS.	1994 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	INSTITUTIONAL HOLDINGS NUMBER	1994 TURNOVER %	1993 ACTUAL	I/B/E/S 1994 ANALYST EST.	BASED ON 5-YR. TREND	I/B/E/S CONSENSUS	VARIATION %
(C) TRANSPORTATION SERVICES																
GROUP AVERAGE		**29**	**19**	**13**	**0.45**	**1.54**	**35.9**	**-15**	**82**	**251**	**99.9**	**2.02**	**2.34**	**2.83**	**2.82**	**6.8**
AIR EXPRESS INTERNATIONAL	12	27	8	16	0.24	0.89	11.6	36	63	101	81.9	1.46b	1.71	2.16	1.94	8.8
AIRBORNE FREIGHT	12	20	18	11	0.30	1.52	21.0	-39	96	226	211.3	1.66	1.77	0.91	1.99	6.5
AVIALL	12	9	16	19	0.04	0.44	19.4	-40	76	142	134.7	NA	0.48	NA	1.00	11.0
FEDERAL EXPRESS	05	57	36	12	0.00	0.00	55.9	-19	81	388	99.6	3.65	4.83	6.59	5.78	5.4
GATX	12	40	32	11	1.50c	3.75	19.9	-1	88	206	51.7	2.99	3.71	2.36	4.29	2.3
PITTSTON SERVICES GROUP	12	24	10	12	0.20	0.84	41.7	-18	81	286	70.3	1.28	2.00	3.32	2.25	2.7
RYDER SYSTEM	12	22	14	11	0.60	2.77	78.1	-18	90	396	62.5	1.43	1.94	2.39	2.25	4.0
TRINITY INDUSTRIES	03	33	15	15	0.68	2.08	39.9	-24	85	266	87.0	1.69	2.24	2.06	3.04	13.8
(D) TRUCKING & SHIPPING																
GROUP AVERAGE		**22**	**14**	**27**	**0.42**	**1.61**	**27.6**	**-16**	**70**	**163**	**116.1**	**1.23**	**1.11**	**1.97**	**1.93**	**15.4**
ALEXANDER & BALDWIN	12	24	14	16	0.88	3.67	46.0	-11	52	186	43.0	1.45	1.53	0.96	1.78	5.1
AMERICAN PRESIDENT	12	22	18	9	0.40	1.80	27.3	-21	73	180	86.2	2.65	2.39	2.88	2.78	5.8
ARKANSAS BEST	12	12	11	17	0.04	0.33	19.2	-23	79	96	112.3	0.89	0.70	2.82	1.35	9.6
CAROLINA FREIGHT	12	9	19	94	0.00	0.00	6.6	-26	60	49	95.7	-0.65	0.10	0.10	0.50	90.0
CONSOLIDATED FREIGHTWAYS	12	19	14	17	0.00	0.00	36.3	-17	73	249	119.2	0.87	1.12	NA	2.31	6.5
HUNT (J.B.) TRANSPORT SERVICES	12	16	10	14	0.20	1.28	38.6	-32	31	104	72.7	1.00	1.08	1.12	1.33	6.8
LANDSTAR SYSTEM	12	26	8	14	0.00	0.00	12.8	15	85	113	146.7	1.14	1.82	4.14	2.19	4.1
ROADWAY SERVICES	12	51	26	47	1.40	2.77	39.4	-16	68	278	111.7	3.02	1.08	1.74	3.52	6.5
TNT FREIGHTWAYS	12	25	9	17	0.37	1.50	21.9	-7	100	151	194.5	1.25	1.43	2.01	1.88	5.3
YELLOW	12	20	16	NM	0.94	4.79	28.1	-21	78	223	178.9	0.67	-0.14	NA	1.66	14.5
24 UTILITIES & POWER																
INDUSTRY AVERAGE		**25**	**19**	**13**	**1.47**	**5.98**	**126.3**	**-16**	**45**	**318**	**45.4**	**1.67**	**2.13**	**2.11**	**2.26**	**4.7**
(A) ELECTRIC, WATER & COGENERATION																
GROUP AVERAGE		**25**	**20**	**11**	**1.67**	**6.75**	**156.7**	**-18**	**41**	**336**	**46.1**	**1.74**	**2.29**	**2.22**	**2.38**	**4.0**
ALLEGHENY POWER SYSTEM	12	22	17	11	1.64	7.54	118.9	-17	41	258	40.7	1.88	1.91	1.90	1.97	2.5
AMERICAN ELECTRIC POWER	12	33	23	12	2.40	7.27	184.9	-11	31	437	44.5	1.92	2.86	2.22	2.87	3.5
AMERICAN WATER WORKS	12	26	22	11	1.08	4.11	31.9	-11	38	145	19.7	2.29	2.38	2.67	2.47	1.2
BALTIMORE GAS & ELECTRIC	12	23	19	11	1.52	6.72	147.5	-10	40	418	39.6	1.85	1.98	1.92	2.05	2.9
BOSTON EDISON	12	23	20	10	1.76	7.69	45.3	-23	34	167	50.1	2.28	2.40	2.73	2.48	1.6
CAROLINA POWER & LIGHT	12	27	16	12	1.70	6.36	160.7	-11	33	363	30.4	2.10	2.25	2.37	2.37	2.5
CENTERIOR ENERGY	12	9	13	6	0.80	9.14	147.9	-34	35	154	65.2	-6.51	1.46	1.33	1.57	9.6
CENTRAL & SOUTH WEST	12	21	16	10	1.70	8.00	189.9	-29	45	488	41.6	1.39	2.05	1.86	2.08	2.9
CINERGY	12	22	18	11	0.41	1.85	89.1	-18	90	423	56.9	-0.39	2.10	1.81	2.14	5.1
CMS ENERGY	12	22	12	11	0.84	3.78	86.1	-11	56	195	51.5	1.90	2.11	NA	2.27	2.2
CONSOLIDATED EDISON CO. OF N.Y.	12	26	23	9	2.00	7.73	234.9	-19	32	465	39.5	2.66	2.87	2.82	2.71	4.4
DETROIT EDISON	12	27	23	10	2.06	7.70	144.9	-12	37	367	51.4	3.34	2.61	3.19	2.68	4.9
DOMINION RESOURCES	12	37	27	12	2.58	6.95	172.3	-16	38	456	34.2	3.12	3.08	3.10	3.18	3.1
DUKE POWER	12	41	22	14	1.96	4.81	204.9	-4	42	554	32.7	2.80	2.98	2.87	3.05	3.6
ENTERGY	12	23	28	9	1.80	8.00	230.0	-38	69	526	67.8	2.62	2.41	2.49	2.49	6.8
FLORIDA PROGRESS	12	31	21	13	2.02	6.62	94.2	-4	36	250	43.2	2.22	2.38	2.19	2.45	1.6
FPL GROUP	12	35	23	12	1.68	4.75	186.8	-11	41	528	55.0	2.30	2.90	2.46	3.01	2.3
GENERAL PUBLIC UTILITIES	12	26	23	9	1.80	6.99	115.2	-16	62	383	63.6	2.65	2.77	2.63	2.81	3.2
HOUSTON INDUSTRIES	12	34	28	10	3.00	8.82	123.4	-33	55	438	59.1	3.20	3.32	3.15	3.30	3.3
ILLINOVA	12	20	19	10	0.80	4.00	75.6	-10	54	199	61.4	-1.08	1.97	NA	2.13	3.3
LONG ISLAND LIGHTING	12	17	20	8	1.78	10.63	118.1	-28	39	205	86.1	2.15	2.13	2.09	2.16	3.2
NEW ENGLAND ELECTRIC SYSTEM	12	31	24	10	2.30	7.33	65.0	-20	35	234	33.3	2.93	3.13	3.11	3.19	2.8
NEW YORK STATE ELECTRIC & GAS	12	19	23	8	1.40	7.52	71.6	-39	35	184	52.2	2.08	2.28	2.12	2.37	4.2
NIAGARA MOHAWK POWER	12	14	18	8	1.12	8.07	143.3	-31	47	344	78.1	1.71	1.76	2.78	1.70	10.0
NIPSCO INDUSTRIES	12	29	17	12	1.44	4.92	64.2	-13	57	276	59.6	2.31	2.46	2.61	2.55	2.7
NORTHEAST UTILITIES	12	21	18	10	1.76	8.23	124.8	-10	33	266	44.3	1.60	2.24	2.01	2.24	4.0
NORTHERN STATES POWER	12	45	28	14	2.64	5.85	66.9	5	30	334	33.5	3.02	3.34	2.97	3.40	3.8
OHIO EDISON	12	19	15	10	1.50	8.11	152.6	-19	35	303	34.5	0.01	1.91	0.15	1.96	2.6
OKLAHOMA GAS & ELECTRIC	12	33	23	11	2.66	8.09	40.3	-11	25	174	57.8	2.78	2.92	2.64	2.99	3.3
PACIFIC GAS & ELECTRIC	12	24	20	9	1.96	8.21	429.9	-32	42	484	36.1	2.33	2.71	2.87	2.90	4.8
PACIFICORP	12	19	12	13	1.08	5.84	284.1	-3	36	458	32.7	1.40	1.45	0.94	1.50	4.0
PECO ENERGY	12	24	19	10	1.62	6.72	221.6	-20	37	454	45.3	2.45	2.51	3.75	2.62	2.7
PENNSYLVANIA POWER & LIGHT	12	20	16	10	1.67	8.35	154.9	-25	24	217	34.2	2.07	2.07	2.08	2.04	4.9
PINNACLE WEST CAPITAL	12	19	19	10	0.90	4.65	87.4	-13	71	216	57.4	1.95	1.94	2.29	1.99	2.5
POTOMAC ELECTRIC POWER	12	19	17	10	1.66	8.85	118.1	-30	19	235	53.0	1.95	1.87	1.79	1.88	4.3
PUBLIC SERVICE CO. OF COLORADO	12	29	20	12	2.00	7.02	61.6	-10	36	220	48.5	2.43	2.41	2.29	2.54	2.8
PUBLIC SERVICE ENTERPRISE GROUP	12	27	22	10	2.16	8.11	244.7	-16	35	499	32.5	2.48	2.74	2.50	2.81	2.8
SAN DIEGO GAS & ELECTRIC	12	20	13	11	1.52	7.70	116.5	-21	16	144	24.3	1.81	1.85	1.92	1.91	4.2
SCECORP	12	14	14	9	1.00	7.21	447.8	-31	28	467	50.9	1.43	1.53	1.41	1.59	4.4
SOUTHERN	12	21	12	13	1.18	5.69	652.9	-4	29	577	29.0	1.57	1.61	1.77	1.67	2.4
TEXAS UTILITIES	12	33	29	12	3.08	9.44	225.8	-24	53	600	53.4	1.66	2.62	1.73	2.87	4.2
UNICOM	12	23	25	13	1.60	6.85	214.2	-17	58	407	42.7	0.17	1.85	0.59	2.52	7.9
UNION ELECTRIC	12	36	23	12	2.38	6.63	102.1	-9	30	326	35.2	2.77	2.99	3.01	2.93	3.4
WESTERN RESOURCES	12	28	24	11	1.98	7.04	61.6	-19	35	208	42.2	2.76	2.55	2.73	2.64	3.4

THE WORLD'S SMARTEST BRIEFCASE.



ou never know what kind of business tuation you'll be faced with, but amsonite's Smart Attaché* oes. It's that smart! It seems know whether it's crammed etween seats on a 747 or rawled out on a acious desk top. nd the Smart Attaché ill not only identify ur problems— ll solve them, o. Thanks to a tented, gravity- ctivated "smart-hinge" that allows it to automatically function in a number of mind-boggling ways. When it's flat, it "knows" to open like a standard briefcase, revealing a sizeable main compartment for the bulk of your belongings. But when it's upright, it intuitively opens as a portfolio —from the top. So you can retrieve tickets, itinerary and files even when space is limited or time is tight. What's more, it just looks "smart." Elegant styling. Full-grain leather. Side-mount combination locks. It even has ingenious interior compartments** that are accessible from both briefcase and portfolio positions. And since it's a Samsonite® briefcase, it's got the brawn to back up its brains, and protect your contents like nobody's business. Call it applied artificial intelligence! Call it brilliant! Or call 1-800-262-8282 for more information (it may be the smartest thing you ever do).





Samsonite®

Our Strengths Are Legendary.®

. Patent #4,714,286 and other patents pending
tent pending
e World's Smartest" and "Smart Attaché" are trademarks of Samsonite Corp. © 1993 Samsonite Corp.

INVESTMENT OUTLOOK SCOREBOARD

									INSTITUTIONAL HOLDINGS			EARNINGS PER SHARE		1995 ESTIMATES		
															FROM ANALYSTS	
COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1994 EST.	1994 DIVIDEND RATE	YIELD %	SHRS. OUT. MILS.	1994 MARKET VALUE CHANGE %	%	NUMBER	1994 TURNOVER %	1993 ACTUAL	I/B/E/S 1994 ANALYST EST.	BASED ON 5-YR. TREND	I/B/E/S CONSENSUS	VARIATION %
WHEELABRATOR TECHNOLOGIES	12	14	7	14	0.10	0.70	189.5	−19	30	268	37.1	0.86	1.00	1.46	1.16	1.7
WISCONSIN ENERGY	12	26	16	13	1.41	5.42	108.5	−3	32	294	27.6	1.81	1.98	1.84	2.07	2.9
ZURN INDUSTRIES	03	18	18	19	0.88	5.03	12.3	−36	81	179	59.1	−1.12	0.90	0.83	1.36	17.6
(B) GAS, OIL & TRANSMISSION																
GROUP AVERAGE		**25**	**17**	**18**	**1.08**	**4.42**	**64.1**	**−11**	**52**	**280**	**43.9**	**1.54**	**1.81**	**1.87**	**2.01**	**6.0**
ASSOCIATED NATURAL GAS	09	39	16	29	0.12	0.31	15.1	38	73	101	64.3	1.56	1.34	2.71	1.87	4.3
ATLANTA GAS LIGHT	09	30	21	13	2.08	7.02	25.3	−23	19	133	19.8	2.16	2.34*	2.42	2.35	2.6
BROOKLYN UNION GAS	09	22	17	12	1.35	6.07	47.3	−18	27	153	17.5	1.73	1.85*	1.73	1.86	2.7
COLUMBIA GAS SYSTEM	12	25	28	8	0.00	0.00	50.6	10	67	254	55.7	3.01	3.14	2.72	3.31	7.9
CONSOLIDATED NATURAL GAS	12	35	23	16	1.94	5.54	93.0	−25	64	488	39.5	2.03	2.15	2.11	2.39	3.8
EASTERN ENTERPRISES	12	26	18	13	1.40	5.49	20.7	−1	75	248	48.7	−1.43	1.98	1.55	2.17	5.5
EL PASO NATURAL GAS	12	34	20	12	1.21	3.60	36.5	−7	73	296	48.2	2.46	2.74	NA	3.09	2.9
ENRON	12	27	11	15	0.80	2.96	251.5	−6	57	674	44.4	1.32	1.83	1.91	2.09	5.7
ENSERCH	12	13	10	29	0.20	1.58	66.9	−22	78	269	59.4	−0.41	0.44	0.21	0.76	17.1
EQUITABLE RESOURCES	12	27	22	13	1.18	4.37	34.5	−26	68	225	34.5	2.27	2.03	2.30	2.35	6.8
MCN	12	18	8	13	0.89	4.91	59.4	5	46	224	33.8	1.24	1.42	1.41	1.50	2.0
NATIONAL FUEL GAS	09	26	21	12	1.58	6.08	37.2	−23	31	166	22.8	2.15	2.23*	2.23	2.29	3.5
NICOR	12	23	13	11	1.26	5.60	52.0	−23	52	348	31.2	1.97	2.11	2.04	2.15	2.8
NORAM ENERGY	12	6	5	14	0.28	4.98	122.4	−29	44	282	43.9	0.26	0.40	0.24	0.49	12.2
PACIFIC ENTERPRISES	12	22	14	12	1.28	5.95	82.1	−12	47	307	41.7	2.06	1.81	1.52	1.92	3.1
PANHANDLE EASTERN	12	21	14	12	0.84	3.98	120.5	−11	69	393	50.9	1.29	1.72	1.87	1.91	3.7
PEOPLES ENERGY	09	25	19	12	1.80	7.35	34.9	−20	38	251	25.7	2.11	2.13*	2.03	2.13	7.5
SONAT	12	28	16	15	1.08	3.84	87.2	−3	68	517	67.9	3.05	1.87	2.32	2.15	7.0
TRANSCO ENERGY	12	13	10	12	0.60	4.80	40.9	−12	55	238	46.6	−1.54	1.05	NA	1.22	8.2
UTILICORP UNITED	12	26	20	12	1.72	6.68	44.8	−13	22	159	30.6	1.95	2.08	1.81	2.21	1.4
WASHINGTON GAS LIGHT	09	33	23	12	2.22	6.65	21.1	−18	23	130	15.3	2.62	2.83*	2.79	2.80	2.5
WESTERN GAS RESOURCES	12	21	17	103	0.20	0.98	25.7	−37	37	84	52.3	1.25	0.20	0.40	1.02	18.6
WILLIAMS	12	28	16	14	0.84	2.97	104.1	17	71	498	114.5	2.20	1.99	3.03	2.23	5.4

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

A

A&P **10c**
Abbott Laboratories **12d**
Advanced Micro **9d**
ADVO **21d**
Aetna Life & Casualty **17b**
AFLAC **17b**
Ahmanson (H. F.) **17c**
Air Express Intl. **23c**
Air Products & Chemicals **4**
Airborne Freight **23c**
AirTouch Communications **22a**
AK Steel Holding **16b**
Alaska Air Group **23a**
Albemarle **4**
Alberto-Culver **6d**
Albertson's **10c**
Alco Standard **5**
Alcoa **16a**
Alexander & Alexander **17a**
Alexander & Baldwin **23d**
Allegheny Ludlum **16b**
Allegheny Power **24a**
Allergan **12b**
Alliant Techsystems **15a**
AlliedSignal **5**
Allmerica Property & Cas. **17b**
Allstate **17b**
Alltel **22b**
Alumax **16a**
Amdahl **18b**
Amerada Hess **11b**
American Bankers Insurance **17b**
American Brands **6e**
American Electric **24a**
American Express **17a**
American General **17b**
American Greetings **14c**
American Home **12b**
American Intl. Group **17b**
American Medical **12c**
American National **17b**
American Premier **17b**
American President **23d**
American Re **17b**
American Stores **10c**
American Water Works **24a**
Ameritech **22b**
Ametek **9a**
Amgen **12b**
Amoco **11b**
AMP **9d**
AMR **23a**
AmSouth Bancorporation **3c**
Anheuser-Busch **6c**
Aon **17b**
Apple Computer **18b**
Applied Materials **15c**
Archer Daniels Midland **10b**
Arco Chemical **4**
Arkansas Best **23d**
Armco **16b**
Armstrong World **6b**
Arrow Electronics **21b**
Arvin Industries **2b**
Asarco **16c**
Ashland Oil **11b**
Associated Natural Gas **24b**
AST Research **18b**
AT&T **22a**
AT&T Capital **17a**
Atlanta Gas Light **24b**
Atlantic Richfield **11b**
Automatic Data **18c**
AutoZone **8**
Avery Dennison **15a**
Aviall **23c**
Avnet **21b**
Avon Products **6d**

B

Baker (J.) **8**
Baker Hughes **11c**
Ball **7a**
Bally Entertainment **14b**
Baltimore G&E **24a**
Banc One **3b**
Bancorp Hawaii **3d**
Bank of Boston **3a**
Bank of New York **3a**
BankAmerica **3d**
Bankers Life Holding **17b**
Bankers Trust **3a**
Bard (C.R.) **12d**
Barnes & Noble **8**
Barnett Banks **3c**
Bausch & Lomb **12d**
Baxter International **12d**
Bear Stearns **17a**
Bearings **21b**
Beckman Instruments **9c**
Becton, Dickinson **12d**
Bell Atlantic **22b**
BellSouth **22b**
Bemis **7b**
Beneficial **17a**
Bergen Brunswig **12a**
Best Buy **6b**
Best Products **8**
Bethlehem Steel **16b**
Beverly Enterprises **12c**
Bindley Western Inds. **12a**
Black & Decker **15b**
Block (H&R) **17a**
Boatmen's Bancshares **3b**
Boeing **1**
Boise Cascade **19a**
Borden **10b**
Borg-Warner Automotive **2b**
Borg-Warner Security **21e**
Boston Edison **24a**
Bowater **19b**
Bradlees **8**
Briggs & Stratton **15c**
Brinker International **14a**
Bristol-Myers Squibb **12b**
Broadway Stores **8**
Brooklyn Union Gas **24b**
Brown Group **6a**
Brown-Forman **6c**
Browning-Ferris **21c**
Bruno's **10c**
Brunswick **14c**
Burlington Coat Factory **8**
Burlington Industries **15d**
Burlington Northern **23b**
Burlington Resources **11b**

C

Cabot **4**
Caesars World **14b**
Caldor **8**
California Federal Bank **17c**
Campbell Soup **10b**
Capital Cities/ABC **20a**
Cardinal Health **12a**
Caremark Intl. **12c**
Carnival **14c**
Carolina Freight **23d**
Carolina Power **24a**
Carson Pirie Scott **8**
Caterpillar **15c**
CBI Industries **4**
CBS **20a**
CDI **21e**
Centerior Energy **24a**
Centex **13b**
Central & South West **24a**
Ceridian **18c**
Champion Intl. **19b**
Charming Shoppes **8**
Charter Medical **12c**
Chase Manhattan **3a**
Chemical Banking **3a**
Chemical Waste **21c**
Chesapeake **19b**
Chevron **11b**
Chicago & North Western **23b**
Chiquita Brands Intl. **10b**
Chrysler **2a**
Chubb **17b**
Cigna **17b**
Cincinnati Bell **22b**
Cincinnati Financial **17b**
Cincinnati Milacron **15b**
CINergy **24a**
Circuit City Stores **6b**
Circus Circus **14b**
Cisco Systems **18c**
Citicorp **3a**
Citizens **17b**
Clark Equipment **15c**
Clorox **6d**
CML Group **14c**
CMS Energy **24a**
CNA Financial **17b**
Coastal **11b**
Coca-Cola **6c**
Coca-Cola Enterprises **6c**
Colgate-Palmolive **6d**
Coltec Industries **5**
Columbia Gas **24b**
Columbia/HCA Healthcare **12c**
Comcast **20a**
Comdisco **18c**
Comerica **3b**
Commercial Metals **16b**
Compaq Computer **18b**
CompuCom Systems **18a**
CompUSA **18c**
Computer Associates **18c**
Computer Sciences **18c**
Computervision **18c**
ConAgra **10b**
Cone Mills **15d**
Conner Peripherals **18b**
Conrail **23b**
Conseco **17b**
Consolidated Edison **24a**
Cons. Freightways **23d**
Cons. Natural Gas **24b**
Consolidated Papers **19b**
Consolidated Stores **8**
Continental Airlines **23a**
Continental Baking Group **10b**
Continental Corp. **17b**
Continental Medical **12c**
Cooper Industries **9a**
Cooper Tire & Rubber **2c**
Coors (Adolph) **6c**
CoreStates Financial **3a**
Corning **15a**
Countrywide Credit **17a**
CPC International **10b**
Crane **15a**
Cray Research **18b**
Crestar Financial **3c**
Crown Central Petroleum **11b**
Crown Cork & Seal **7a**
CSX **23b**
CUC International **18a**
Cummins Engine **2b**
Curtice-Burns Food **10b**
Cyprus Amax Minerals **16c**
Cytec Industries **4**

D

Dana **2b**
Danaher **15b**
Data General **18b**
Dayton Hudson **8**
Dean Foods **10b**
Dean Witter, Discover **17a**
Deere **15c**
Delchamps **10c**
Dell Computer **18b**
Delta Air Lines **23a**
Deluxe **18a**
Detroit Diesel **2b**
Detroit Edison **24a**
Dexter **4**
Dial **5**
Diamond Shamrock **11b**
Dibrell Brothers **6e**
Digital Equipment **18b**
Dillard **8**
Disney (Walt) **14c**
Dole Food **10b**
Dollar General **8**
Dominion Resources **24a**
Donnelley (R.R.) **21d**
Dover **15c**
Dow Chemical **4**
Dow Jones **20b**
Dresser Industries **15c**
Drug Emporium **12a**
DSC Communs. **22a**
Duke Power **24a**
Dun & Bradstreet **20b**
DuPont **4**
Duracell International **15a**

E

E-Systems **9b**
Eastern Enterprises **24b**
Eastman Chemical **4**
Eastman Kodak **14c**
Eaton **2b**
Echlin **2b**
Eckerd **12a**
Ecolab **6d**
Edison Brothers **8**
Edwards (A.G.) **17a**
EG&G **21a**
Egghead **18a**
El Paso Natural Gas **24b**
Electronic Data Systems **18c**
EMC **18b**
Emerson Electric **9a**
Emphesys Financal Group **21e**
Engelhard **4**
Enron **24b**
Enserch **24b**
Entergy **24a**
EOTT Energy Partners **21b**
Equifax **17a**
Equitable **17b**
Equitable Resources **24b**
Ethyl **4**
Exxon **11b**

F

F&M Distributors **8**
Family Dollar Stores **8**
Fannie Mae **17a**
Fay's **12a**
Federal Express **23c**
Federal Home Loan **17a**
Federal Paper Board **7b**
Federal-Mogul **2b**
Federated Dept. Stores **8**
Ferro **4**
FHP International **12c**
Fieldcrest Cannon **15d**
Fifth Third Bancorp **3b**
Figgie Intl. **15c**
Fingerhut **8**
First American Finl. **17a**
First Bank System **3b**
First Brands **15a**
First Chicago **3b**
First Colony **17b**

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

irst Data 18c
irst Fidelity 3a
irst Financial Mgmt. 17a
irst Interstate Bancorp 3d
irst of America Bank 3b
irst Union 3c
irst USA 17a
irstar 3b
irstFed Michigan 17c
isher Scientific 21b
lagstar 14a
leet Financial Group 3a
leetwood Ents. 14c
leming 10a
lorida Progress 24a
lowers Industries 10b
luor 21a
MC 15c
ood Lion 10c
oodmaker 14a
ord Motor 2a
oster Wheeler 21a
oundation Health 12c
oxMeyer Health 5
PL Group 24a
reeport-McMoRan 16c
reeport-McMoRan C&G 16c
ruit of the Loom 6a
uller (H.B.) 4

G

annett 20b
ap 8
ateway 2000 18b
ATX 23c
aylord Container 7b
eico 17b
enCorp 1
eneral Dynamics 1
eneral Electric 5
enerai Instrument 9b
eneral Mills 10b
eneral Motors 2a
eneral Public Uts. 24a
eneral Re 17b
eneral Signal 15c
enuine Parts 21b
eon 4
eorgia Gulf 4
eorgia-Pacific 19a
iant Food 10c
illette 6d
lendale Federal Bank 17c
M Hughes Electronics 9b
olden West 17c
oodrich (B.F.) 4
oodyear Tire & Rubber 2c
race (W.R.) 4
rainger (W.W.) 21b
reat A&P 10c
reat Lakes Chemical 4
reat Western 17c
TE 22b

H

alliburton 11c
andleman 21e
anna (M.A.) 4
annaford Brothers 10c
arcourt General 5
arley-Davidson 14c
arman International 14c
arnischfeger 15c
arris 9b
arsco 15a
artmarx 6a
asbro 14c
ealth Systems Intl. 21e
ealthtrust 12c
echinger 8
eilig-Meyers 6b
einz (H.J.) 10b
elene Curtis Industries 6d
ercules 4
ershey Foods 10b
ewlett-Packard 18b
illenbrand 15a
illhaven 12c
ilton Hotels 14b

Home Depot 8
Home Holdings 17b
Home Shopping 8
Honeywell 9c
Hormel Foods 10b
Host Marriott 14b
Household Intl. 17a
Houston Industries 24a
Hubbell 9a
Hudson Foods 10b
Huffy 14c
Humana 12c
Hunt (J.B.) 23d
Huntington Bancshares 3b

I

IBM 18b
IBP 10b
Illinois Tool Works 15a
Illinova 24a
IMC Global 4
InaCom 21e
Ingersoll-Rand 15c
Inland Steel 16b
Integra Financial 3a
Intel 9d
Intelligent Electronics 18a
Interco 6b
Intergraph 18b
International Flavors 4
Intl. Multifoods 10a
International Paper 19b
Interpublic Group 21d
Interstate Bakeries 10b
Itel 5
ITT 5

J

Jacobs Engineering 21a
James River 19b
Jefferson Smurfit 7b
Jefferson-Pilot 17b
John Alden Finl. 17b
Johnson & Johnson 12d
Johnson Controls 9c
Jostens 15a

K

Kaiser Aluminum 16a
Kaman 21b
Kansas City Southern 23b
Kaufman & Broad 13b
Kellogg 10b
Kellwood 6a
Kelly Services 21e
Kemper 17b
Kennametal 15b
Kerr-McGee 11b
KeyCorp 3b
Kimball Intl. 6b
Kimberly-Clark 19b
Kmart 8
Knight-Ridder 20b
Kohl's 8
Kroger 10c

L

La-Z-Boy Chair 6b
Lafarge 13a
Lancaster Colony 10b
Lands' End 8
Landstar System 23d
LDDS Communications 22a
Lear Seating 2b
Leggett & Platt 6b
Lehman Brothers Holdings 17a
Levitz Furniture 6b
Lilly (Eli) 12b
Limited 8
Lincoln National 17b
Litton Industries 9b
Liz Claiborne 6a
Lockheed 1
Loews 17a
Long Island Lighting 24a
Longs Drug Stores 12a
Loral 9b
Lotus Development 18c
Louisiana Land 11b

Louisiana-Pacific 19a
Lowe's 8
LSI Logic 9d
LTV 16b
Lubrizol 4
Lukens 16b
Lyondell 4

M

Magma Copper 16c
MagneTek 9a
Mallinckrodt Group 12d
Manor Care 12c
Manpower 21e
Mapco 11b
Marion Merrell Dow 12b
Mark IV Industries 15a
Marriott Intl. 14a
Marsh & McLennan 17a
Marsh Supermarkets 10c
Marshall & Ilsley 3b
Marshall Industries 21b
Martin Marietta 1
Masco 6b
MascoTech 2b
Mattel 14c
Maxtor 18b
Maxus Energy 11b
May Department Stores 8
Maytag 6b
McCormick 10b
McDermott Intl. 15c
McDonald's 14a
McDonnell Douglas 1
McGraw-Hill 20b
MCI Communications 22a
McKesson 12a
MCN 24b
Mead 19b
Medtronic 12d
Mellon Bank 3a
Melville 8
Mercantile Bancorp. 3b
Mercantile Stores 8
Merck 12b
Meredith 20b
Meridian Bancorp 3a
Merisel 18a
Merrill Lynch 17a
Meyer (Fred) 8
MicroAge 18a
Micron Technology 9d
Microsoft 18c
Midlantic 3a
Miller (Herman) 18a
Minnesota Mining 15a
Mirage Resorts 14b
Mitchell Energy 11b
Mobil 11b
Mohawk Industries 15d
Molex 9d
Monsanto 4
Morgan (J.P.) 3a
Morgan Stanley 17a
Morrison Knudsen 21a
Morrison Restaurants 14a
Morton International 4
Motorola 9b
Murphy Oil 11b
Musicland Stores 14c

N

Nacco Industries 15b
Nalco Chemical 4
National City 3b
National Fuel Gas 24b
National Health Labs. 12c
National Medical 12c
National Semiconductor 9d
National Service 9a
National Steel 16b
NationsBank 3c
Navistar International 2a
NBD Bancorp 3b
Neiman Marcus Group 8
New England Electric 24a
New York State E&G 24a
New York Times 20b
Newell 15a

Niagara Mohawk 24a
Nicor 24b
Nike 6a
Nipsco Industries 24a
NL Industries 4
NorAm Energy 24b
Nordstrom 8
Norfolk Southern 23b
Northeast Utilities 24a
Northern States 24a
Northern Trust 3b
Northrop Grumman 1
Northwest Airlines 23a
Norwest 3b
NovaCare 12c
Novell 18c
Nucor 16b
NWNL 17b
Nynex 22b

O

Occidental Pet. 11b
Office Depot 8
Ogden 5
Ohio Casualty 17b
Ohio Edison 24a
Oklahoma G&E 24a
Old Republic Intl. 17b
Olin 4
Olsten 21e
Omnicom Group 21d
Oracle Systems 18c
Orion Capital 17b
OrNda HealthCorp 12c
Oryx Energy 11b
Outboard Marine 14c
Owens & Minor 12d
Owens-Corning 13a
Owens-Illinois 7a

P

Paccar 2a
Pacific Enterprises 24b
Pacific G&E 24a
Pacific Telesis Group 22b
PacifiCare Health 12c
PacifiCorp 24a
PaineWebber Group 17a
Panhandle Eastern 24b
Parker Hannifin 15a
Paul Revere 17b
Payless Cashways 8
PECO Energy 24a
Penn Traffic 10c
Penney (J.C.) 8
Pennsylvania Power 24a
Pennzoil 11b
Pentair 15c
Peoples Energy 24b
Pep Boys 8
PepsiCo 6c
Perkin-Elmer 9c
Pet 10b
Petrie Stores 8
Pfizer 12b
Phelps Dodge 16c
PHH 21e
Philip Morris 6e
Phillips Petroleum 11b
Phillips-Van Heusen 6a
Pinkerton's 21e
Pinnacle West 24a
Pioneer Hi-Bred 10b
Pitney Bowes 18a
Pittston Services 23c
Ply Gem Industries 13a
PNC Bank 3a
Polaroid 14c
Potlatch 19b
Potomac Electric 24a
PPG Industries 13a
Praxair 4
Premark Intl. 5
Premier Industrial 21b
Price/Costco 8
Procter & Gamble 6d
Progressive 17b
Promus 14b
Protective Life 17b

Provident Life 17b
Providian 17b
PS Co. of Colorado 24a
Public Service Ent. 24a
Pulte 13b

Q

Quaker Oats 10b
Quaker State 11b
Quantum 18b
QVC 8

R

Ralcorp Holdings 10b
Ralston Purina Group 10b
Raychem 9a
Rayonier 19a
Raytheon 9b
Reader's Digest 20b
Reebok International 6a
Reliance Electric 9a
Reliance Group 17b
Republic New York 3a
Revco D.S. 12a
Reynolds Metals 16a
Rhone-Poulenc Rorer 12b
Richfood Holdings 10a
Riser Foods 10c
Rite Aid 12a
Riverwood Intl. 7b
RJR Nabisco 6e
Roadway Services 23d
Rochester Telephone 22b
Rockwell International 5
Rohm & Haas 4
Rohr 1
Ross Stores 8
Rouge Steel 16b
Royal Caribbean Cruises 14c
RPM 13a
Rubbermaid 15a
Ruddick 10c
Russell 6a
Rust Intl. 21c
Ryder System 23c
Rykoff-Sexton 10a
Ryland Group 13b

S

Safeco 17b
Safety-Kleen 21e
Safeway 10c
Sallie Mae 17a
Salomon 17a
San Diego G&E 24a
Santa Fe Pacific 23b
Sara Lee 10b
Savannah Foods 10b
SCEcorp 24a
Schering-Plough 12b
Schlumberger 11c
Schulman (A.) 4
Schwab (Charles) 17a
SCI Systems 9d
Scientific-Atlanta 22a
Scott Paper 19b
Scripps (E.W.) 20b
Seagate Technology 18b
Sears, Roebuck 8
Service Corp. Intl. 21e
Service Merchandise 8
ServiceMaster 21e
Shaw Industries 15d
Shawmut National 3a
Sherwin-Williams 13a
Shoney's 14a
ShopKo Stores 8
Sigma-Aldrich 12b
Silicon Graphics 18b
Smart & Final 10a
Smith's Food & Drug 10c
Smithfield Foods 10b
Snap-on 15b
Solectron 9d
Sonat 24b
Sonoco Products 7b
Southern 24a
Southern New Eng. Tel. 22b
Southern Pacific Rail 23b

Southland 10c
SouthTrust 3c
Southwest Airlines 23a
Southwestern Bell 22b
Spiegel 8
Springs Industries 15d
Sprint 22a
SPX 15b
St. Paul 17b
Standard Commercial 6e
Standard Federal Bank 17c
Standard Products 2b
Standard Register 18a
Stanhome 6d
Stanley Works 15b
Staples 21b
State Street Boston 3a
Stewart & Stevenson 15c
Stone Container 7b
Stop & Shop 10c
Storage Technology 18b
Strawbridge & Clothier 8
Sun 11b
Sun Microsystems 18b
SunAmerica 17a
Sunbeam-Oster 6b
Sundstrand 1
SunTrust Banks 3c
Super Food Services 10a
Supervalu 10a
Sysco 10a

T

Talbots 8
Tandem Computers 18b
Tandy 6b
Tech Data 18a
Tecumseh Products 13a
Tektronix 9c
Tele-Communications 20a
Teledyne 5
Temple-Inland 7b
Tenneco 5
Terra Inds. 4
Tesoro Petroleum 11b
Texaco 11b
Texas Industries 13a
Texas Instruments 9d
Texas Utilities 24a
Textron 5
Thermo Electron 9c
Thiokol 1
Thomas & Betts 9a
Thorn Apple Valley 10b
3Com 18b
3M 15a
TIG Holdings 17b
Time Warner 20b
Times Mirror 20b
Timken 15c
TJX 8
TNT Freightways 23d
Torchmark 17b
Toro 6b
Tosco 11b
Toys 'R' Us 8
Transamerica 17a
Transatlantic Holdings 17b
Transco Energy 24b
Travelers 17a
Triarc 5
Tribune 20b
Trinity Industries 23c
Trinova 15a
TRW 5
Turner Broadcasting 20a
20th Century Industries 17b
Tyco Intl. 15c
Tyco Toys 14c
Tyson Foods 10b

U

U.S. Bancorp 3d
U.S. Healthcare 12c
U.S. Home 13b
U.S. Shoe 8
U.S. Surgical 12d
UAL 23a
UJB Financial 3a

Ultramar 11b
Unicom 24a
Unifi 15d
Union Bank 3d
Union Camp 19b
Union Carbide 4
Union Electric 24a
Union Pacific 23b
Unisys 18b
United HealthCare 12c
United Stationers 21b
United Technologies 1
Unitrin 17b
Univar 21b
Universal 6e
Universal Foods 10b
Universal Health 12c
Unocal 11b
UNUM 17b
Upjohn 12b
US West 22b
USAir Group 23a
USF&G 17b
USG 13a
USLife 17b
UST 6e
USX-Marathon 11b
USX-U.S. Steel 16b
UtiliCorp United 24b

V

Valero Energy 11b
Value City 8
Varian Associates 9b
Varity 15c
Vastar Resources 11b
Venture Stores 8
VF 6a
Viacom 20a
Vigoro 4
Vishay Intertechnology 9d
Vons 10c
Vulcan Materials 13a

W

Waban 8
Wachovia 3c
Wal-Mart Stores 8
Walgreen 12a
Wang Laboratories 18b
Warner-Lambert 12b
Washington Gas Light 24b
Washington Post 20b
Weirton Steel 16b
Wellman 4
WellPoint Health 12c
Wells Fargo 3d
Wendy's Intl. 14a
Western Atlas 11c
Western Digital 18b
Western Gas Resources 24b
Western National 17b
Western Resources 24a
Westinghouse Electric 9a
WestPoint Stevens 6a
Westvaco 19b
Weyerhaeuser 19b
Wheelabrator Techs. 24a
Whirlpool 6b
Whitman 5
WHX 16b
Wickes Lumber 8
Willamette Industries 19a
Williams 24b
Winn-Dixie Stores 10c
Wisconsin Energy 24a
Witco 4
WLR Foods 10b
WMX Technologies 21c
Woolworth 8
Worthington Inds. 16b
Wrigley (Wm.) Jr. 10b

XYZ

Xerox 18b
Yellow 23d
York Intl. 13a
Zurn Industries 24a

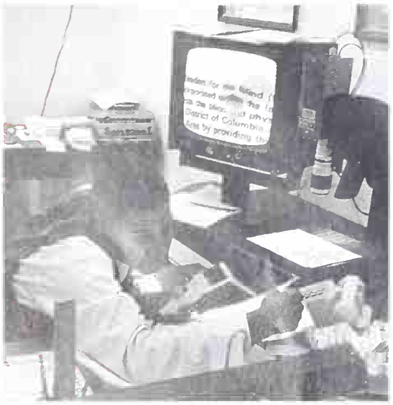
The National Organization on Disabilit and Business Week Salute Members of the Disability 2000-CEO Council

The CEO Council was established by the National Organization on Disability (N.O.D.) in 1990 to expand the employment of people with disabilities.

Through their annual contributions, CEO Council members support N.O.D.'s important efforts to increase the participation of people with disabilities in the workplace and in all aspects of life.

Uniphoto

Abbott Laboratories, D. L. Burnham
Akzo Nobel Inc., Eugene F. Wilcauskas
Alcatel Network Systems, Inc., David E. Orr
Alex Lee, Inc., Boyd L. George
Allegheny Health, Education & Research Foundation, Sherif S. Abdelhak
Alleghany Ludlum Corporation, R. P. Simmons
Allianz Life Insurance Co. of North America, Lowell C. Anderson
Allstate Insurance Company, Wayne E. Hedien
American Brands, Inc., William J. Alley
American Express Company, Harvey Golub
American Home Products Corporation, John R. Stafford
Amgen, Inc., Gordon M. Binder
AMP Incorporated, William J. Hudson
Amsco International, Inc., David A. Nelson
Amway Corporation, Richard DeVos, Jr.
Anchor Industries International, Vincent J. Naimoli
Andersen Corporation, Jerold W. Wulf
Anheuser-Busch Companies, Inc., August A. Busch, III
Apple Computer, Inc., Michael Spindler
Applied Materials, James C. Morgan
Archer Daniels Midland Company, Dwayne O. Andreas
Aristech Chemical Corporation, Thomas Marshall
Arizona Public Service Co., O. Mark DeMichele
Arthur Andersen & Co, SC, Lawrence A. Weinbach
Arthur D. Little, Inc., Charles R. LaMantia
Association of Trial Lawyers of America, Larry S. Stewart


Rick Reinhard

AT&T, Robert E. Allen
Avis, Joseph V. Vittoria
Avon Products Inc., James E. Preston
B B & T Financial Corp., John A. Allison, IV
Bank of Boston, Ira Stepanian
Bank One, Richard J. Lehmann
Bank of America, Richard M. Rosenberg
Baptist Healthcare System, Inc., Edgar D. Vaughn
Betz Laboratories, Inc., William R. Cook
Black & Veatch, P.J. Adam
Blockbuster Entertainment Corporation, H. Wayne Huizenga
Blue Cross and Blue Shield of Massachusetts, Inc., William Van Faasen
The Boeing Company, Frank A. Shrontz
Bozell Worldwide, Charles Peebler
Bridgestone/Firestone, Inc., Masatoshi Ono
Bristol-Myers Squibb, Charles A. Heimbold, Jr.
Browning-Ferris Industries William D. Ruckelshaus
Brooklyn Union Gas Company, Robert B. Catell
Brunswick Corporation, Jack F. Reichert
Burroughs Wellcome Co., Philip R. Tracy
Business Week, David G. Ferm
California Steel Industries, Inc., Takehiko Haga
Cambrex Corporation, Cyril C. Baldwin, Jr.
CBS Inc., Laurence A. Tisch
The Chall Group Inc., George Chall
Champion Enterprises, Inc., Walter R. Young, Jr.
Charles Schwab & Co., Inc., Charles R. Schwab
The Chase Manhattan Bank, N.A., Thomas G. Labrecque
Chemical Banking Corporation, Walter V. Shipley
Chevron Corporation, Kenneth T. Derr
Chrysler Corporation, R.J. Eaton
CIGNA Group Insurance, John K. Leonard
The CIT Group, Inc., Albert R. Gamper, Jr.
Citibank, John S. Reed
The Clorox Company, G. Craig Sullivan
The Coca-Cola Bottling Group (Southwest), Inc., Edmund M. Hoffman
Colgate-Palmolive Company, Reuben Mark
Comcast Corporation, Ralph J. Roberts
Commonwealth Land Title Insurance Co., Herbert Wender
Connell Limited Partnership, William F. Connell
Consolidated Rail Corporation, James A. Hagen
Converse, Inc., Gilbert Ford
Cubic Corporation, Walter J. Zable
Darling International Inc., Frank W. Miller
Dayton Hudson Corporation, Kenneth A. Macke
Deloitte & Touche, J. Michael Cook
The Dexter Corporation Foundation, K. Grahame Walker
Diebold, Incorporated, Robert W. Mahoney

Dillingham Construction Corporation, Donald K. Stager
Diversey Corporation, Donald N. Gray
Dole Food Company, Inc., David H. Murdock
Dominion Resources, Inc., Thomas E. Capps
Domino Sugar Corporation, Ed Makin
Dorsar Industries, Stephen Feinberg
DSC Communications Corporation, James L. Donald
The Dun & Bradstreet Corporation, Robert Weissman
DuPont, Edgar S. Woolard, Jr.
Eastman Kodak Company, George M. C. Fisher
Echlin Inc., Frederick J. Mancheski
Ecolab, Inc., Pierson M. Grieve
EG&G, Inc., John M. Kucharski
The Elder-Beerman Stores Corp., Milton Hartley
EMC Insurance Companies, Bruce G. Kelley
Emerson Electric Company, Charles F. Knight
Ernst & Young, Philip A. Laskawy
Ethyl Corporation, Bruce C. Gottwald
Exxon Corporation, Lee Raymond
Federal-Mogul Corporation, Dennis J. Gormley
First Chicago, Richard L. Thomas
First Interstate Bancorp, Edward M. Carson
Fleet Financial Group, Terrence Murray
Forbes Magazine, Malcolm S. Forbes, Jr.
Ford Motor Company, Alex Trotman
Frank Russell Company, Michael J. Phillips
Franklin/Templeton Group of Funds, Charles B. Johnson
Freddie Mac, Leland C. Brendsel
Gannett Broadcasting, Cecil L. Walker
Genentech, Inc., G. Kirk Raab
General Electric Company, John F. Welch, Jr.
The Gillette Company, Alfred M. Zeien
Glaxo Inc., Robert A. Ingram
Golden Rule Insurance Company, John M. Whelan
The Goodyear Tire & Rubber Company, Stanley C. Gault
Graybar Electric, Edward McGrath
Greyhound Lines, Inc., Thomas Plaskett
Grow Group, Inc., Russell Banks
H.J. Heinz Company, Anthony J.F. O'Reilly
Hartford Steam Boiler Inspection and Insurance Co., Gordon W. Kreh

Uniphoto

Harvard Community Health Plan, Manuel M. Ferris
Hasbro, Inc., Alan G. Hassenfeld
The Hearst Corporation, Frank A. Bennack, Jr.
Hellmuth, Obata & Kassabaum, P.C., Jerry Davis
Henry Ford Health System, Gail L. Warden
Hertz Corporation, F.A. Olson
Household International, Donald C. Clark
Huntsman Chemical Corporation, Jon M. Huntsman
Illinois Tool Works, Inc., John D. Nichols
IMC Global, Inc., Wendell F. Bueche
Ingersoll-Rand Company, J.E. Perrella
Inter-Regional Financial Group, Inc., Irving Weiser
Invacare Corporation, A. Malachi Mixon, III
Ithaca Industries, Inc., Jim D. Waller
J.C. Penney Co., Inc., William R. Howell
J.P. Foodservice, Inc., James L. Miller
J.P. Morgan & Company, Inc., Dennis Weatherstone
John Hancock Financial Services, Stephen L. Brown
Johnson & Higgins, David A. Olsen
Johnson & Johnson, Ralph Larsen
Johnson Publishing Company, Inc., John H. Johnson
The Jordan Company, John W. Jordan, II
Joseph E. Seagram & Sons, Inc., Edgar M. Bronfman
Keebler Company, Brian Chadbourne
Kellogg Company, Arnold G. Langbo
Kemper National Insurance Companies, Jerald L. Maatman
Landstar System Inc., Jeffrey C. Crowe
Loctite Corporation, David Freeman
Lutheran General HealthSystem, Stephen L. Ummel
R.H. Macy & Co., Inc., Myron E. Ullman, III
Mallinckrodt Medical, Inc., Robert G. Moussa
Marriott International, Inc., J. W. Marriott, Jr.
Matol Botanical International, J. F. Robert Bolduc
Matsushita Electric Corporation of America, Richard Kraft
The May Department Stores Company, David C. Farrell
MBNA America, Charles M. Cawley
McCaw Cellular Communications, Inc., James L. Barksdale
McGraw Hill, Inc., Joseph L. Dionne
MCI Communications Corporation, Bert C. Roberts, Jr.

McLane Company, Inc., Joe Hardin, Jr.
Meridian Bancorp, Inc., Samuel A. McCullough
Merrill Lynch & Co., Inc., Daniel P. Tully
The MetroHealth System, Terry R. White
Michael T. Rose Companies, Michael T. Rose
Mobil Corporation, Lucio A. Noto
Motorola Inc., Gary Tooker
Multifoods, Anthony Luiso
Nash Finch Company, Harold B. Finch, Jr.
National Medical Enterprises, Inc., Jeffrey C. Barbakow
NationsBank Corporation, Hugh L. McColl, Jr.
NEC America, Inc., Mineo Sugiyama
Nellcor Inc., C. Raymond Larkin, Jr.
New Jersey Resources Corporation, Oliver G. Richard, III
New York Stock Exchange, William H. Donaldson
The New York Times Company, Arthur Ochs Sulzberger
Nordson Corporation, W. P. Madar
Northern States Power Company, James J. Howard, III
Northern Trust Corporation, David W. Fox
Northrop Corporation, Kent Kresa
Novell, Inc., Robert J. Frankenberg
Olin Corporation, John W. Johnstone, Jr.
Oshman's Sporting Goods, Inc., Alvin N. Lubetkin
Oxford Industries Inc., J. Hicks Lanier
Pacific Holding Company, David H. Murdock
Pall Corporation, Maurice G. Hardy
The Parsons Corporation, Leonard J. Pieroni
Pegasus Gold Corp., Werner G. Nennecker
Pet Incorporated, Miles L. Marsh
Philip Morris Companies Inc., Geoffrey C. Bible
Phillips Petroleum Company, W.W. Allen
Pioneer Financial Services, Inc., Peter W. Nauert
Pitney Bowes Inc., George B. Harvey
Polaroid Corporation, I. MacAllister Booth
PolyGram Holding Inc., Eric Kronfeld
Potomac Electric Power Company, Edward F. Mitchell
PPG Industries, Inc., Jerry E. Dempsey
Price Waterhouse LLP, Shaun F. O'Malley
The Principal Financial Group, G. David Hurd
The Prudential Insurance Company of America, Robert C. Winters
The Reader's Digest Association, Inc., James P. Schadt
Reebok International Ltd., Paul Fireman
Republic New York Corporation, Walter H. Weiner
Ringier America, Inc., Edward C. Nytko
RJR Nabisco, Inc., Charles M. Harper
The Rockefeller Group, Richard A. Voell
The Rockport Company, Angel Martinez
Rockwell International, Donald R. Beall
Rodale Press Inc., Ardath Rodale
Royal Appliance Mfg. Co., John A. Balch
Safety-Kleen Corp., Donald W. Brinckman
SAIC, J. Robert Beyster
Sandoz Pharmaceuticals Corporation, Tim Rothwell
Schering-Plough Corporation, Robert P. Luciano
Sea-Land Service, Inc., John Clancey
Sensormatic Electronics Corporation, Ronald G. Assaf
SERD/BTS, Mercedese M. Miller
Shawmut National Corporation, Joel B. Alvord
Signet Banking Corporation, Robert M. Freeman
Simon & Schuster, Jonathan Newcomb
Simplex Time Recorder Co., Edward G. Watkins
SmithKline Beecham, Jan Leschly
Sony Corporation of America, Michael P. Schulhof
Sprint, William T. Esrey
Statistica Inc., Jerry L. Ashworth, Sr.
State Farm Insurance Companies, Edward B. Rust, Jr.
Steelcase Inc., Frank Merlotti
Sunrise Medical Inc., Richard H. Chandler
Tambrands Inc., Edward T. Fogarty
Teepak, Inc., James E. Hermesdorf
Towers Perrin, John T. Lynch
Transamerica Occidental Life Insurance Company, David R. Carpenter
Transco Energy Company, John P. DesBarres
Turner Broadcasting System, Inc., Ted Turner
U.S. Can Company, William J. Smith
ULLICO, Inc., Robert A. Georgine
United Capital Group, Inc., JP Mililli
United Parcel Service, Kent Nelson
UNUM Corporation, James F. Orr, III
USAir, Seth E. Schofield
USF&G Insurance, Norman P. Blake, Jr.

Donated Public Service Advertisement

W.R. Grace & Co., J.P. Bolduc
Warner-Lambert Company, Melvin R. Goodes
Washington National Insurance Company, Robert Patin
Wells Rich Greene BDDP, Kenneth S. Olshan
Western Publishing Group, Inc., Richard A. Bernstein
Western Resources, Inc., John E. Hayes, Jr.
Westinghouse Electric Corporation, Michael H. Jordan
Whirlpool Corporation, David R. Whitwam
Woolworth Corporation, John W. Adams
Wyse Technology Inc., Douglas Chance
Xerox Corporation, Paul A. Allaire

"Our nation's 49 million people with disabilities want to participate and contribute just like everyone else. I'm calling on CEO's of businesses large and small to join this dedicated group. It's good for America. It's good for business."

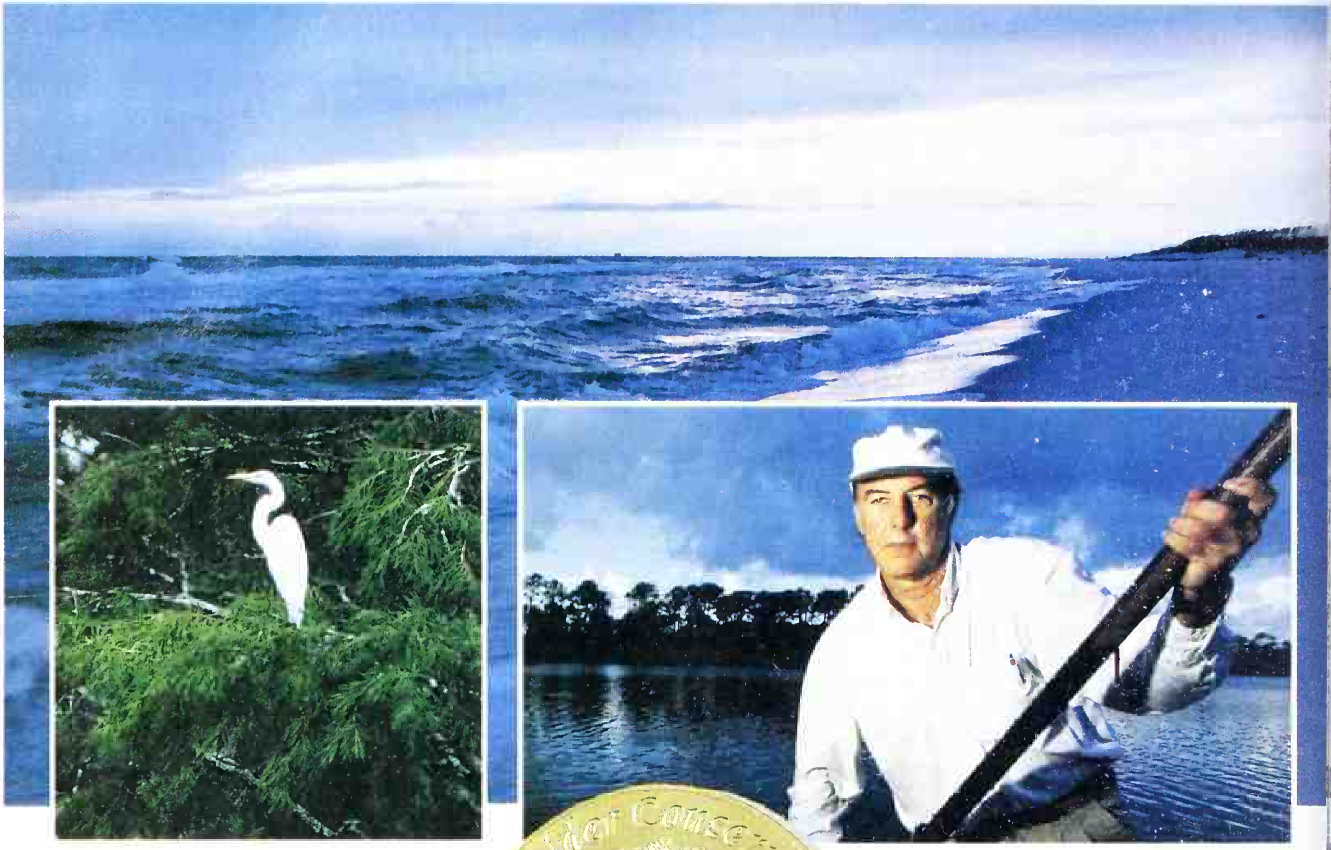
James S. Brady,
Vice Chairman,
National Organization on Disability

For membership information, contact Martin Walsh, CEO Council Director, National Organization on Disability,
910 16th Street NW,
Washington, DC 20006.
Tel. 202-293-1944,
Fax 202-293-7999
TDD 202-293-5968

NOD
NATIONAL ORGANIZATION ON DISABILITY

Announcing the 1994 - 1995 Alexander Calder Conservation Award

Fostering Partnerships Between Business & Conservation



Arthur (Skipper) Tonsmeire

Union Camp Corporation and The Conservation Fund are pleased to announce the winner of the 1994-1995 Alexander Calder Conservation Award. Arthur Skipper Tonsmeire of Fairhope, Alabama has spent the last 20 years balancing the demands of his growing construction business with a personal commitment to protecting the natural resources of the Gulf Coast. The alliances he built between the local businesses, public agencies and non-profit conservation groups have conserved the environmentally and economically important wetlands of Southern Alabama.

The annual Calder Award recognizes individuals who protect wildlife habitat in the United States through a partnership of business and conservation. It is accompanied by a $10,000 grant from Union Camp. This year's recipient has shown that responsible environmental protection and economic growth can work hand-in-hand. His achievements offer new inspiration for the future of conservation partnerships in America and continue the legacy initiated by Alexander Calder Jr., a former chairman and CEO of Union Camp.

The Conservation Fund and Union Camp congratulate Skipper Tonsmeire.

Union Camp

THE CONSERVATION FUND

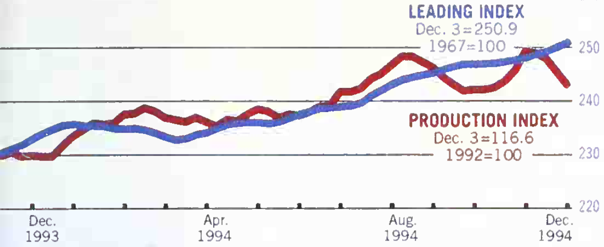
For additional information call (703) 683-2996 or (201) 628-2482

usiness Week Index

RODUCTION AND LEADING INDEXES

Change from last week: -1.0%
Change from last year: 6.0%

Change from last week: 0.3%
Change from last year: 7.6%



ndexes are 4-week moving averages

production index fell during the week ended Dec. 3. But before calculation of the four- moving average, the index rose to 117.5, from 116.5 during the week of Thanksgiving. ovember, the index rose to 118.5, from 116.8 in October.

leading index edged up slightly in the latest week. The unaveraged index also increased, 52.1. from 251.1. The November index stood at 250.4, up from October's 247.8.

roduction index copyright 1994 by McGraw-Hill Inc BW leading index copyright 1994 by CIBCR

ADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
CK PRICES (12/9) S&P 500	450.01	453.05	-3.3
RPORATE BOND YIELD, Aaa (12/9)	8.47%	8.57%	23.5
USTRIAL MATERIALS PRICES (12/9)	113.0	NA*	NA*
INESS FAILURES (12/2)	326	283	-9.4
L ESTATE LOANS (11/30) billions	$453.3	$450.8	7.3
EY SUPPLY, M2 (11/28) billions	$3,566.6	$3,570.3r	1.1
TIAL CLAIMS, UNEMPLOYMENT (11/26) thous.	316	328r	-1.9

rces: Center for International Business Cycle Research (CIBCR), Standard & 's, Moody's, *Journal of Commerce* (index: 1980=100), Dun & Bradstreet (failures rge companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ness failures and real estate loans. *Historical data available from CIBCR.

TEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
ERAL FUNDS (12/13)	5.41%	5.07%	2.94%
MERCIAL PAPER (12/13) 3-month	6.32	6.29	3.34
TIFICATES OF DEPOSIT (12/14) 3-month	6.35	6.23	3.23
ED MORTGAGE (12/9) 30-year	9.30	9.36	7.25
USTABLE MORTGAGE (12/9) one-year	6.57	6.47	4.30
ME (12/14)	8.50	8.50	6.00

ces: Federal Reserve, HSH Associates, Reuters Holdings PLC

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (12/10) thous. of net tons	1,929	2,001#	4.2
AUTOS (12/10) units	149,394	147,214r#	-0.4
TRUCKS (12/10) units	122,335	123,129r#	4.6
ELECTRIC POWER (12/10) millions of kilowatt-hrs.	58,625	58,051#	1.5
CRUDE-OIL REFINING (12/10) thous. of bbl./day	13,777	14,176#	0.6
COAL (12/3) thous. of net tons	21,188#	17,847	16.4
PAPERBOARD (12/3) thous. of tons	893.8#	909.6	7.7
PAPER (12/3) thous. of tons	860.0#	837.0r	6.4
LUMBER (12/3) millions of ft.	401.0#	320.1	-14.2
RAIL FREIGHT (12/3) billions of ton-miles	26.1#	20.6	10.1

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (12/14) $/troy oz.	380.500	377.000	-1.3
STEEL SCRAP (12/13) #1 heavy, $/ton	143.50	140.00	3.2
COPPER (12/10) ¢/lb.	139.7	140.4	70.4
ALUMINUM (12/10) ¢/lb.	90.0	92.5	74.8
COTTON (12/10) strict low middling 1-1/16 in., ¢/lb.	80.57	77.08	36.2
OIL (12/13) $/bbl.	16.79	16.94	15.4

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (12/14)	100.27	100.20	109.85
GERMAN MARK (12/14)	1.57	1.57	1.71
BRITISH POUND (12/14)	1.56	1.56	1.49
FRENCH FRANC (12/14)	5.41	5.40	5.84
ITALIAN LIRA (12/14)	1635.4	1622.9	1689.3
CANADIAN DOLLAR (12/14)	1.39	1.38	1.33
MEXICAN PESO (12/14)[3]	3.457	3.451	3.106

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

/ data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense ment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

RNATIONAL TRADE

day, Dec. 20, 8:30 a.m. ▶ The foreign deficit for goods and services probably wed slightly in October, to $9.9 billion, September's $10.1 billion. That's the an forecast of economists surveyed by nternational, a division of McGraw-Hill Merchandise exports likely rebounded slipping 0.5% in September, but im- , up for five consecutive months, re- ed high. Trade will improve in 1995 as nd for imports softens.

MEETING

day, Dec. 20 ▶ Policymakers at the al Reserve will sit down for the Federal Market Committee meeting. Almost all of the economists polled by MMS expect the Fed to keep interest rates on hold, with the federal funds rate at 5.5% and the discount rate at 4.75%. Both rates were lifted by three-quarters of a point on Nov. 15.

FEDERAL BUDGET

Wednesday, Dec. 21 ▶ The Treasury Dept. will probably report a deficit of $35 billion for November, less than the $38.4 billion in November, 1993.

DURABLE GOODS ORDERS

Friday, Dec. 23, 8:30 a.m. ▶ The MMS forecast is that new orders for durable goods rose by 1% in November. If so, that would reverse the 1% drop that bookings took in October. Unfilled orders were likely flat, after rising 0.3% in October. Weak aircraft ordering has held down the backlog for all durable-goods manufacturers.

PERSONAL INCOME

Friday, Dec. 23, 8:30 a.m. ▶ Personal income probably rose 0.3% in November, after jumping 1.4% in October. Healthier job growth and long work hours boosted paychecks, and higher rates are lifting interest income. The MMS economists forecast that consumer spending advanced a sturdy 0.5% in November, on top of a 0.7% gain in October. Unusually warm weather in November probably reduced energy demand, but retail sales were solid.

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Acer 12
Acesita 118
Advanced Micro Devices 60
Advantage Funds 138
Aeltus Investment Management 116
A.G. Edwards 108
AK Steel Holding 163
Alcatel Alsthom 79, 82,106
Alex. Brown & Sons 60
Allegheny Ludlum 116
American Blue Chip Investment Management 124
American Express 124
American Financial 75
American Premier Underwriters 75
America Online 116
AMG Data Services 108
AMR 75
Apple Computer 24, 60, 116
AT&T 72, 82
Autobacs Seven 128
Avon 124

B

Bailard, Biehl & Kaiser 106
Balestra Capital Management 116
Banacci 118
Banco Bradesco 118
Banc One 116
Bank of Bermuda 106
Bank of Japan 86
Bank of New York 140
Barclay Research Group 138
Baring Securities 118
Barnett Banks 94
BASF 118
BAT Industries 118
Bayer 118
Bear Stearns 65, 142
Bessemer Trust 120
Best Buy 116
Beverly Enterprises 108
Bloomingdale's 62
BMW 156
Bombay Co. 116
Bonnel Growth Fund 116
Borland 68
Boston Chicken 116
Brandes Investment Partners 106
Bristol-Myers Squibb 108
Brouwer & Janachowski 132
Burger Small Co. Fund 132

C

Callaway Golf 124
Campbell Soup 104, 14
Canon 24, 124
Canstar Sports 75
Carrefour 118
Caterpillar 75, 108
CB Commercial Real Estate Group 148
[illegible] 118
[illegible] Cellular 116
[illegible] 118
[illegible] 116, 132
[illegible]
Chemical Securities 96
[illegible] 124
[illegible] 152
Cifra 116
Cisco Systems 106
CITIC Pacific 118
CKE International 116
Claflin Capital Management 118
Clark Equipment 108
Clorox 116
Coca-Cola 78, 108, 124
Cohen & Steers Realty Shares 148
Columbia/HCA Healthcare 108, 138
Comcast 163
Compaq Computer 60, 108, 110
CompUSA 6
Cooper Tire & Rubber 128
CoreStates Financial 94
CPT 104, 118
Cray Research 163
Cypress Semiconductor 110
Cyrix 60

D

Dai-Ichi Kangyo Investment Management 108
Data Broadcasting 124
Dataquest 68
Dayton Hudson 62
Dean Witter Reynolds 32, 96
DeBartolo Realty 148
Delco Electronics 72
Dell Computer 60, 116
Deluxe 108
Desc 118
Deutsche Asset Management 118
Deutsche Bank 65
Deutsche Bundespost Telekom 79
Digital Equipment 108
Digital Link 116
Dillard Department Stores 114
Disclosure 163
Donaldson, Lufkin & Jenrette 32
Dow Chemical 108
DRI/McGraw-Hill 63
Duff & Phelps 138
Duke Power 108

E

Eastman Kodak 124
Eli Lilly 75
EMC 110
Enron 78
Entel 104
Equitable Real Estate Investment Management 148
Equitable Securities Research 128
Equity Residential Properties 124
E-Systems 114
Evans & Sutherland Computer 124
Exxon 124

F

Fabricland 156
Fidelity Export Fund 108
Fidelity Investments 67
Fidelity Magellan Fund 132
Fidelity Worldwide Fund 132
Fisher-Price 82
Fluor 124
Ford 12, 78
FORE Systems 104, 116
Forrester Research 68
Fortis Amev 124
Foster Wheeler 108
FPL Group 108
France Telecom 79
Franklin Templeton German Gov't Bond Fund 138
Fuji Securities 94

G

Gaines Berland 114
GAM International Fund 124
Gap 62
Gateway 2000 60, 116
Gensia Pharmaceuticals 124
Genzyme 124
Gerard Klauer Mattison 82
Giddings & Lewis 124
Gillette 108
Glimcher Realty Trust 148
Global Asset Management 124
GM 12, 104, 108
Goldman Sachs 65, 86, 114, 118, 120
Green Street Advisors 148
Grupo Ica 118
Grupo Televisa 124

H

Hai Xing Shipping 118
Halpert 138
Hambrecht & Quist 110
Hanifen Imhoff Colorado Bond Shares Tax Exempt Fund 156
Hanover Direct 128
Harvey Holdings 156
Haverfield 78
Health Care Property Investors 148
Healthtrust 138
Heine Securities 6
Heinz (H.J.) 104, 114
Hewlett-Packard 60, 68, 78, 110
Hilton Hotels 156
Hitachi Zosen 120
Hoechst 118
Homedco 108
Home Holdings 163
Home Life Insurance 124
Honda 120
Hotchkiss & Wiley Low Duration Fund 156
House of Fabrics 156
Hutchison Whampoa 118

I

I/B/E/S International 163
IBM 60, 72
Integrated Health Services 124
Intel 60, 110
International Data 60, 110
International Paper 108
Invesco High Yield Fund 132
Irving Music 8
Ito-Yokado 120
ITT 79
Ivory & Sime 108

J

James Capel 104, 128
Janus Worldwide Fund 132
J.C. Penney 62
John H. Harland 108
John Nuveen 140
Josephthal Lyon & Ross 108
J.P. Morgan 65, 138

K

Keycorp 116
Kmart 8, 62, 156
Knowledge Adventure 82
Koninklyke PTT 124

L

Lafarge Coppée 118
Lam Soon Hat 118
Lands' End 128
Lebenthal 140
Lehman Brothers 65, 94, 100, 106, 118, 138
Lindner Dividend Fund 132
Lockheed 114
Lomak Petroleum 114
Long Island Lighting 163
Long John Silver's 75
Loral 114
L'Oréal 118
Lukens 108
Luoyang Glass 124
LVMH 118
Lynch & Mayer 110

M

Marriott International 156
Mars 6
Marshall Field 62
Martin Currie Investment Management 124
Martin Marietta 114
Massachusetts Financial Services 138
MassMutual 60
MasterCard International 57
Maxus Investment Group 8
May Department Stores 114
Maybelline 124
McDermott International 108
McDonald's 124
McGraw-Hill 163, 203
MCI 79
McMillan/Doolittle 62
M.D. Sass Investors Services 140
Media Vision Technology 156
Mercantile Stores 114
Merck 108
Mercury Asset Management 65
Merrill Lynch 65, 116, 118, 120, 142, 146
Merrill Lynch Global Allocation Fund 106
Merrill Lynch Technology A Fund 110
Michigan National 6
Micron Technology 110
Microsoft 60, 68, 82, 116
Micro Warehouse 110
MMS International 203
Morgan Funshares 8
Morgan Research Group 142
Morgan Stanley 60, 65, 116, 118
Morningstar 110, 146
Motorola 60, 79, 104, 124
Mutual Shares 6

N

National Steel 163
National Westminster Bank 65
NationsBank 75, 124
Nationwide Health Properties 148
NatWest Securities 75, 116
NCB Investment Management 120
Nestlé 104, 114
Newbridge Networks 124
Nextel Communications 116
Nike 75, 156
Nippon Steel 120
Nippon Yusen 120
Nokia 79, 82, 118
Nomura Securities 65
Northeast Investors Fund 132
Northern Trust 108
Novell 68

O

Oakwood Homes 32
Oil Spill Eater International 12
Onward Kashiyama 120
Oppenheimer 104, 114
Oppenheimer Global Growth & Income Fund 106

P

Pace Foods 104, 114
Packard Bell 60
PaineWebber 108, 146
Panaco 114
Paragon Trade Brands 124
Parker Bros. U.S.A. 8
Penobscot Group 148
PepsiCo 78
Pet 104, 114
Petrobras 78
Peugeot 118
Pfizer 108
Philip Morris 108
Philips 82, 106
PIMCO Low Duration Fund 132
Piper Jaffray 116
Placer Dome 124
PNC Bank 116
Procter & Gamble 78, 108
Proxima 156

Q

Qingling Motors 118
Quaker Oats 116
Qualcomm 110
Queens County Savings 124
QVC Network 62

R

Radio Shack 62
Reebok 156
Refco 142
Republic New York 108
Reynolds Metals 163
Rhode Island Soft Systems 24
Riso Kagaku 120
RJR Nabisco 67, 104, 114
Robertson Stephens 68
Robertson Stephens Investor + Growth Fund 116
Robertson Stephens Value + Growth Fund 110
Royce Premier Fund 132

S

Safeco 108
Safeco Asset Management 124
Safety-Kleen 124
Salomon Brothers 65, 110
Sanford C. Bernstein 110
Sari 120
Sasebo Heavy Industries 120
Scudder, Stevens & Clark 138
Sears 62, 124
Sega Enterprises 82
Seiko 72
Seligman Communications & Information Fund 110, 156
SFR 79
S.G. Warburg 65, 108, 128
Shanghai Petrochemical 124
Sharper Image 62
Siemens 6
Silicon Graphics 75
Simula 156
Singapore Press Holdings 124
Smith Barney 142, 156
Sotheby's 152
Southwest Airlines 75
SpectraVision 156
Spiegel 128
Standard & Poor's 66, 12
132, 148, 163
State Street Research & Management 124
St. Jude Medical 108
StrataCom 116
Strong Funds 138
Sumitomo Metal 120
Sunbeam-Oster 6
Sun Coast Industries 12
Suzano 118
Swatch 72
Swire 118
Swiss Bank 65
Systematic Financial Management 108

T

Takashimaya 120
Tandy 82
Tecumseh Products 108
Telefónica 104
Tiffany 62
Time Warner 75, 124
Timothy Plan 8
Tokai Bank 138
Tokyo Electron 120
Toys 'R' Us 124
Triarc 75
Tweedy Brown Global Val
Fund 132
Twentieth Century Ultra Investors Fund 132

U

UBS Securities 94
Unilever 104, 114
Union Bank of Switzerland 65, 142
Union des Assurances Fédérales 124
Union Oil of California 6
United Inns 156
Upjohn 114
U.S.A. Opoly 8
U.S. Filter 104, 108

V

Valeo 118
Van Liew Capital 124
Vanguard Cellular 116
Vanguard Group 138
Vanguard Short Term Fixe
Income Fund 132
Viacom 138
VLSI Research 110
Vodafone 124
Volkswagen 12, 78
VTech Industries 82

W

Waldenbooks 8
Walgreen 62
Walt Disney 66, 67, 124
Warburg Pincus Emerging
Growth Fund 124
Warburg Pincus Int'l Equ
Fund 132
Warner-Lambert 114
Waterhouse Investor Service 116
WEFA Group 100
Weingarten Realty Investors 124
Wisconsin Energy 108
Woolworth 124
WordPerfect 68

Y

Yamaya 120
YPF 78, 106

Z

Zacks Investment Research 108
Zurn Industries 124

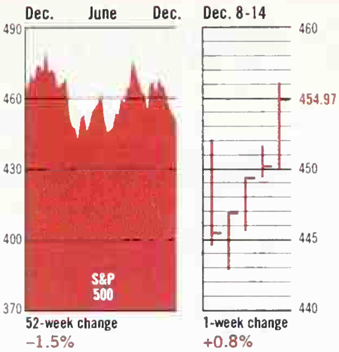
Business Week (ISSN 0007-7135) published weekly, except for one issue in January,
McGraw-Hill Inc. Executive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of t
Americas, New York, N.Y. 10020. U.S. subscriber rate $46.95/year; Canada: CDN $69/ye
Second-class postage paid at New York, N.Y., and at additional mailing offices. Postage paid
Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 2464
Postmaster: Send address changes to BUSINESS WEEK. P.O. Box 430, Hightstown, N.J. 085

Investment Figures of the Week

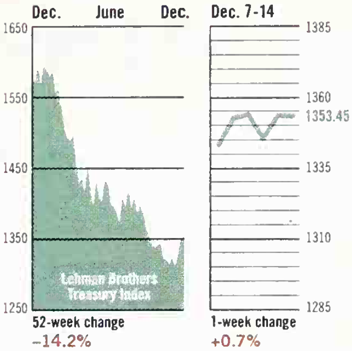
:OMMENTARY

laybe there is a Santa Claus. tocks finished the week with a mall gain, but not without a lot of olatility. The Dow Jones industrials ropped nearly 50 points on Dec. 7, 'etting about the fallout from the range County crisis. After the eekend, stocks rallied back, helped y government reports that inflation still low. The best-performing inustry group of the last four weeks electric utilities, up 6.3%. That ould be a sign that long-term interst rates are heading south.

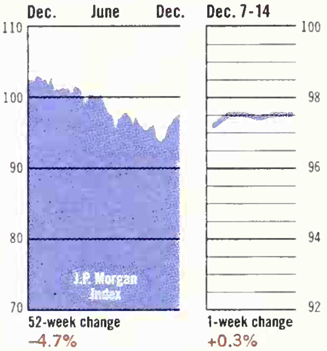
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

.S. STOCKS	Latest	% change Week	52-week
)W JONES INDUSTRIALS	3746.3	0.3	0.8
IDSIZE COMPANIES (S&P MidCap Index)	165.5	0.0	–4.5
MALL COMPANIES (Russell 2000)	237.9	–1.0	–4.8
.L COMPANIES (Russell 3000)	259.4	0.6	–2.4

OREIGN STOCKS	Latest	% change (local currency) Week	52-week
INDON (FINANCIAL TIMES 100)	2980.6	–1.1	–9.1
IKYO (NIKKEI INDEX)	18,931.5	–1.3	8.2
IRONTO (TSE COMPOSITE)	4078.9	0.0	–3.5

FUNDAMENTALS	Latest	Week Ago	Year ago
90-DAY TREASURY BILL YIELD	5.82%	5.79%	3.09%
30-YEAR TREASURY BOND YIELD	7.86%	7.89%	6.29%
S&P 500 DIVIDEND YIELD	2.83%	2.86%	2.63%
S&P 500 PRICE/EARNINGS RATIO	16.8	16.4	22.5

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	458.1	458.5	Negative
Stocks above 200-day moving average	22.0%	23.0%r	Positive
Speculative sentiment: Put/call ratio	1.02	0.87r	Positive
Insider sentiment: Vickers sell/buy ratio	1.17	1.33	Positive

BLOOMBERG FINANCIAL MARKETS

INDUSTRY GROUPS

)UR-WEEK LEADERS	% change 4-week	52-week	Strongest stock in group	% change 4-week	52-week	Price
ELECTRIC COMPANIES	6.3	–15.8	CENTRAL & SOUTH WEST	14.6	–21.7	23½
HOMEBUILDING	4.6	–44.7	PULTE	8.6	–43.9	20⅝
PROPERTY-CASUALTY INSURERS	3.2	–4.1	CONTINENTAL	28.2	–35.3	18¾
COSMETICS	2.6	22.8	INT'L FLAVORS & FRAGRANCES	6.2	26.6	47
ALCOHOLIC BEVERAGES	1.5	5.4	BROWN-FORMAN	7.8	27.0	31

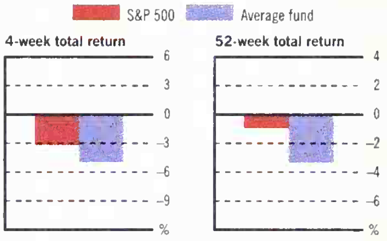
)UR-WEEK LAGGARDS	% change 4-week	52-week	Weakest stock in group	% change 4-week	52-week	Price
OIL AND GAS DRILLING	–14.6	–15.3	ROWAN	–17.5	–26.6	5⅞
HOSPITAL MANAGEMENT	–11.7	3.7	COLUMBIA HEALTHCARE	–12.6	10.9	35½
ENGINEERING AND CONSTRUCTION	–10.8	–9.6	FOSTER WHEELER	–22.6	–20.6	27
AIRLINES	–10.6	–37.1	SOUTHWEST AIRLINES	–23.4	–51.8	16⅜
DEPARTMENT STORES	–10.3	–16.7	J.C. PENNEY	–12.4	–22.7	41⅝

MUTUAL FUNDS

MORNINGSTAR INC

ADERS ur-week total return	%	LAGGARDS Four-week total return	%
DREYFUS EDISON ELECTRIC INDEX	4.5	VAN ECK ASIA INFRASTRUCTURE A	–26.0
FRANKLIN UTILITIES	4.2	WRIGHT EQUIFUND-HONG KONG NATL. FID. EQ.	–18.6
RYDEX URSA	3.5	LEXINGTON STRATEGIC INVESTMENTS	–16.0

-week total return	%	52-week total return	%
SELIGMAN COMMUNICATIONS & INFORM. A	34.3	MONITREND GOLD	–55.0
MERRILL LYNCH TECHNOLOGY A	24.8	STEADMAN AMERICAN INDUSTRY	–37.6
GOVETT SMALLER COMPANIES	23.4	STEADMAN OCEANOGRAPHIC TECHNOLOGY	–36.5



RELATIVE PORTFOLIOS

DRI/McGRAW-HILL

llar amounts represent the :sent value of $10,000 'ested one year ago each portfolio

rcentages indicate e-day total returns

Foreign stocks	Money market fund	U.S. stocks	Gold	Treasury bonds
$11,016	$10,476	$9,998	$9,819	$8,959
–2.60%	+0.35%	–0.65%	+0.89%	–0.14%

data on this page are as of market close Wednesday, Dec. 14, 1994, unless otherwise inated. Industry groups include S&P 500 companies only; performance and share prices are as of market close Dec. 13. Mutual fund returns are as of Dec. 9. Relative portfolios are valued as of Dec. 13. A more detailed explanation of this page is available on request. r=revised.

THE BIG WORRY FOR 1995? GOVERNMENT

Goodbye, 1994, we're sure going to miss you. Your 4% economic growth. Those 3 million new jobs. Zooming exports. Inflation flat at 2.7%. Earnings per share up 60%. It doesn't get better than this.

Who would have predicted it? Not the professional economic pundits. At the beginning of the year, they were forecasting a miserly 2.5% growth rate, higher inflation, weak job creation, and a much lower bump in corporate earnings.

Keep this in mind when it comes to 1995. Out of the gate, a lot of anxiety is being expressed for the new year. The economic forecasters are now predicting that it will bring sharply lower growth, significantly higher inflation, and lower profits. The word on the stock market is "down," maybe 10%, to 3400 on the Dow.

Well, our message to them is: Get a grip. Take a look at the fundamentals. They're hardly shabby. And they will, in the end, determine stock prices. Four years into the recovery, U.S. productivity is still rising, and unit labor costs are still falling. Global trade is expanding at nearly double-digit rates, and U.S. exports are growing even faster. Earnings per share are rising—maybe "only" 30% next year, according to the BUSINESS WEEK Scoreboard (page 163). Inflation remains remarkably tame. The core rates for both the consumer price index and the producer price index are running at under 3%, even as the economy rockets along and plant capacity edges up. And should inflation inch up to 3.5% in the coming year, it would still not mean the end of the world. The Federal Reserve and the bond vigilantes won't let it go any higher.

The plain fact is that going into the competitive business battles of 1995, the news from the front is good. Corporate America has gotten pretty tough. It took a decade of ma pain, but the payoff became clear in 1994—to the surprise the pundits. It will be clearer still in 1995.

Let's hope it's also true for the government. The wrong ki of tax cuts with the economy running hot at this time is t only thing that can wreck the script that is being written high growth and low inflation. A return to loose fiscal pol based on deja voodoo economics that recklessly cuts tax without seriously curbing spending at the same time c undo most of the hard-won advantages America now has the global economy. A tax cut that is paid for and promot investment and growth is undoubtedly good for the count A $50 billion middle-class tax cut, of the kind now being co templated by the Democrats and the Republicans, howev could do serious damage. It would stimulate consumer spen ing which goes, in large part, for imports, and balloon t deficit, forcing the Fed to drive rates even higher. This wou kill off growth and quickly set the stage for recession.

In the 1980s, downsizing and quality were the touchsto of improving corporate productivity. In the 1990s, downsiz and delivery are the foundation for government efficien Really shrinking the size and expense of government wou be a major boon to the economy, releasing an enormous qua tity of funds and resources for growth. This may be the e nomic wild card of the decade.

At the start of 1995, the bears are roaming Wall Street, pundits predict the end of a four-year economic cycle. T bulls, however, are out in force on Main Street, as busin people focus on long-term fundamentals. It's time to see t forest for the trees.

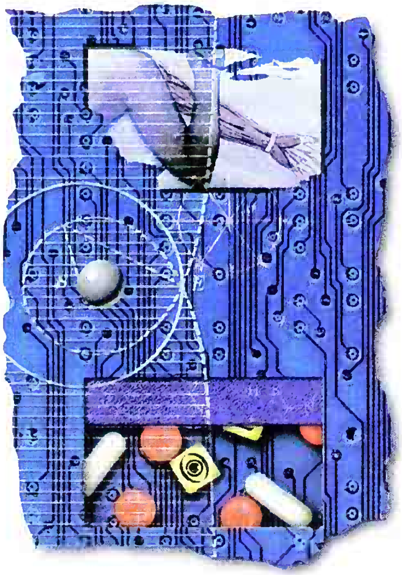
CELEBRATE—AND EXPAND—FREE TRADE

The Summit of the Americas was a watershed event that will affect the people of North and South America far more than anyone realizes. For the first time in modern history, the leaders of the U.S., Mexico, Canada, Brazil, Chile, and the rest of South America are marching to the same economic and political tune—open markets and democracy. For the first time, they have a single, common goal—creating a 34-member Free Trade Association of the Americas by 2005.

But why wait? The benefits of free trade within the hemisphere are already abundant. Just one year after the passage of the North American Free Trade Agreement, U.S. exports to Mexico are up 21%, and bilateral trade is approaching $95 billion. The great "sucking sound" turned out to be Detroit autos going south, not jobs. With markets of 450 million people opening up, Latin America is now as important to the U.S. economy as the U.S. economy is to Latin America. The two approach each other as equals on the economic front.

Ironically, it is the Latins who are now pushing for a free-trade zone from Alaska to Argentina while many in the U are resisting. Chile wants to join NAFTA right away, but t bruising battle over NAFTA and the General Agreement Tariffs & Trade in the U.S. has cooled any enthusiasm yet another trade battle. Growing pressure from both t Left and Right to protect labor, the environment, and wha seen as a middle-class way of life against foreign comp tion and imports is pushing the U.S. toward a more prot tionist and isolationist posture.

It is time for the U.S. to imitate Latin America's cour and forcefully proceed on the path toward free trade. Ch Argentina, Mexico, Brazil, and others have proved that th are willing to pay a heavy price in terms of unemployment lost growth to open their protected markets and gain benefits that flow from trade and competition. The U.S. do no less. It should take the lead in negotiating a free-tra treaty that opens the borders of the Western hemisphere the end of the decade.



• HASBRO INC • THE NEW YORK TIMES COMPANY • HANOVER DIRECT INC • TURNER BROADCASTING SYSTEM INC • IVAX CORPORATION •

PH GLATFELTER CORPORATION • KEANE INC • TOP SOURCE TECHNOLOGIES INC • BOWNE & CO INC • A T CROSS COMPANY • ATARI CORPORATION • FIRST EMPIRE STATE CORPORATION

• VIACOM INC • CABLEVISION SYSTEMS CORP • FOREST LABORATORIES INC • AMDAHL CORPORATION • CHEYENNE SOFTWARE INC •

MEDIA GENERAL INC • TELEPHONE AND DATA SYSTEMS INC • BAT INDUSTRIES • THERMO INSTRUMENT SYSTEMS INC • INTERMAGNETICS GENERAL CORPORATION • ORGANOGENESIS INC •

IVAX Corporation

One of the
301 companies to
switch from NASDAQ
to the AMEX
since January 1987.

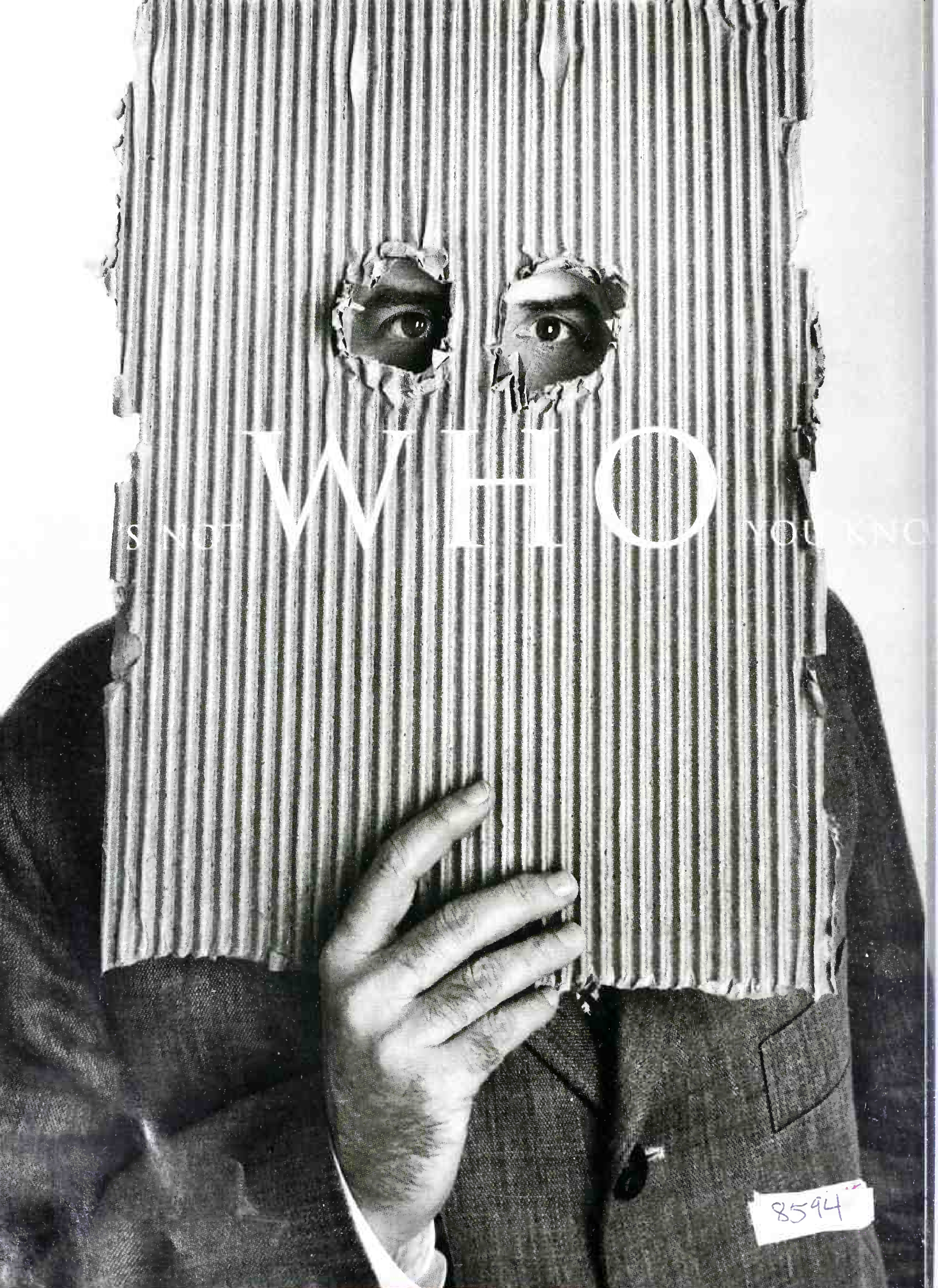
Less Volatility
Short Sale Protection
Narrower Spreads

AMERICAN STOCK EXCHANGE

The Smarter Place To Be

For more information contact Dick Syron, Chairman, at 212-306-5353.

© 1994 The American Stock Exchange


S NOT
WHO
YOU KNO

8594